

1999 PHASE IIA

# IRS ORGANIZATION BLUEPRINT



Department of the Treasury  
Internal Revenue Service

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# Foreword

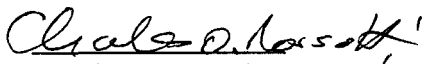
In January 1998, the IRS undertook an ambitious program to modernize all aspects of the agency. The goal of this effort is to provide taxpayers the service they expect and deserve and to provide employees an agency that people internally and externally trust. To achieve this goal, the IRS must make fundamental changes on virtually every front: redefine business practices, rebuild the organization structure, establish management roles with clear responsibility, employ a balanced set of performance measures and build technology to support these changes. The IRS, refers to this whole process of change as "modernization," because it involves building on the essential components that made the Service successful in the past while bringing them up to date in a way designed to achieve the new mission.

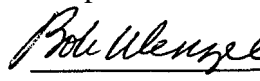
In February 1999, I prepared a summary of this modernization program entitled *Modernizing America's Tax Agency*, which provides an overview of the entire process of change that the IRS is undertaking to meet the public's expectations. This process will take years and carries with it considerable risk that progress will not happen as planned or expected and that setbacks will occur. But there is no low-risk plan for the IRS. Therefore, it is essential to identify and manage the risks by confronting them and honestly communicating what the IRS is doing and why.

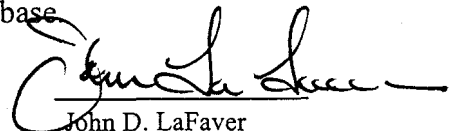
One of the first efforts undertaken was to modernize the organization structure and create management roles with clear responsibility. The existing organization structure no longer enables the IRS to achieve its goals of improving service to taxpayers. The cumbersome structure, matched by an inadequate technology base, represents the principal obstacles to modernizing IRS business practices and strategies and to delivering dramatic improvements in service and productivity.

Work is proceeding on the other levers of change. The Service is well on its way to instituting a new, balanced set of performance measures. In December 1998, the Service awarded the PRIME contract to a team of consultants who will partner with us to redefine our business practices and build a new base of technology.

This paper describes the modernized organization structure, as well as the roles of managers in the future organization. This blueprint lays the foundation for the future organization, but will necessarily be modified as additional information is gathered and analyzed. Alone, this modernized organization structure will not complete the change; it will require progress on all five levers of change: revamped business practices, organizing around taxpayer needs, management roles with clear accountability, a balanced measurement system and an improved technological base.

  
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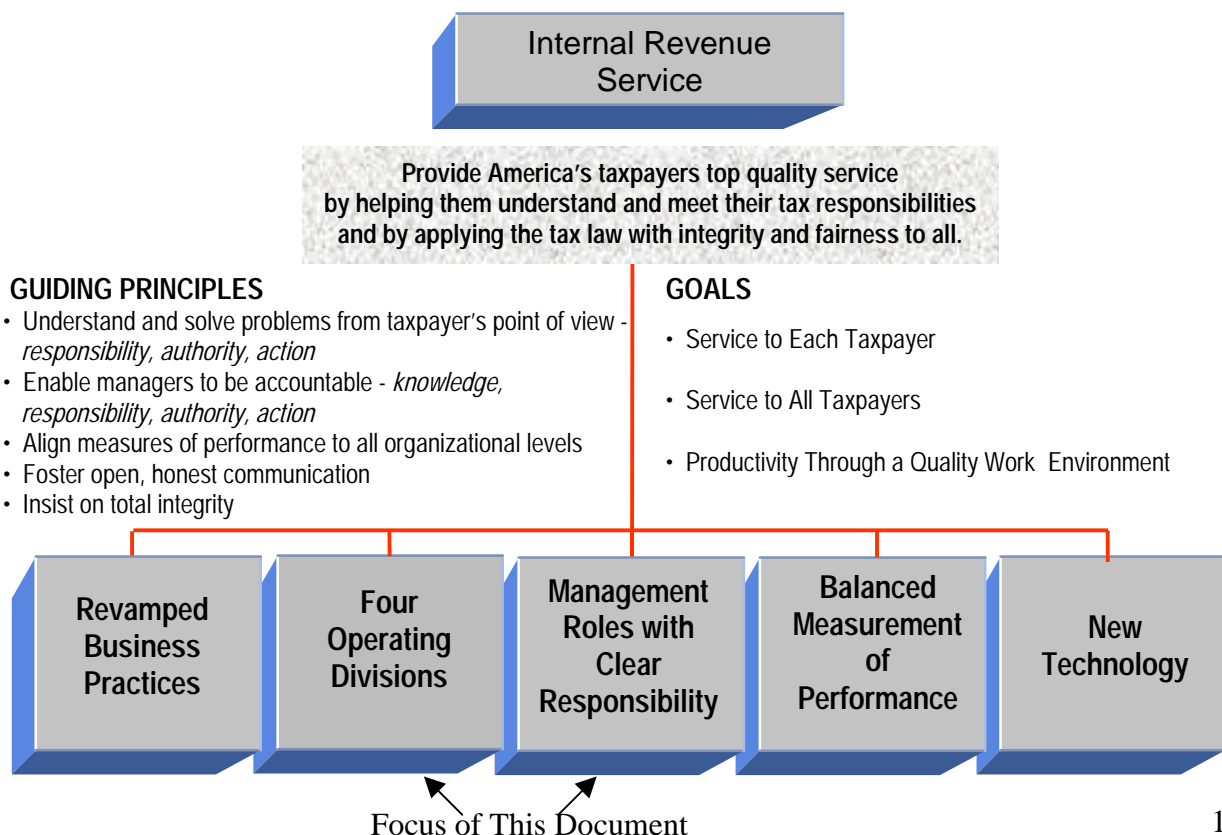
# Organization Blueprint

## I. Modernization Overview

Modernizing the Internal Revenue Service is best described as bringing all facets of the agency up to date in a way designed to provide taxpayers the service they expect and deserve and to provide employees an agency that people trust. This requires fundamental change in almost all aspects of the IRS and will affect the way almost all employees work with taxpayers and with each other. This change is expressed in the new IRS mission statement adopted in October 1998: *Provide America's taxpayers top quality service by helping them understand and meet their tax responsibilities and by applying the tax law with integrity and fairness to all.*

Achieving this mission requires fundamental change in many aspects of an institution that has been built over many years. This change must produce success in the new mission, while retaining the essential elements that created success in the past. Further, this change must take place while the IRS continues to administer a very large, complex and ever-changing tax system. The following figure summarizes the effort to modernize the Internal Revenue Service, with more detail provided on the following three pages.

FIGURE 1: Modernizing America's Tax Agency



# Strategic Goals

The IRS has formulated three strategic goals. If progress is made on all three of these goals, the IRS will be moving forward to achieve its mission and to meet the public's expectations for the agency.

## Top quality service to each taxpayer

The first strategic goal is to provide top quality service to *each* taxpayer with whom the IRS deals, one at a time. America's taxpayers deserve top quality professional service on each and every transaction, whether it is requesting a form, filing a return or paying additional taxes. Taxpayers should be able to obtain information and have appropriate adjustments made to their accounts accurately, quickly and conveniently. When the IRS must intervene in the form of an audit or a collection action, taxpayers should be informed promptly and treated professionally and with full consideration of their rights.

## Top quality service to all taxpayers

The second strategic goal is service to *all* taxpayers. The IRS must apply the law with integrity and fairness to all, so taxpayers that do not comply are not allowed to place a burden on those who do comply. This aspect of IRS service is for taxpayers collectively and is important both to protect revenues flowing to the Treasury and as a matter of fundamental fairness. Our tax system depends on each person who is voluntarily meeting his or her tax obligations having confidence that his or her neighbor or competitor is also complying. In the interest of fairness, it is vital that the IRS address all parts of the noncompliance spectrum, whether it is a result of confusion, poor recordkeeping, differing legal interpretation, unexpected personal emergencies, temporary cash flow problems, willful noncompliance or criminal tax evasion.

## Productivity through a quality work environment

The third strategic goal of the IRS is to increase productivity by providing a quality work environment for its employees. Service organizations have proven that success in this area requires providing employees at all levels with high-quality technological tools, adequate training, effective management and active engagement in the goals of the organization. It is essential that employees clearly accept ownership of the goals of the organization, are given the support they need to provide good service to their customers and are able to communicate upwardly and effectively about the problems/obstacles standing in the way of good service. A positive work place is also free of discrimination, does not tolerate artificial ceilings and barriers to advancement, affords equal opportunity and recognizes employee performance and potential. In addition, the work place should be highly inclusive and seek to make use of the diverse experience and talents of all employees.

## **Guiding Principles**

It is useful in the midst of such great change to articulate some principles that provide guidance. The following principles link the strategic goals with the changes/actions necessary to achieve the goals.

### **Understand the customer's point of view and use this understanding to prevent and solve problems and provide quality service**

This principle represents a significant shift in emphasis from an internal focus to a customer focus. Many organizations undertook this shift in the last 15 years, with powerful and pervasive implications. Nearly every IRS activity and every employee's way of doing his/her job will be affected by adopting this principle.

### **Enable managers to be accountable, with the requisite knowledge, responsibility and authority to take action to solve problems and achieve IRS goals**

Managers at all levels must understand the substance of the matters for which they are responsible, see that quality work is performed, take action to solve problems within their domain and participate actively with upper management to resolve problems that require higher-level action. Higher-level management must provide appropriate guidance, structure, training, management support and tools so subordinate managers can be accountable and can rise to the challenge.

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

Everyone in the IRS shares responsibility for fulfilling the mission and making progress toward the IRS' strategic goals. It is vital that the standards used to measure and evaluate performance encourage and reward performance that advances the IRS' strategic goals.

### **Foster open, honest communication**

It is not possible to solve problems that one does not know about or refuses to acknowledge. The more difficult or important the problem, the more essential it is for those at higher levels to become aware of it as soon as possible. Problems should be identified, acknowledged, addressed and used as a learning tool for the future.

### **Insist on total integrity**

Total integrity means each employee should perform all duties in accord with the public interest and not with regard to any personal interest. This concept encompasses all matters of public interest, such as taxpayer rights, use of government resources, access to confidential information, internal and external reporting, personnel practices, procurement and travel activities, acceptance of gifts and conflicts of interest while employed or afterwards.

# Levers of Change

Fulfilling the new mission and achieving the strategic goals requires modernizing all aspects of the IRS. The following five levers of change summarize the initiatives underway.

## **Revamp business practices**

The way the IRS interacts with taxpayers is defined by its business practices, such as how filing is done, how the phones are answered, the way collections of balances due are carried out and the way examinations are conducted. Closely related are IRS strategies that guide such practices, such as how returns are selected for examination, what kinds of compliance issues to emphasize and how to encourage electronic filing. By revamping these business practices and strategies in ways that are successful in the private and public sectors, the IRS can make major strides toward all three strategic goals.

## **Organize around taxpayer needs**

The organization structure is the vehicle through which decisions are made and actions carried out. The cumbersome IRS structure, which has evolved over the past 50 years, no longer enables the IRS to achieve its strategic goals. The modernized IRS will be built around taxpayer needs and allow IRS to revamp business practices to meet these needs.

## **Create management roles with clear responsibility**

Closely related to modernizing the organization structure is defining the skills and experience required for managers. The modernized organization, modeled after well-established structures and practices in other organizations, creates roles that will enable managers to have the requisite accountability, knowledge, responsibility and authority to take actions.

## **Build a balanced performance measurement system**

Everyone in the IRS shares responsibility for fulfilling the mission and making progress toward the IRS' strategic goals. It is vital that the standards used to measure and evaluate performance encourage and reward performance that advances the IRS' strategic goals. The IRS is building a set of balanced measures, based on the best practices in other organizations, that will address three key areas: customer satisfaction, employee satisfaction and business results.

## **Build new technology**

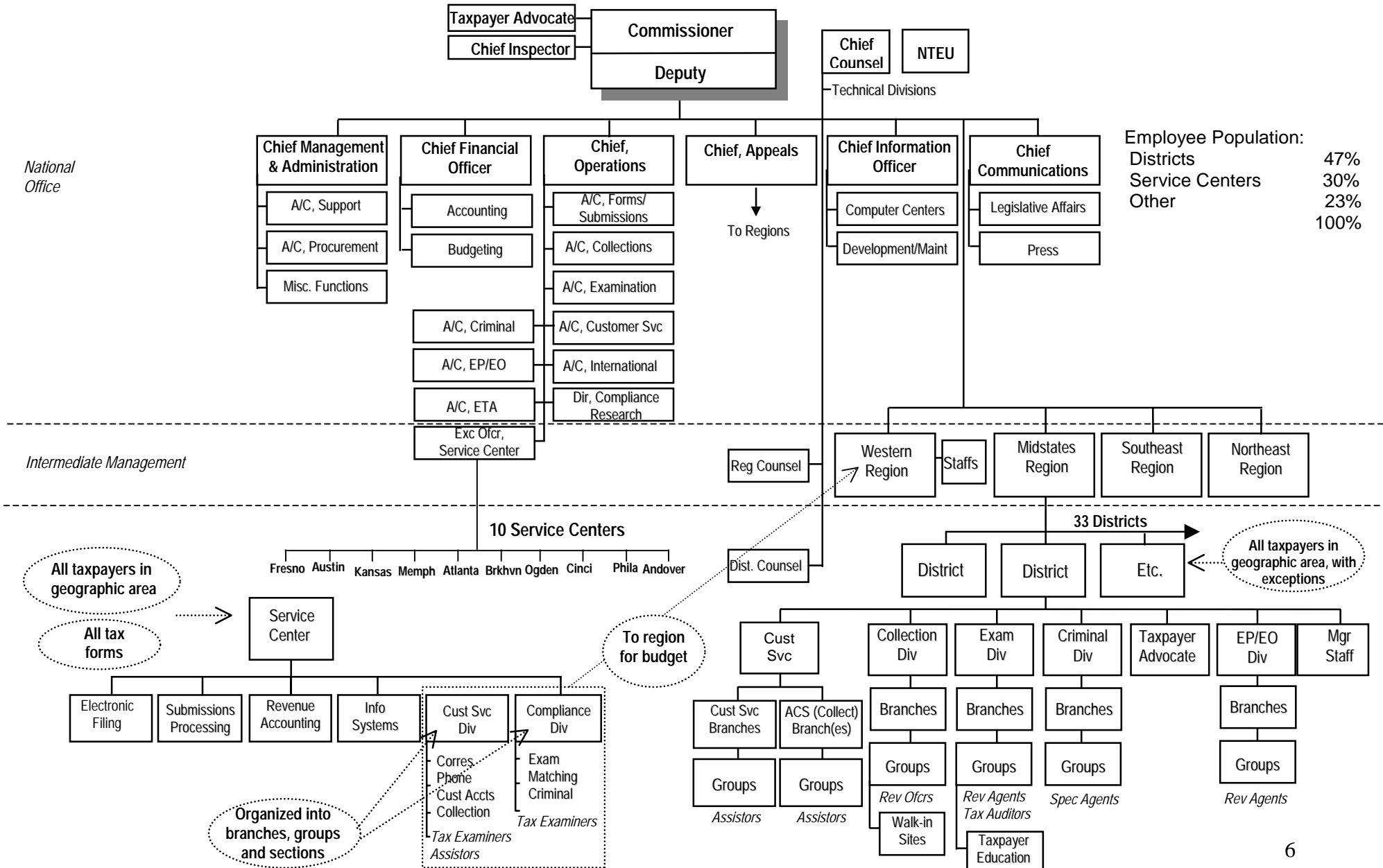
For any information-intensive, service-oriented enterprise such as the IRS, information technology has become and will continue to be a key resource on which all organizational performance depends. The IRS' installed inventory of technology poses a major barrier to achieving the strategic goals: it is fundamentally deficient. Modernizing the base of technology, including the core data systems that keep records on taxpayers' accounts, will require the better part of a decade.

## **II. Organization**

As stated previously, the organization structure is the vehicle through which decisions are made and actions carried out. The IRS structure as of September 1, 1998, is built around districts and service centers, the basic organizational units established many years ago and evolved over decades. Each of these 43 units is charged with administering the entire tax law for every kind of taxpayer, large and small, in a defined geographical area. Consequently, every taxpayer is serviced by both a service center and a district, sometimes more than one, with responsibility shifting depending on whether the work is done by phone, mail or in person. For example, in the Collection area there are three separate kinds of organizations that use four separate computer systems to collect taxes. Each of these three units and four systems collect from every kind of taxpayer, from individuals to large businesses. Figure 2 illustrates this complicated organization structure.



Figure 2: Current IRS Organization Structure



This structure no longer enables the IRS to achieve its strategic goals. The cumbersome structure, matched by an inadequate technology base, represents the principal obstacle to modernizing IRS business practices and strategies and to delivering dramatic improvements in service and productivity.

The modernized IRS will be organized around the needs of specific groups of taxpayers. This structure is similar to one widely used in the private sector. Just as many financial institutions have different divisions that serve retail customers, small to medium businesses and large multi-national businesses, the taxpayer base falls naturally into similar groups.

## **The Approach**

Working with expert management consultants from Booz-Allen & Hamilton, the IRS is undertaking a phased approach to designing and implementing this new organization structure. This approach gives the IRS specific milestones and decision points, which guide the progress toward the new organization.

**Phase I.** The IRS asked Booz-Allen & Hamilton consultants to validate the high-level concept of organizing around taxpayer needs. From April through August 1998, the consultants interviewed hundreds of IRS employees and stakeholders, visited IRS offices around the nation, collected data that identified specific groups of taxpayers and employed a hypothesis-driven approach to prove that the concept of organizing around taxpayer segments was best for the IRS.

**Phase IIA.** In September 1998, over 150 IRS employees partnered with the consulting team with the goal of designing the modernized IRS structure within six months. Thousands of IRS executives, managers and employees volunteered to work full-time in New Carrollton, MD, to define the organization structure built around the needs of specific groups of taxpayers. Fourteen teams were organized around specific organizational units, both line and support. These 14 teams continued the hypothesis-driven approach by identifying a proposal and then gathering and analyzing facts to prove or disprove the proposal. These teams did not work in isolation. Instead, they interviewed thousands of employees and stakeholders, were supported by the consulting firm of Booz-Allen & Hamilton with best practices from both the private and public sector, and were guided by an Executive Steering Committee comprising the IRS senior management team and senior Treasury Department officials. ***The product of the Phase IIA work is this document, which summarizes key decisions and provides a blueprint for the IRS organization of the future.*** Some of the teams are continuing more detailed design of specific parts of the future organization (Phase IIB) while others are moving into implementation of the specific organizational units (Phase III).

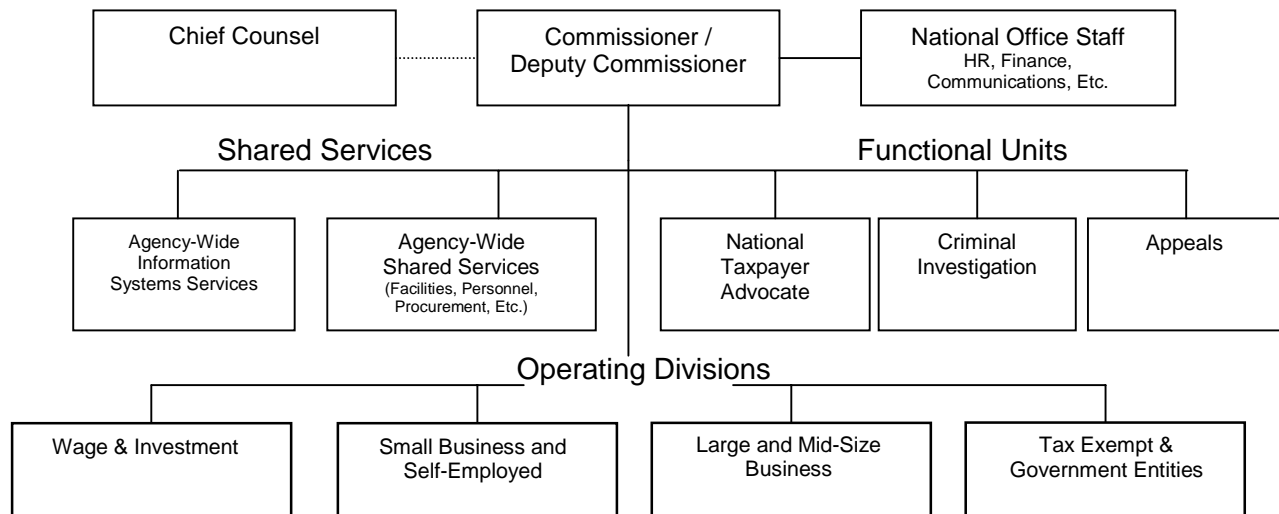
**Phase IIB.** This phase will continue the work of Phase IIA, creating an even sharper picture of the future IRS by providing more detail about the organization structure. This phase will take approximately six months, from June through December 1999.

**Phase III.** The implementation of each of the organization units will proceed on separate tracks based on the size, complexity and level of change required of the specific organizations. For example, the Information Systems and Taxpayer Advocate organizations began implementation in April, while the four primary operating divisions will be established over the next few years. Implementation will include physically establishing new offices, transitioning employees and managers to the new organization and reassigning workflow. The entire implementation will take approximately 2-3 years.

## The New Organization Structure

The modernized IRS will be built around organizational units with end-to-end responsibility. Four operating divisions will be responsible for serving specific groups of taxpayers. Four functional organizations will be responsible for specific issues and cases. Two support organizations will be responsible for providing common services across the entire agency. Finally, a much smaller National Office will provide high-level strategy and policy setting. This section summarizes each organizational unit. Subsequent sections provide greater detail about each organizational unit.

**Figure 3: New IRS Organization Structure**



## Four Operating Divisions

The key operational units will be four operating divisions, each charged with full, end-to-end responsibility for serving a set of taxpayers with similar needs.

The **Wage and Investment (W&I)** Operating Division will serve some 90 million filers. This group represents 116 million individual taxpayers, including those who file jointly, with wage and investment income only, almost all of which is reported by third parties. Most of these taxpayers interact with the IRS once a year to file a return, and most receive refunds. This operating division will have a structure focused on meeting the filing, pre-filing and post-filing needs of these individuals.

The **Small Business and Self-Employed (SB/SE)** Operating Division will serve approximately 40 million taxpayers that are fully or partially self-employed individuals and small businesses. These taxpayers deal more frequently with the IRS on more complex issues and pay the IRS nearly 40% of the total cash collected each year. This operating division will also have a structure that focuses on meeting the pre-filing, filing and post-filing needs of these taxpayers.

The **Large and Mid-Size Business (L&MSB)** Operating Division includes roughly 180,000 of the largest filers, with assets over \$5 million. While collection issues are rare, many complex issues arise such as tax law interpretations, accounting and regulation. Frequently, these complex issues include international dimensions. This operating division will be organized into industry segments to best address the needs of unique groups of large corporations.

The **Tax Exempt and Government Entities (TE/GE)** Operating Division includes pension plans, exempt organizations and governmental entities, representing a large economic sector with unique needs. While these 1.9 million filers generally pay no income tax, they pay over \$198 billion in employment tax and income tax withholding. This operating division will be organized around the distinct groups of taxpayers it serves -- exempt organizations, pension plans and governmental entities -- with common supporting elements.

**Table 1**

**Taxpayer Characteristics \***

	<b>Wage &amp; Investment</b>	<b>Small Business &amp; Self-Employed</b>	<b>Large &amp; Mid-size Business</b>	<b>Tax Exempt &amp; Government Entities</b>
Number of filers	90 million	40 million	180,000	1.9 million**
Number of individual taxpayers	116 million	—	—	—
Total tax liability (billions)	\$265	\$816	\$395	\$94
Average tax liability per filer	\$3,003	\$20,251	\$2,213,597	\$49,388
Gross cash paid (billions)	\$38	\$562	\$687	\$198
Avg. # of transactions w/ IRS per filer/year	1-4	4-60	60+	4-60
Percent preparing own returns	59%	20%	—	—
Assets regulated	—	—	—	\$6.7 trillion
Average number of income tax forms	1.7	4	—	—

\* Please note numbers are estimated and subject to change.

\*\* Please note that while TE/GE has 1.9 filers, it serves approximately 3 million entities (many of which are not required to file).

## **Functional organizations**

Four functional organizations -- Counsel, Appeals, Taxpayer Advocate and Criminal Investigation -- will be nationwide organizations that address specific issues and cases.

**Counsel** will provide the correct legal interpretation of the internal revenue laws, consistently and uniformly for all taxpayers and all operating divisions. To ensure an active, working partnership with the new operating divisions, Counsel will establish a senior legal executive as the Division Counsel for each operating division to participate fully in the plans and activities of the operating division management and to provide high-quality legal advice and representation.

The **Appeals** organization will remain an independent channel for taxpayers having a dispute over a recommended enforcement action.

The **Taxpayer Advocate** organization has been centralized under the National Taxpayer Advocate to establish an independent channel for taxpayers that are having problems with a specific case. Taxpayer Advocate employees will be geographically distributed to provide local contact with taxpayers. A senior Taxpayer Advocate in each operating division will be charged with identifying systematic issues or problems impacting the taxpayers in that division.

The **Criminal Investigation Division** (CID) will include approximately 3,000 IRS employees who provide a necessary element of law enforcement. Following the release of the report from Judge William Webster on the Criminal Investigation Division, Phase IIA design work commenced in late April 1999.

## **Agency-wide service organizations**

Two internal service organizations – Information Systems and Agency-Wide Shared Services – will provide common services to internal customers. They will ensure professional and consistent services are provided across the entire agency.

**Information Systems** has already centralized management of information systems resources under the Chief Information Officer. This will allow for the efficient and standardized delivery of information systems throughout the entire organization to provide first-class information systems to employees and taxpayers. These employees will support a professional Information Systems organization and ensure systems are standardized to meet the demands of the information age.

Other common services will be centralized under an **Agency-Wide Shared Services** (AWSS) organization. These employees will provide common services such as facilities, procurement and personnel processing. Eventually, AWSS will also include preparation and distribution of forms and publications.

## **National Headquarters**

A much smaller National Headquarters will assume an overall role of setting broad policy, reviewing plans and goals of the operating units and developing major improvement initiatives.

### **III. Management Roles in the Modernized IRS**

An essential ingredient to the success of the modernized IRS is enabling managers to be accountable by having the knowledge, responsibility and authority to take action. As the IRS grew and became more complex over the years, it has sometimes been difficult for managers to fulfill this principle, to the frustration of taxpayers, managers and employees alike. Lack of adequate knowledge by managers of the substance of a problem, or lack of authority to solve a problem, fuels this frustration. Taxpayer cases that remain unresolved for many years, over-reliance on statistics as a management tool and poor response from surveyed employees on questions about “trust of management” all indicate that commitment to this principle must be renewed at the IRS.

The proper application of this principle in the future means that managers at all levels will be expected to understand the substance of the matters for which they are responsible, see that quality work is performed, take action on solving problems within their domain and participate actively with upper management to solve problems that require higher level action. Higher management must provide appropriate guidance, structure, training, management support and tools so that their subordinate managers can be accountable and expected rise to the challenge.

A much greater level of meaningful communication between those responsible for policy and those responsible for execution will also be essential. It is not possible to be accountable for making policy without having accurate and up-to-date knowledge as well as accountability for how policy is being implemented with actual taxpayers. Likewise, the valuable knowledge gained from work with taxpayers must be used to make constant improvements in policy and business practices. And if the basis for decisions is understood, front-line employees charged with executing policy decisions in daily operations will be able to perform their duties more effectively and make more reasonable decisions.

#### **Senior Management Teams**

This modernized organization structure will allow managers to be clearly responsible for specific issues within their control. The top management of the agency and of each of the major organizational units will consist of a set of teams, each linked to the next level. For example, the agency top management team will consist of the Commissioner, Deputy Commissioner(s), key staff executives and the heads of each major operating division. This team will set the overall goals and policies for the entire agency.

The new organization structure and the creation of management teams increase the possibility of selectively recruiting external executives with appropriate skills and experience to partner with career senior executives. This model also makes the IRS more attractive to potential executive recruits. Their skills and experience will complement the essential skills and experience of executives developed internally, to the benefit of both. For example, historically a Commissioner and Deputy Commissioner have led the agency. The new structure will allow for a similar senior management team for each operating division, with

the possibility that one might be an executive recruited from the outside and one drawn from the inside.

The modernized organization sets forth clear, end-to-end responsibility and authority for a top official, supported by a small top management team, to serve a set of taxpayers. Equally important, since the taxpayers served are reasonably homogeneous in their needs, it will be possible and expected for the managers at all levels to be knowledgeable in the substantive problems and issues that arise in administering the tax law in their division. In the modernized organization structure, much of the complex tax law will not be relevant or important for the particular issues in each division, allowing the managers to focus on that which is important for their taxpayers. Therefore, managers can be accountable for understanding the problems in their area of responsibility and can take effective action to reach the strategic goals. The Commissioner, Deputy Commissioner(s) and the National Office staff, in turn, will be better able to perform their proper role of helping the operating divisions set appropriate strategic goals and overseeing their performance in meeting them, rather than engaging in detailed operational issues.

Leading each operating division will be a team of managers dedicated to understanding and meeting the needs of their specific customers. They will have the requisite knowledge, responsibility and authority to set the policies and take actions that best address the needs of their specific taxpayers. In the W&I Operating Division, for example, the top management team will be focused only on the needs of their specific taxpayers. Not only will they be the experts in this taxpayer base, but they will also have control of the policies, resources and technology that can address their needs. The top management team will comprise the Commissioner and Deputy Commissioner of the operating division, as well as the executives responsible for the pre-filing, filing and post-filing activities of small business owners and self-employed individuals.

This top management team will also include representatives from the functional and support organizations -- Counsel, Appeals, Taxpayer Advocate, Criminal Investigation, Information Systems and Agency-Wide Shared Services. While these individuals do not report directly to the operating division commissioner, they are key members of the top management team. Their role is to understand the needs of the operating division and its taxpayers so as to provide the policies, services and technology that can help the operating division achieve its goals. Figure 4 illustrates how this will work in the Wage and Investment Operating Division.

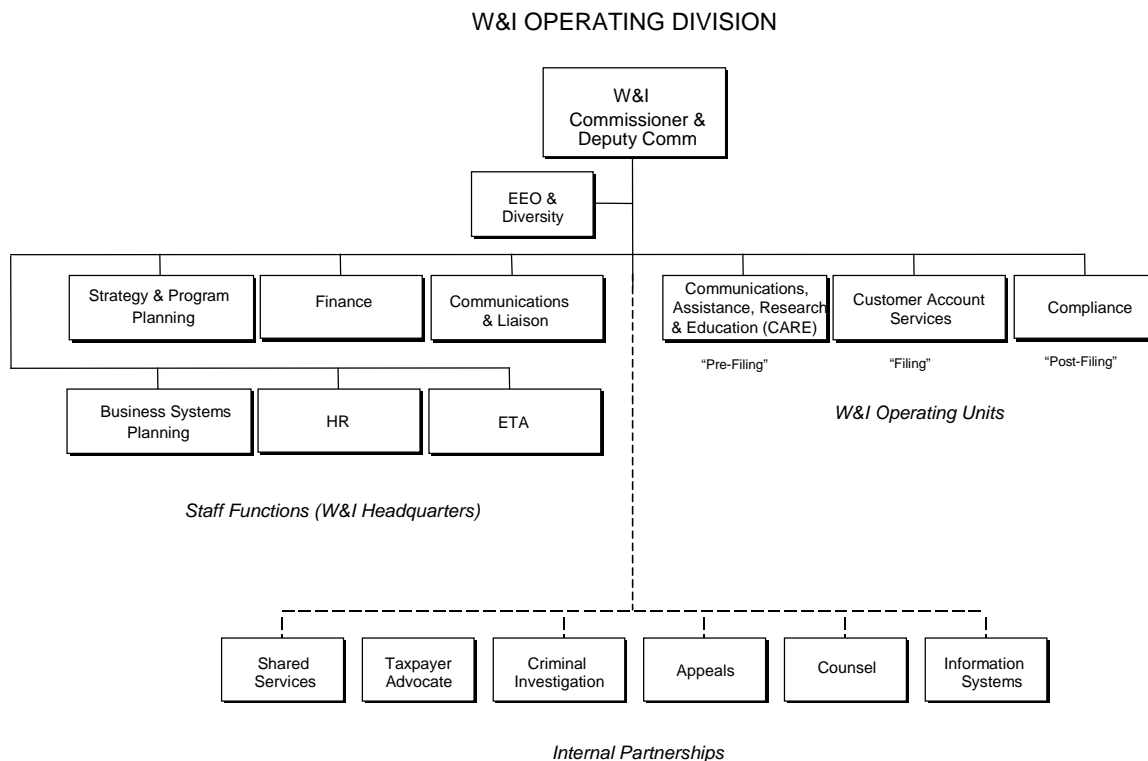
Thus a team of manageable size will have the authority, responsibility and expertise to both oversee current operations as well as revamp and improve business practices and strategies to achieve the overall strategic goals. The team will be able to establish a compliance strategy to increase overall compliance as well as target specific issues that may be particularly troublesome to taxpayers. For example, the W&I top management team could identify a specific compliance/customer service issue such as innocent spouses that find themselves being unjustly held accountable for tax obligations created by another person. In this example:



- ◆ Communications, Assistance, Research and Education (CARE) organization can focus on educating spouses as to their rights under the tax code;
- ◆ Customer Account Services (CAS) can create a centralized telephone unit and return processing unit so that these types of inquiries and returns are handled appropriately;
- ◆ Compliance can focus on identifying cases under examination and ensure they are handled appropriately and provide feedback to CARE as to the effectiveness of their education efforts;
- ◆ Counsel can provide the necessary guidance for taxpayers and employees;
- ◆ Taxpayer Advocate and Appeals can be quickly alerted to the issue and the potential increase in their caseloads; and
- ◆ Information Systems can provide the technology to identify these taxpayers and quickly respond to their needs.

**Figure 4: W&I Operating Division**

**The W&I Operating Division is composed of three operating units: CARE, CAS and Compliance, which are supported by headquarters and interact through internal partnerships**

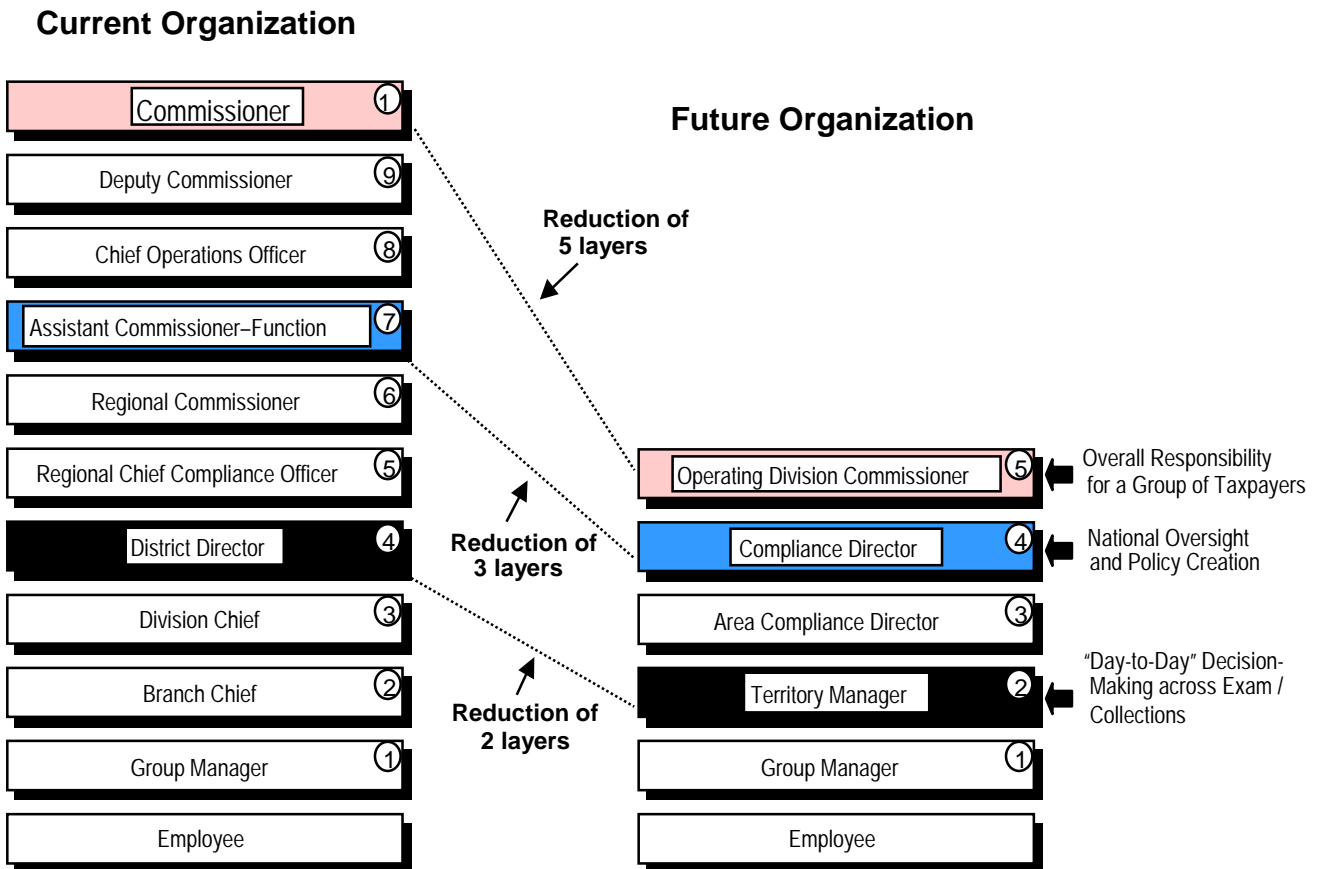


## Layers of Management

This structure is specifically designed to facilitate direct and meaningful two-way communication, both vertically and horizontally, within the organization. It will also reduce the total number of management layers from the front-line employee to the top official in the operating unit by about half the number found today.

The reduction in layers of management and the number of separate major units will free up some personnel resources to increase support for customer education and assistance programs. Similarly, the reduction of separate operational units and the centralization of management of key functions such as processing, customer assistance and collection within each operating division will ease standardization of business practices and introduction of new technology. Figure 5 illustrates this reduction in management layers.

**Figure 5: Management Layers Will Be Reduced By Half**



## Councils and Networks

This organization structure requires “integrative mechanisms” to ensure the various elements of the organization work together on a range of matters. These mechanisms are needed in any organization structure because a “structure” is one-dimensional, while many problems and issues have more than one dimension. Various cross-unit councils and networks of individuals with special expertise will be created to ensure consistency of policy and interchange of best practices.

The current IRS structure already takes into account the need to coordinate issues on different dimensions. Probably the most visible is the large functional structure (exam, collections, etc.) represented in staff functions at the national and regional offices, even though the line organization is managed through geographically defined line units (districts and service centers).

The modernized IRS must institute coordination mechanisms to address a range of situations. The following are examples of specific councils and networks that illustrate the exchange and coordination of information across the organizational units.

- **Management Policy Councils.** Because the operating divisions will have the maximum possible line management authority and responsibility, it is important to ensure agency-wide coordination of certain important management policies and to facilitate use of best practices throughout the organization. At least three policy areas require this type of coordination: Human Resources, Finance and EEO. The purpose of these councils should be to develop and recommend common policies, to facilitate the exchange of best practices and to give direction for any activities managed in common (e.g., mandatory agency-wide UNAX training). Recently, Commissioner Rossotti established the Human Resources Council, chaired by the Chief Human Resources Officer, to eventually include a top executive from each of the operating divisions, functional units and service units.
- **Tax Administration Councils.** Just as there are important management policies that must be coordinated among the operating divisions, there are certain tax administration activities that must have coordinated policies and procedures. These are logical successors to today’s “functions.” Their purpose is to see that essential tax administration policies and procedures that affect taxpayers in more than one unit are appropriately consistent and in accord with the law. These councils will also ensure that tax law changes are implemented. Examples include councils for Collections, Exam, International and Electronic Tax Administration.

In each of these policy areas, the lead person will usually be the executive for that policy area in the operating division with the most activity in that policy area. Membership in each council should depend on which units need to be involved; there is no need to have every unit represented on each council. Counsel should be included in all tax administration councils, and the Taxpayer Advocate should decide which councils

require his/her participation. For example, the International Council will most likely be lead by the international executive in L&MSB and include representatives from SB/SE, Counsel and Appeals.

- **Location-Based Coordination Councils.** Establishing the right kind of structure for coordination of activities at the local level is particularly important because of the major change from the past IRS practice in the IRS where management was geographically defined. In some cases, the current IRS structure already provides local coordination for employees working for different organizational units in the same general vicinity. In some service centers, for example, people working for Information Systems, Taxpayer Advocate, Shared Services, Submissions Processing and Customer Service all work in the same location but report to different organizational units. Issues that need to be coordinated across these different organizational units include personnel practices, facilities issues, community relations and partnership with NTEU. A special team was created in April 1999 to focus specifically on the issue of local coordination at the service centers.

A similar type of location-based structure may be necessary in large metropolitan areas where there are significant concentrations of IRS personnel reporting to various organizational units. Membership will consist of the senior managers for each IRS unit operating in the area, e.g., an industry executive from L&MSB, an area or territory manager from SB/SE, an area manager from W&I, a Taxpayer Advocate, an Information Systems manager, a Counsel manager and a Shared Services manager.

- **Customer Councils.** This council would include representatives of the users of different kinds of internal services and would be charged with providing feedback and direction to the management of various units that provide service to a group of internal users. Customer councils will likely exist at the national and local levels. At the national level, a Shared Services Customer Council and Information Systems Customer Council would consist of executives representing the major operating units that are customers for these services. In certain geographic areas, a customer council for Shared Services and Information Systems could also exist, but this might be combined with a more general location-based council as discussed above.
- **Best Practices and Information Networks.** Beyond the areas in which it is essential to have explicit coordination of policies or practices, there are many areas in which it is valuable, and in some cases, essential, to have regular exchanges of information and programs to adopt best practices across the organization. Unlike the areas mentioned above, these areas do not require authority to achieve coordination or standardization. Rather, they exist to assist their members to improve their own performance. These areas may be defined and redefined constantly, as the importance of the subject matter increases and decreases. Many of these networks will develop from the bottom up, by groups of people deciding to form them.

Networks of this kind can form around any topic of common interest, i.e., a technology (people using a particular product), a management discipline (organizational development

specialists) or a functional area (press relations). One of the key networks of this kind already exists in the IRS through the research community of the National Office Research Analysis and District Office Research Analysis offices sharing a common research database and infrastructure. This research network will continue in the modernized IRS through a network of research organizations in the new National Headquarters and the operating divisions.

## **Commissioner's Representatives**

In some locations where several organizational units are represented – whether it be a large metropolitan area, a more geographically dispersed area or a service center site – it may be necessary to designate one individual as the “Commissioner’s representative.” This is analogous to the current practice in posts of duty of designating someone as the “director’s representative.” An individual designated as the Commissioner’s representative will be responsible for addressing both internal administrative (such as partnership with NTEU and Combined Federal Campaign) and external representation to practitioners and the local community. This also serves as an important management development assignment for the people who are given this responsibility. Over time, the Commissioner’s representatives could form a best practices network to exchange information and experiences.

## **Modernized Organization Conforms to Our Guiding Principles**

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

- ◆ The modernized organization is built around specific groups of taxpayers with relatively similar needs. It is an inherently customer-focused organization, with each operating division responsible for creating and executing business practices and strategies to meet taxpayer needs.
- ◆ The modernized organization sets forth clear, end-to-end responsibility and authority for a top official, supported by a small top management team, to serve a set of taxpayers.
- ◆ This structure is specifically designed to facilitate direct and meaningful two-way communication, both vertically and horizontally, within the organization.
- ◆ The total number of management layers from the front-line employee to the top official in the operating unit will generally be about half the number found today.
- ◆ Integrity in any organization is achieved primarily by clearly articulating shared values and expectations, reinforced by consistent leadership and decision making, rather than by structure.

## Staffing Distribution

Currently, IRS staff are predominately distributed among major population centers with little or no structural distinction of the types of taxpayers served. The historical rationale for this staffing distribution was for IRS staff to be located close to large concentrations of taxpayers – from individuals to large corporations. The modernized IRS will be built around organizational units with end-to-end responsibility for unique groups of taxpayers. To establish these new organizational units, the IRS must realign its workforce from its current geographic dispersion to one that supports improved service to unique groups of taxpayers. In addition, functional organizations such as Counsel, Taxpayer Advocate and Appeals, as well as the support functions, must realign their staffs to better align with the new operating divisions.

During Phase IIA, the Modernization Design Teams adhered to the following principles when developing approximate staffing guidelines for the new organization:

- ◆ Minimize employee relocation and disruption risk;
- ◆ Maximize proximity to taxpayers and external stakeholders;
- ◆ Utilize existing IRS facilities as much as possible;
- ◆ Consider consistency with other parts of the IRS;
- ◆ Optimize proximity to transportation hubs; and
- ◆ Consider future trends and not just the current situation.

While these numbers represent the overall approximate size of each organization, further analysis is required in Phase IIB.

<b><u>New Organization</u></b>	<b><u>Phase IIA Demand*</u></b>
Small Business & Supplemental Income	38,800
Wage and Investment	23,700
Large and Mid-Size Business	8,600
Shared Services	5,500
Information Systems	7,600
Criminal Investigation**	4,100
Counsel	2,500
Taxpayer Advocate	2,300
Appeals	2,100
Tax Exempt & Government Entities	2,400
National Headquarters	1,200
<b>Total Demand</b>	<b>98,800</b>

*\*Preliminary figures based on Phase IIA Design Team work. Additional analysis required in Phase IIB.*

*\*\*Note: CI is not completed with Phase IIA design work.*

# ***Wage and Investment (W&I)***

## **Taxpayer Characteristics**

The new Wage and Investment Operating Division will serve approximately 116 million customers, including those who file jointly, accounting for 90 million returns with wage and investment income only. These are taxpayers filing a 1040 tax return with no accompanying schedules C, E, F or 2106 and no international activity. Almost all of the income for this group of taxpayers is reported by third parties, and the vast majority of taxes are collected through third party withholding. Most of these taxpayers deal with the IRS only once a year and the majority of these taxpayers receive refunds.

The bulk of W&I taxpayers (roughly 85%) earn under \$50,000 per year with 28% of them earning less than \$10,000 per year. Only 2% earn greater than \$100,000. Over half of the 90 million W&I taxpayers prepare their own tax returns without assistance from a paid preparer. This presents a great opportunity for the IRS to provide top quality service to a large number of taxpayers who otherwise would not receive assistance.

## **Goals, Principles and Objectives**

Redesign efforts have been focused on educating and assisting W&I customers to understand and satisfy their tax responsibilities. The W&I organization's goal is to provide this service in a high quality, fair and equitable manner.

Achieving these challenging goals will require dramatic changes in the current organization. Continuous dialogue is needed to improve the understanding of W&I customers. A new organization structure is needed to ensure end-to-end accountability for managers and employees, create new and expanded leveraged partnerships with stakeholders and provide new tailored training for IRS staff. In addition to structural changes, IRS must improve business processes to offer new tailored products/services, build new supporting technology and develop methods for compliance activities that are more effective and less burdensome to taxpayers who want to voluntarily comply. The following table illustrates just some of the ways IRS will operate after achieving our goals.

**TABLE 1**

**New Types of Interactions and Organizational Changes**

Taxpayer Interactions	<p>The IRS will:</p> <ul style="list-style-type: none"><li>• strive to put our customer's needs first;</li><li>• strive to listen to taxpayers and create solutions to serve all parties' interests;</li><li>• explore new ways of meeting taxpayers' needs;</li><li>• analyze taxpayer needs and reach out to educate them so that IRS better understands how to help them comply;</li><li>• place greater emphasis on proactive education and assistance; and</li><li>• develop new processes to focus outreach to those who, based on our research and experience, have the highest risk of noncompliance.</li></ul>
Organizational Changes	<p>The IRS will:</p> <ul style="list-style-type: none"><li>• strive to create policies and strategies from what is learned from customer feedback regarding problems experienced by taxpayers, compliance experiences and input from front-line employees;</li><li>• create training programs that focus on creating a greater awareness of customer needs;</li><li>• strive to provide employees with adequate training prior to asking them to perform duties;</li><li>• create communication and award systems that positively influence a change in how we value our customers;</li><li>• continuously reinforce the need for employees to value customer service as the highest priority work;</li><li>• create open dialogue between managers and employees to discuss strategies and celebrate successes; and</li><li>• create performance measures that reward resolution of customer problems and improved voluntary compliance.</li></ul>

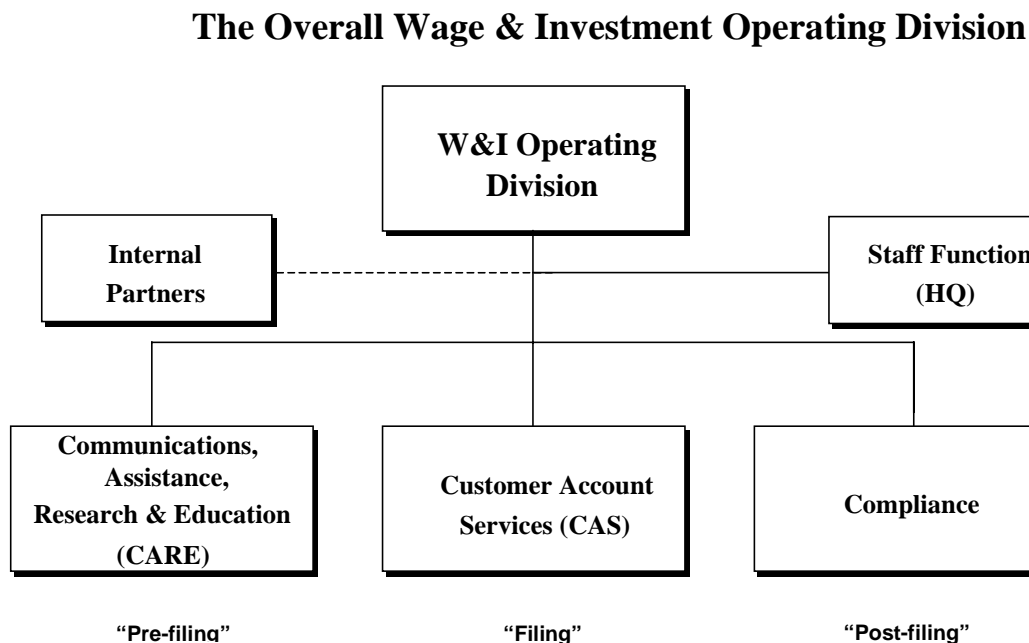


## Organization Structure

The focus of the approximate 23,700 W&I employees is to educate and assist taxpayers in all interactions with the IRS, even those stemming from a compliance issue. The 90 million W&I taxpayers have high voluntary compliance due to cooperation from taxpayers as well as third party reporting of information and withholding. Thus, when compliance issues arise, they are often the result of a taxpayer's confusion regarding the tax law or a personal event outside their control. When compliance issues arise for these taxpayers, they are often detected through technology-based matching programs.

This delineation translates into activities that are easily grouped into three major processes: pre-filing, filing and post-filing. The pre-filing phase is primarily an educational role for the IRS. Prior to a taxpayer filing, the IRS must provide easily understood translations of the tax code, answer basic tax law questions and provide service vehicles, either through partnership with stakeholders, face-to-face interactions, written correspondence or live telephone assistants. During the filing phase, the IRS processes returns submitted by roughly 90 million taxpayers and validates that the proper amount has been paid. A much smaller number of taxpayers may at some point have a delinquent payment or an examination issue and be contacted by the post-filing staff. As illustrated in Figure 1, the Wage & Investment (W&I) Operating Division is composed of four major organizations: CARE, CAS, Compliance and the headquarters.

**Figure 1**



## W&I Senior Management Team

The W&I senior management team is composed of the W&I Commissioner and Deputy Commissioner, the heads of its three major functional organizations (CARE, CAS and Compliance) and the heads of its staff functions (Strategy and Program Planning, Management and Finance, Communications and Liaison, EEO and Business Systems Planning). The concept of a W&I senior management team, focused on providing overall strategic and operational direction to service its approximately 90 million customers, is a profound change in the way the IRS views its relationship with its largest customer base.

In today's IRS structure, management is focused on "functions" such as Customer Service, field Collection and field Examination work, which act independently of each other. This functional focus demands management excellence solely in their individual functional areas. While this structure works well for the current organization, it does not lend itself to an organization focused on delivering excellence to discrete customer segments. The W&I Operating Division will require a much higher level of integration at its senior management level.

In the W&I Operating Division, senior managers will focus on the mission of serving the W&I customer segment. Focused solely on its mission of providing world class service to this customer segment, the members of the senior management team will be much more interdependent on the success of one another. For example, changes in compliance strategy will be viewed holistically across all W&I units to determine how the changes impact both internal operations and service to the customer. Strategic direction as well as operational decisions will be made in the context of service to the customer base.

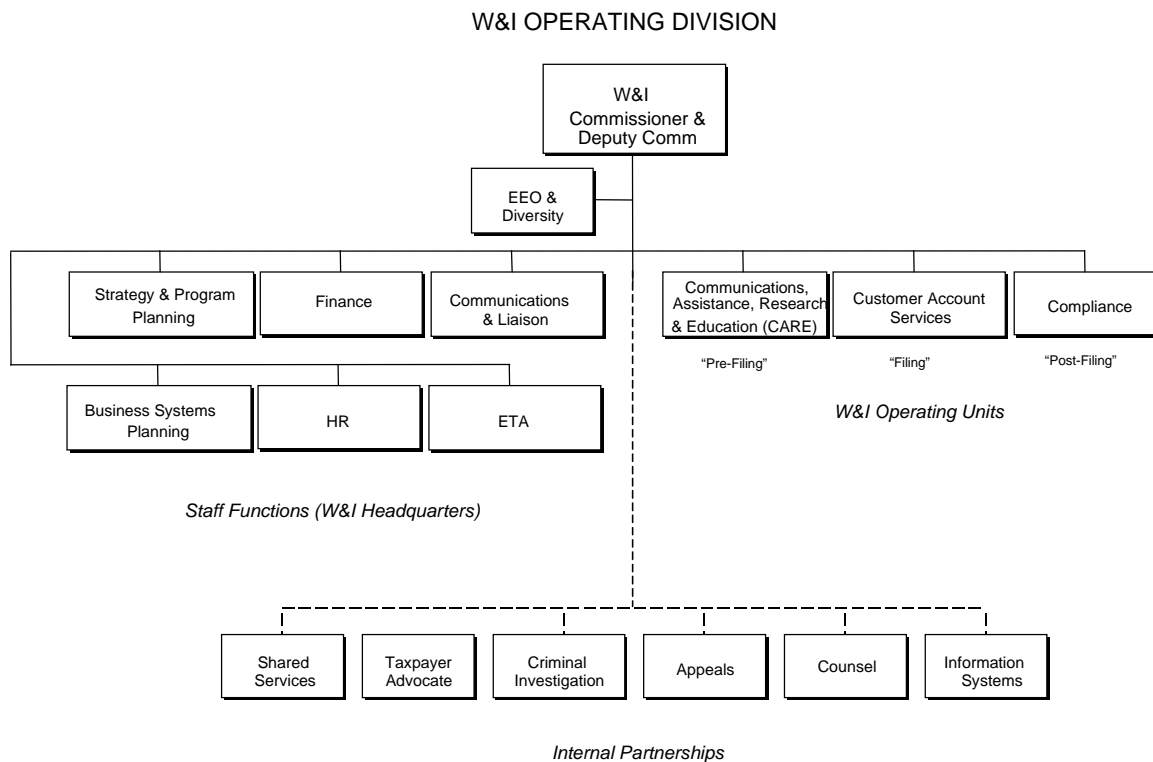
This top management team can develop compliance strategies that best address the needs of W&I taxpayers. CARE can then develop targeted educational materials to get the word out to W&I taxpayers through channels and partnerships that are most appropriate for this group of taxpayers. Compliance can then address the same topics in post-filing activities, assess taxpayer behavior, and provide feedback to CARE, which will then modify the educational approach as necessary. This constant feedback loop is essential to best understand and address the needs of this taxpayer segment. In addition, W&I will: work closely with Counsel to ensure that the necessary guidance is issued; quickly alert the Taxpayer Advocate and Appeals of the issue and potential impact on their case loads; and inform Information Systems of the technology enhancements needed to achieve this strategy.

One of the driving forces that will facilitate the close relationship between senior-level managers is the use of a balanced measurement system. Senior managers will be measured on their ability to work closely together to ensure the success of their operating division. The operating division will be fully supported by our internal partners: Appeals, Counsel, Criminal Investigations, Information Systems, Shared Services and the Taxpayer Advocate. Senior representatives from these organizational units will also be part of the W&I senior management team as shown in the following figure. In addition, input will be received from

the IRS National Headquarters and the other three operating divisions. Cooperation with and full solicitation of the partners' input will be accomplished through geographic and national councils that will cross both functional and operating division boundaries.

**Figure 2**

**The W&I Operating Division is composed of three operating units: CARE, CAS and Compliance, which are supported by headquarters and interact through internal partnerships**



## W&I Headquarters

The W&I Headquarters, located in Atlanta, will provide overall strategic and operational direction to the W&I operating units while providing internal support processes that can best be provided at the operating division headquarters level. The headquarters of W&I will provide only those services that cannot be provided practically at lower levels of the organization. This philosophy largely reflects the IRS organizational direction of moving accountability closer to the front-line organizations.

The critical operations of the W&I Headquarters include the following staff functions within its structure:

- **Strategy and Program Planning** will develop the W&I strategic plan; monitor and coordinate across operating units
- **Equal Employment Opportunity** will establish programs, procedures and policies; provide training to operating division

- staff on EEO as well as prepare reports and conduct analysis on trends and actions
- **Finance** will manage the overall W&I budget and administrative accounting process
- **Human Resources** will drive consistency and fair execution of IRS HR policies
- **Business Systems Planning Office** will coordinate with Information Systems to implement system solutions for W&I
- **Communications and Liaison** will manage internal communications within W&I and up to the IRS Core

## **Process-Based Organizational Segments**

The three major functional organizations (CARE, CAS and Compliance) are process-based; that is, they have organizational structures that manage the full life cycle of interaction with W&I customers. This provides full accountability for a discrete taxpayer segment with unique characteristics and needs.

### ***Communications, Assistance, Research and Education (CARE)***

The CARE organization will continuously research and analyze taxpayer trends to ensure that products/services being developed are meeting the needs of taxpayers. CARE will determine the appropriate tools needed to educate W&I taxpayers and forge liaison relationships with taxpayer representatives and other stakeholders to assist in our communication efforts.

An important aspect of increasing overall compliance will be the information sharing process between Compliance and CARE. Information gained during compliance activities will help direct CARE assistance initiatives. For example, during many examinations, either locally or nationally, we may discover that taxpayers are making similar errors. In the future, this information will be systematically provided to the CARE organization to develop and deploy outreach that quickly notifies taxpayers of the trend and how to properly handle the situation. In addition to creating tailored educational products and services, we may hold meetings with stakeholders and taxpayer representatives to ask them to pass along this valuable information.

CARE will focus on providing taxpayers with the information, support and assistance they need in order to understand and fulfill their tax obligations. The organization structure is aligned by channels of interactions with W&I customers. Being truly proactive in educating W&I taxpayers required a fundamental rethinking of how the IRS develops educational products and services.

In addition to improving the products and services the IRS develops, it was necessary to also re-think how these products reach taxpayers. To improve the delivery of these products and services, the IRS has created an organization to partner with stakeholders and other taxpayer groups to ensure that new tailored products/services are effectively reaching taxpayers. In

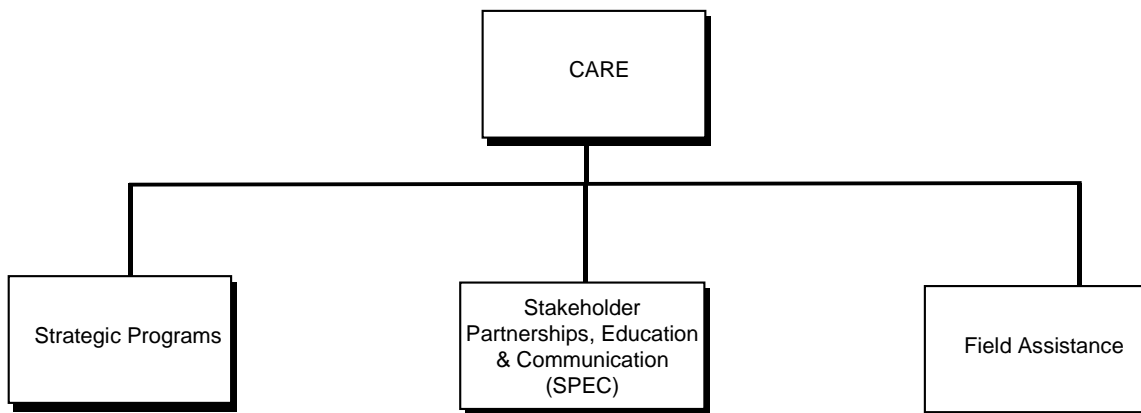
addition, new Taxpayer Assistance Centers will be established to provide assistance to those taxpayers that require face-to-face assistance. In the future, the IRS will not view all taxpayers the same, realizing that different segments of W&I customers have very different needs. Some examples are listed below.

- ◆ The W&I Operating Division will create automated products which are marketed on-line as well as through colleges and universities to reach students who virtually always prepare their own returns and express a great deal of interest in automated vehicles (Internet, computer-based tutorials, on-line publications, etc.).
- ◆ To reach non-student, low-income taxpayers who are likely to prepare their own returns and place high value on access to face-to-face assistance, the IRS will be partnering with other groups (volunteers such as accounting students from universities, etc.) to assist in offering convenient, face-to-face assistance sites during the filing season.
- ◆ In many cases, middle to high-income taxpayers earning \$50,000 or more utilize the assistance of a paid tax preparer, and our efforts would be well served to develop products for the taxpayer's representative. In addition to simply marketing these products to associations and taxpayer representative groups, the IRS will need to ensure that the products are tailored to the more sophisticated issues raised by this higher income bracket.

CARE will work closely with Compliance to understand taxpayer behavior and assess the effectiveness of education and outreach. For example, if CARE develops a program to educate W&I taxpayers about a specific issue, Compliance will be able to provide feedback that will help CARE adjust their educational products and techniques.

CARE can best serve its customers' needs by organizing around three sub-units: Strategic Programs, Stakeholder Partnership Education and Communication (SPEC) and Field Assistance.

**Figure 3: CARE Organization Structure**



**Strategic Programs** will focus on improving service to customers through the application of strategic and tactical research aimed at identifying customer needs and developing programs to address these needs. Strategic Programs will incorporate feedback from internal and external customers, employees and business units. Additionally, this staff will be ensuring that W&I business processes are meeting changing needs, by identifying and prioritizing opportunities for improvement, developing solutions, championing the change throughout the organization and measuring the results. This will require demographic research and constant analysis of trends in customer characteristics and needs. This research and analysis will also be used to work with Counsel to develop needed clarification of tax law and published guidance.

**SPEC** will assist W&I customers in satisfying their tax responsibilities by building and maintaining partnerships with key stakeholders. This organization will ensure that the new tailored products and services are reaching the intended audience. This will require building and maintaining relationships with key stakeholder groups and other partnerships needed to fully educate W&I taxpayers. This group will be responsible for developing educational materials for use in pre-filing, filing and post-filing customer interactions, developing products for use in marketing and working with local and national media to ensure that taxpayers are aware of tax law changes and IRS services.

**Field Assistance** will provide comprehensive, face-to-face assistance for taxpayers that require this mode of interaction. Most W&I customers have no compliance issues and, of those that do, most can be resolved remotely via telephone or written correspondence. Therefore, the face-to-face assistance provided must be capable of delivering cross-functional, customer-focused problem solving and education to those customers who want to voluntarily comply but require assistance. In addition, some face-to-face exams will be required for a small percentage of taxpayers whose returns can be more effectively examined in this way.

To fulfill these roles, a new W&I Tax Resolution Representative (TRR) position will be created. This new IRS position will institutionalize the success of IRS “Problem Solving Days” into our daily interaction with customers. Problem Solving Days have been widely accepted by both employees and taxpayers as being highly successful in terms of resolving taxpayer problems. In these special events, taxpayers have been able to visit convenient locations to meet face-to-face with IRS experts having a wide variety of skills. Similar to the staff conducting the Problem Solving Days, the new TRR will possess the cross-functional skills and knowledge needed to resolve the vast majority of tax law and compliance issues. Furthermore, the position epitomizes the Service’s intent to actively integrate a customer service focus into account/compliance-related customer contacts.

Tax Resolution Representatives (TRRs), will provide assistance, education and compliance support to taxpayers, fulfilling both pre-filing and post-filing needs. TRRs will report to W&I CARE and will constitute 100% of W&I field compliance staffing. Cases including complex examination issues or requiring enforcement action will be subcontracted to the SB/SE Operating Division. TRRs will assist taxpayers in a range of new ways:

- ◆ First, Taxpayer Assistance Centers, which will be full-service sites, will replace the current walk-in services offered at current IRS locations. Taxpayers will be able to receive pre-filing assistance as well as address routine compliance issues such as responding to a notice or establishing an installment agreement. In addition to expanding services at our current locations, new Taxpayer Assistance Centers will be conveniently located for taxpayers in shopping malls, community group locations and local government offices. Small business taxpayers will also be supported by specialized TAC staff and managers, a hotline to handle more complex SB/SE inquiries and, in some cases, temporarily or permanently assigned SB/SE staff.
- ◆ Second, TRRs will establish kiosks at various convenient locations (such as banks, grocery stores and shopping malls) where taxpayers can retrieve account information or research a tax law question.
- ◆ Third, TRRs will provide mobile services by traveling to rural areas.

A few of the major duties and responsibilities for each of these three sub-units are listed on the next page in Table 2.

**TABLE 2**  
**Major CARE Responsibilities**

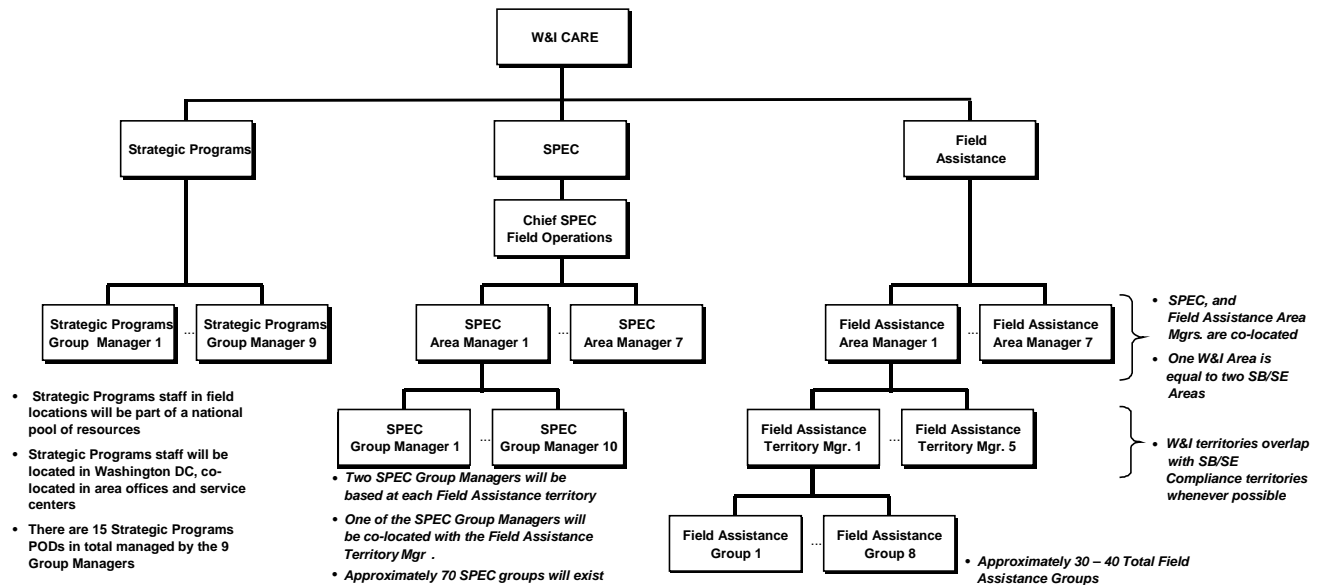
<b>Strategic Programs</b>	<b>Stakeholder Partnership, Education and Communication (SPEC)</b>	<b>Field Assistance</b>
<ul style="list-style-type: none"> <li>• Demographic and sociological research</li> <li>• Sub-segmentation at national and local levels</li> <li>• Coordinate and collaborate with internal and external customers</li> <li>• Assess the “voice of the customer”</li> <li>• Internal “consultant” role — identify opportunities, develop solutions, work across the organization to implement and measure results</li> </ul>	<ul style="list-style-type: none"> <li>• Build and manage partnerships with key stakeholder groups to market and deliver education products and services</li> <li>• Develop marketing programs</li> <li>• Develop education programs and materials</li> <li>• Develop mass media materials</li> <li>• Work with Strategic Programs to identify taxpayer education needs and avenues for delivery</li> </ul>	<ul style="list-style-type: none"> <li>• Provide assistance in the preparation of returns as well as resolution of less complex accounts and compliance issues for taxpayers that require face-to-face assistance</li> <li>• Deploy new strategies to reach taxpayers, especially in rural areas, such as mobile sites</li> <li>• Select locations for assistance sites</li> <li>• Work closely with Counsel to clarify tax law and guidance</li> </ul>

Each of the three key units will report to the CARE headquarters, ensuring coordination and cooperation. In addition to the headquarters components, each sub-unit of CARE has its own field operation. This ensures that there are clear lines of authority and accountability for each CARE sub-unit. It also ensures that the development and execution of strategies and programs is the responsibility of CARE, a single organizational entity. The field structure for CARE is based on seven Area offices for SPEC and Field Assistance. These Area offices are further divided. On the next page, Figure 4 illustrates this field structure.



**Figure 4**

## CARE Field Structure



## Customer Account Services (CAS)

CAS is responsible for taxpayer relationships through the filing process, including processing tax return submissions, payments and refunds. In addition, CAS is responsible for providing taxpayers with the information on the status of their returns or refunds and for resolving the majority of issues and questions about settling their accounts. These responsibilities naturally divide into two sub-units: Processing and Accounts Management. This organizational structure is illustrated in Figure 5.

Processing activities include processing of paper and electronic returns, tax payments and refunds. Taxpayers should notice little difference in these interactions, other than the ongoing migration toward electronic commerce. However, new opportunities will become available for employees in this area. Dual-role positions will be created by training current pipeline employees to work in remote compliance functions during the off-season. This new employment opportunity will (1) help to prepare pipeline employees for diminished workload due to the growth of e-file; (2) yield a more permanent service center workforce;

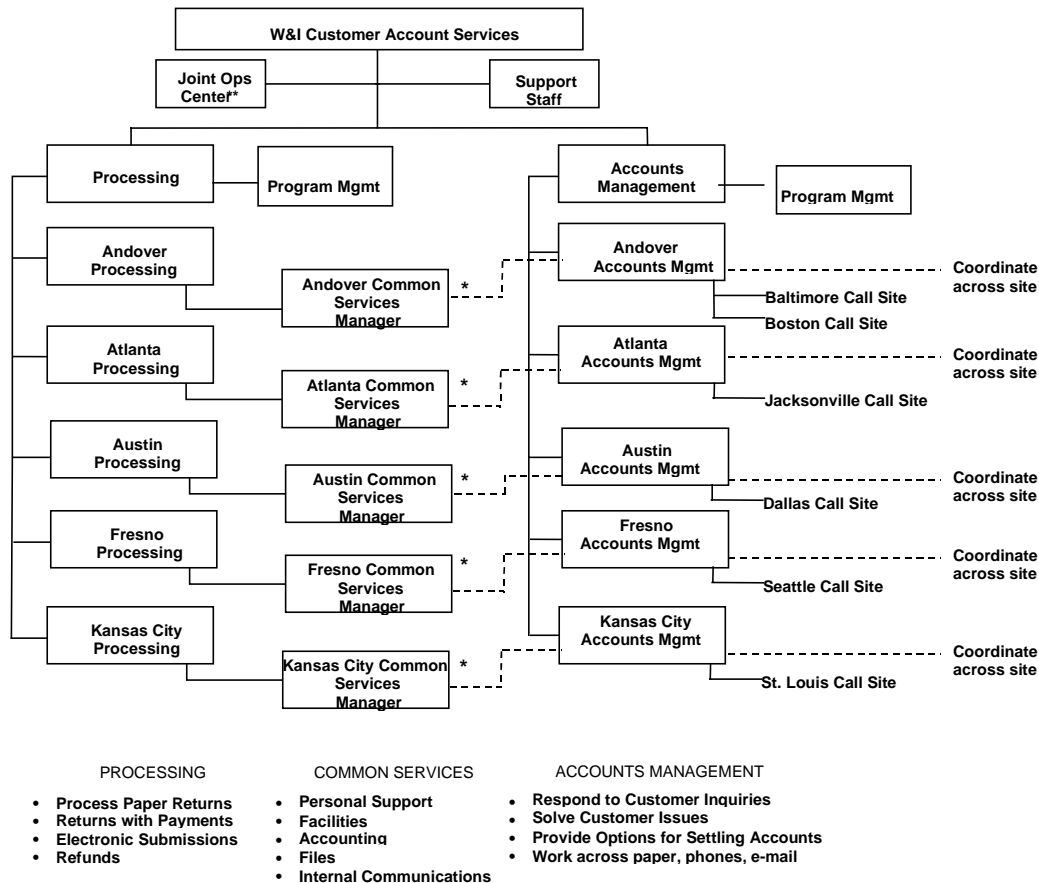
and (3) meet the increased demands for remote compliance resources in W&I. In the long run, this will also improve customer service as individual employees will enjoy a fuller understanding of the range of customer interactions with the IRS.

Accounts Management activities include responding to customer technical and account inquiries, resolving customer account issues, providing account settlement (payment) options and working related issues. Accounts representatives will be able to provide tax law, account resolution and payment information across several platforms (phone, paper, electronic), which will shift in response to changing customer demands. Because W&I accounts representatives will face a more limited set of issues than they do currently, these employees will become more effective across a broader range of functions, thereby improving their own job satisfaction as well as the service to customers.

The CAS organization structure is significantly different from today's service center structure and incorporates a unique new position at each site known as the Common Services Manager. Under the new design, the existing service center will be divided into up to five different organizations: CAS Processing, CAS Accounts Management, Compliance Exam, Compliance Collections and Common Services. The Common Services Manager will coordinate the interface with support organizations such as Shared Services and Information Systems on behalf of the site and will provide the staff support to the Service Center Council.

The Service Center Council will be the primary integrative mechanism, providing coordination and cooperation across organizations as well as unified, consistent policies and procedures for crosscutting issues that affect the entire site. This would include facilities concerns, recruitment and sharing of employees.

**Figure 5**  
**CAS Organizational Structure**



**Notes**

\* Additional analysis remains to be done on the reporting relationship of the Common Services Manager.

\*\* Substantial disagreement regarding the placement of the Joint Operations Center exists between design team and current line management; therefore additional analysis needs to be conducted in Phase IIB.

## ***Compliance***

The W&I Compliance function manages the relationship with taxpayers who have a high risk of not paying or whose return has a high risk of noncompliance. This organization will utilize risk-based approaches to collection actions and examinations; design and conduct examination programs; and prioritize and follow up on collection cases.

The second application of risk-based approaches to examination and collection will be a new model for the IRS. A risk-based approach to collection and examination will position the Service to more clearly differentiate between those taxpayers who are attempting to comply but need assistance versus that very small segment that intentionally does not comply. Unlike our current systems, this differentiation allows the Service to select varying approaches based on each taxpayer's circumstances.

The Service thus positions itself to move from a “one size fits all” approach to a philosophy of “the right treatment, for the right taxpayer, at the right time.” For example, the current system is based on a series of notices that are sent to each and every delinquent taxpayer. The same number of delinquent notices are sent at the same time intervals regardless of the taxpayer’s circumstances or prior payment history with the IRS. In the future, the IRS will have a model that assesses the payment/filing histories and other characteristics to determine the appropriate treatment for that taxpayer. If it is determined that this taxpayer is low-risk, the IRS may try to quickly reach that person through correspondence and attempt to set up flexible arrangements. If, however, that taxpayer has a long history of noncompliance, the IRS may decide to immediately telephone the taxpayer or send the case directly to a collection officer. In addition to tailoring the approach to match the level of risk, this approach will enable IRS to intervene much earlier for those taxpayers representing the greatest risk, resulting in a greater likelihood of resolution and prevention of additional liability.

In the compliance arena, the Service is striving for: improved taxpayer service, improved taxpayer accountability, enhanced taxpayer compliance strategies, increased efficiency and increased focus/clarity on compliance priorities. To accomplish all of our strategic objectives, the W&I compliance function is divided into two major sub-units: Collections Management and Examination Management. Collections Management will develop policies and procedures for W&I collection activities and conduct remote collection actions for medium and high-risk taxpayers. Examination Management will develop policies and procedures for W&I exam activities as well as administer all W&I remote and nonfiler programs.

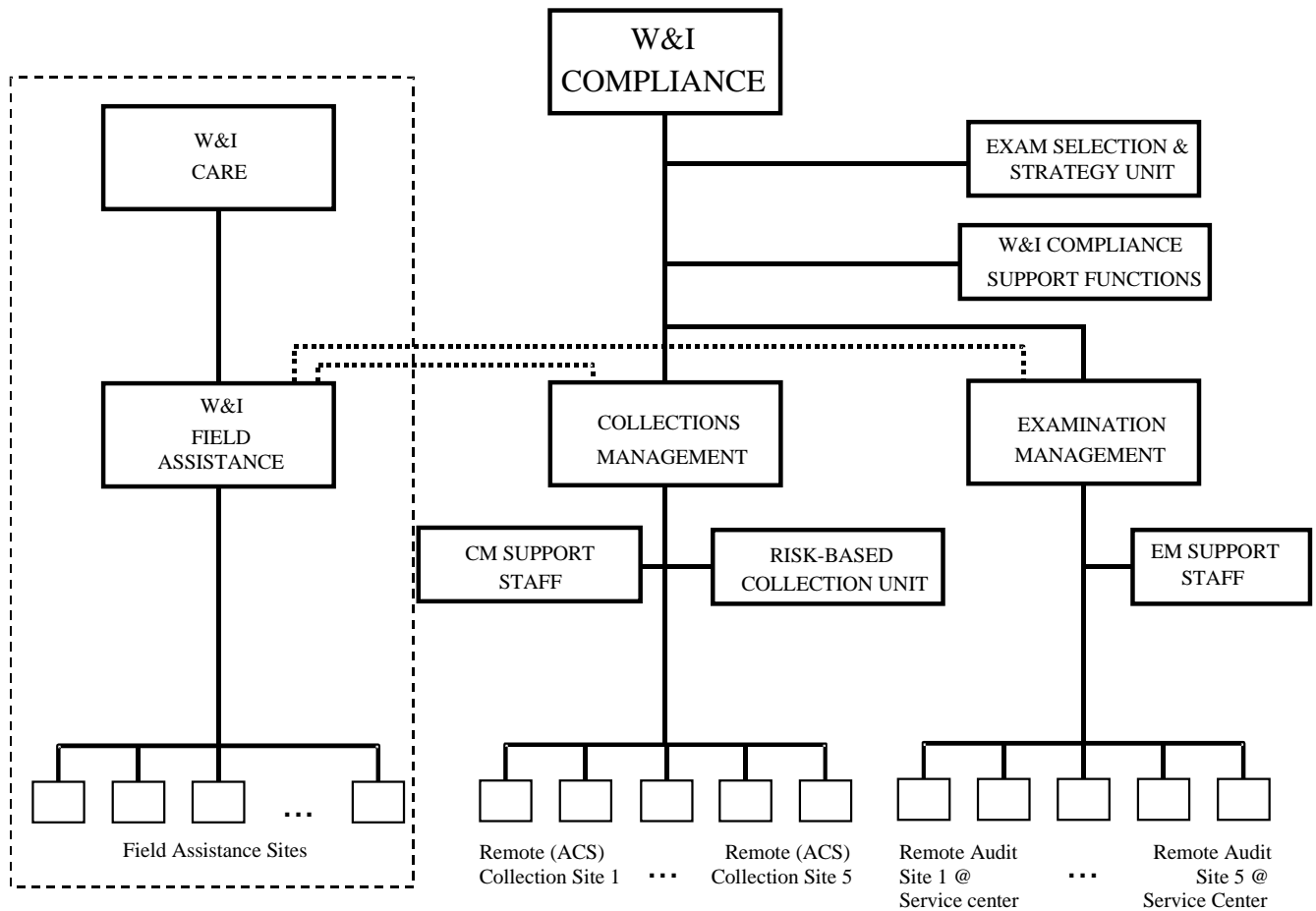
As stated above, a new staff position known as a Tax Resolution Representative (TRR) was created to effectively carry out these new compliance roles. These skilled representatives will report to W&I CARE in the Field Assistance organization and will constitute 100% of W&I field compliance staffing. Cases including complex examination issues or requiring enforcement action will be subcontracted to the Small Business/Self-Employed (SB/SE) Operating Division.

One of the key roles that Compliance will play is to provide feedback to the CARE organization on how to improve customer service and communication. Since the compliance process brings many customer service issues to light, it is in the best interest of W&I to capitalize on this knowledge to improve its performance. There are several options for providing input to the CARE organization to enhance customer service and satisfaction. For example, formal councils may be established to ensure regular interaction between CARE and Compliance. Other options range from utilizing *ad hoc* groups to enlisting Compliance personnel in the design of new CARE programs and services. The Phase IIB team will go into greater detail to determine the appropriate integrative mechanisms to facilitate this feedback loop.

The following figure represents the W&I Compliance structure for Collections and Examination Management, as well as its relationship to the CARE Field Assistance Function.

**Figure 6**

### W&I Compliance Structure



## New Business Scenario

### Wage and Investment (W&I) and Small Business/Self-Employed (SB/SE) Working Together to Resolve Issues

Working together, W&I and SB/SE are enhancing customer service, as illustrated by the case of Mr. Harrison. Mr. Harrison's tax return was identified as having a questionable casualty loss claim on Line 19 of his Schedule A.

To initiate the investigation, the W&I Operating Division sent Mr. Harrison a letter requesting documentation to substantiate his casualty loss claim. In the letter, he received information describing his rights and responsibilities as a taxpayer. The letter also outlined three service offerings available to Mr. Harrison to resolve the matter: call in and speak to a Tax Examiner, come to the office for a personal meeting or arrange a visit from an IRS representative at his home. Mr. Harrison chose the latter.

Mr. Harrison's file was forwarded from W&I to SB/SE, along with specifics regarding the case, previous correspondence and the arranged appointment time. A representative from the SB/SE Operating Division would work the case from that point on, since it now required personal contact at the taxpayer's home (which is out of the scope of W&I's examination activities).

Mr. Harrison met with a revenue agent, and the case was resolved fairly. Although a slight increase in Mr. Harrison's liability resulted, it was taken care of by check during the appointment. Thanking Mr. Harrison for his time and patience, the revenue agent left a short survey for him to fill out regarding his experience with the process and any recommendations for improvement.

**Key Points:**

**Communication and coordination between operating divisions improve taxpayer service and treatment**

**Processes to resolve examination issues will be seamless to the customer**

**Customer satisfaction feedback improves customer service**

*Note: All taxpayers, businesses, IRS staff members and tax situations contained in this scenario are imaginary.*

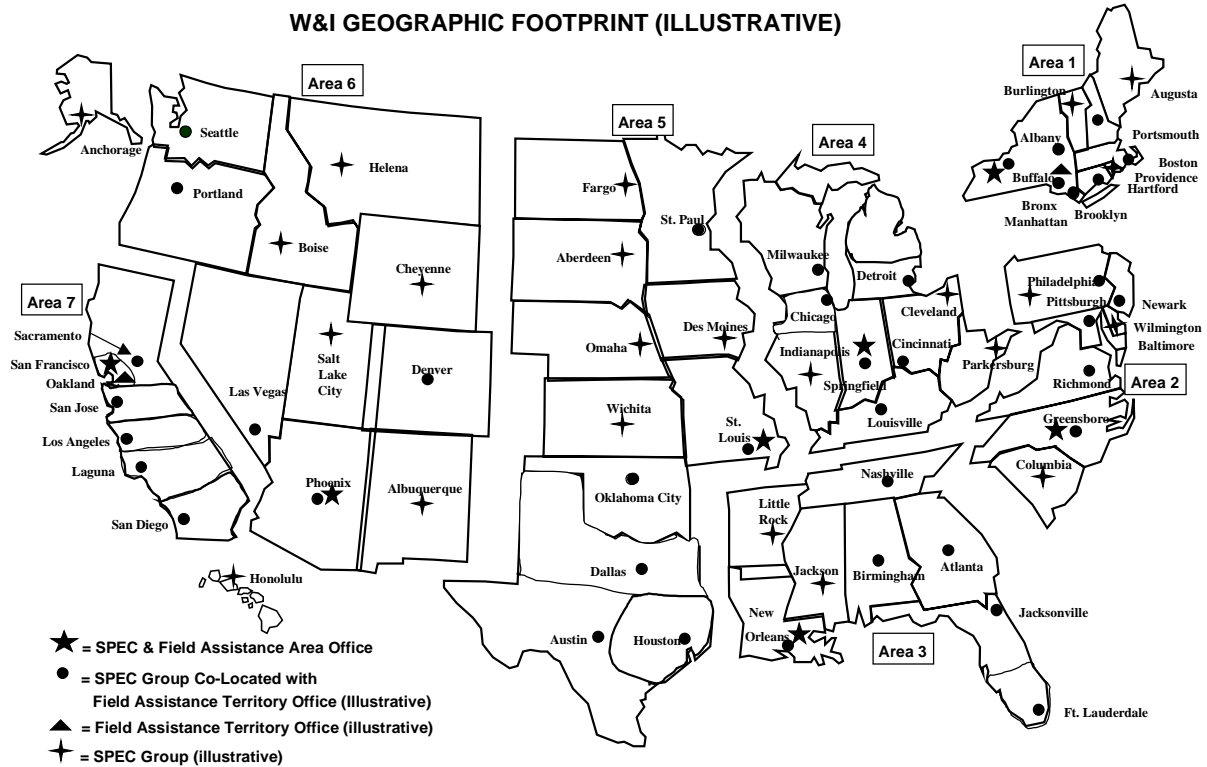
## Geographic Footprint

The geographic footprint of the Wage & Investment Operating Division will consist of a headquarters, located in Atlanta, Georgia, and a national geographic footprint comprised of SPEC and Field Assistance areas, territories and groups, as well as Customer Account Services functions currently located in service centers and customer service sites.

Figure 7 illustrates the W&I national geographic footprint. Seven areas are shown on the map with headquarters located in Buffalo NY, Greensboro NC, New Orleans LA, Springfield IL, St. Louis MO, Phoenix AZ and San Francisco CA.

**Figure 7**

## Wage and Investment Areas



As stated earlier, the W&I Operating Division will manage interactions with taxpayers via three major organizational units:

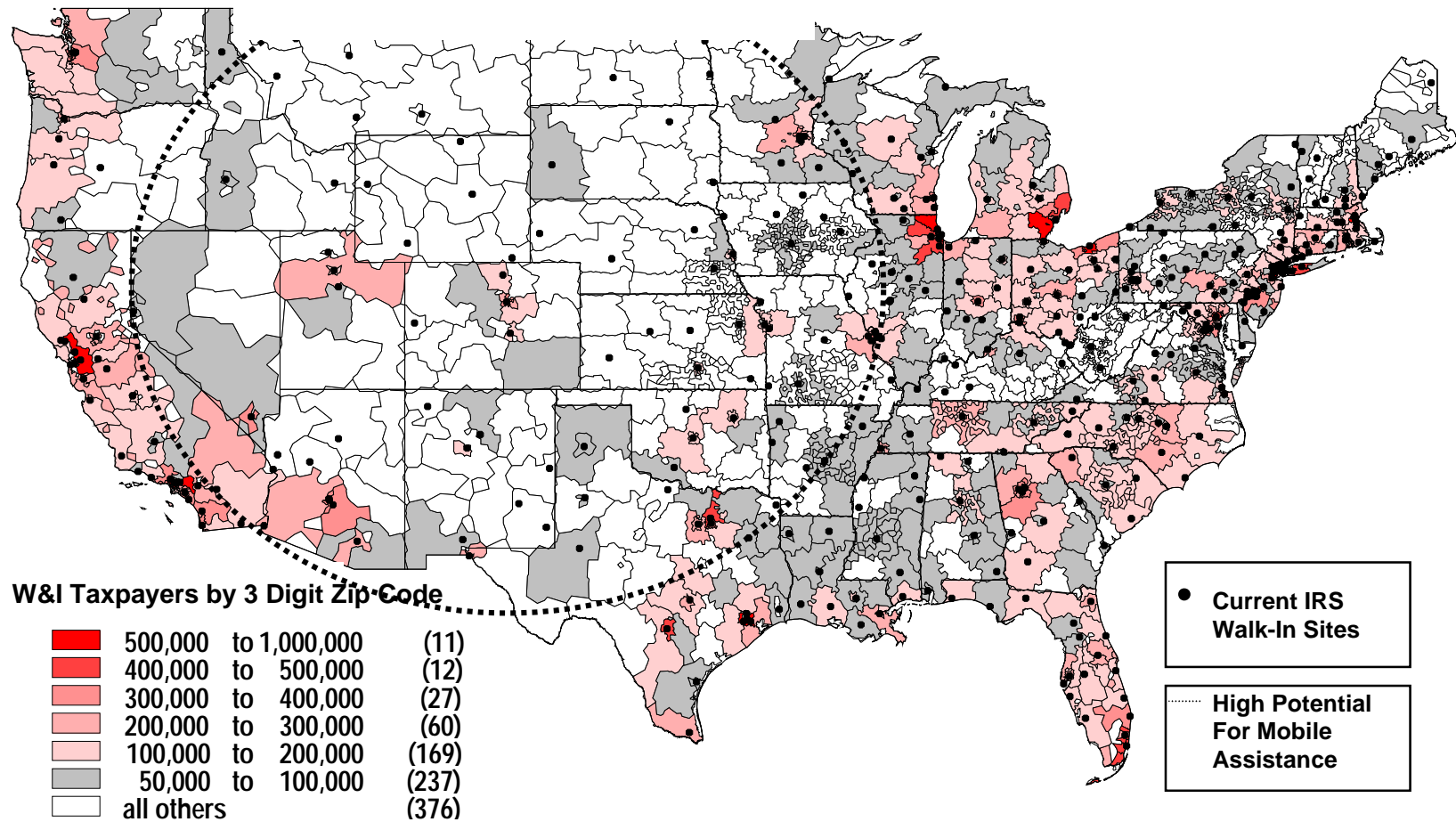
- ◆ **Pre-filing** activities will be managed by Communications, Assistance, Research, & Education (CARE) through a geographically dispersed field structure. The Field Assistance and Stakeholder Partnership, Education and Communication (SPEC) components of CARE will manage this field structure.
- ◆ **Filing** activities will be managed centrally through Customer Account Services (CAS) at five service centers -- Andover, Atlanta, Austin, Fresno and Kansas City.
- ◆ **Post-filing** activities will also be managed in three ways: (1) remotely through Compliance at the five service centers, (2) through Field Assistance offices, and (3) by subcontracting complex cases to SB/SE.

***CARE Field Assistance*** will manage approximately 35-40 territories and provide comprehensive face-to-face assistance to taxpayers. Tax Resolution Representatives (TRRs), will provide assistance, education, and compliance support to taxpayers, fulfilling both pre-filing and post-filing needs. TRRs will report to W&I CARE and will constitute 100% of W&I field compliance staffing. Cases including complex examination issues or requiring enforcement action will be subcontracted to the SB/SE Operating Division. Figure 8 on the next page illustrates the geographic coverage of the current IRS walk-in sites.



**Figure 8**

Current IRS Walk-In Sites are Located Around Large Concentrations of Wage & Investment Taxpayers



As illustrated in Figure 8, the current IRS walk-in sites have been established where the heaviest concentration of taxpayers exist. In the future, the newly-created Taxpayer Assistance Centers will include all of these locations as well as providing more coverage in rural areas that currently do not have an IRS facility. As stated above and depicted by the large circle around the left side of the map, these new Taxpayer Assistance Centers will be flexible to provide locations that are convenient to taxpayers. In addition to providing more locations than today, these Taxpayer Assistance Centers will also offer a broader range of services.

The second major field organization will be ***Stakeholder Partnership, Education and Communication (SPEC)***. This organization will manage 63-70 groups and assist W&I taxpayers by building and maintaining partnerships with key stakeholders. SPEC employees will be responsible for developing educational materials, developing marketing products and working with local and national media. Whenever possible, SPEC offices will be co-located with Field Assistance Offices.

**Customer Account Services (CAS)**, located at the five service centers (Andover, Atlanta, Austin, Fresno and Kansas City), will be responsible for all filing activities of W&I taxpayers.

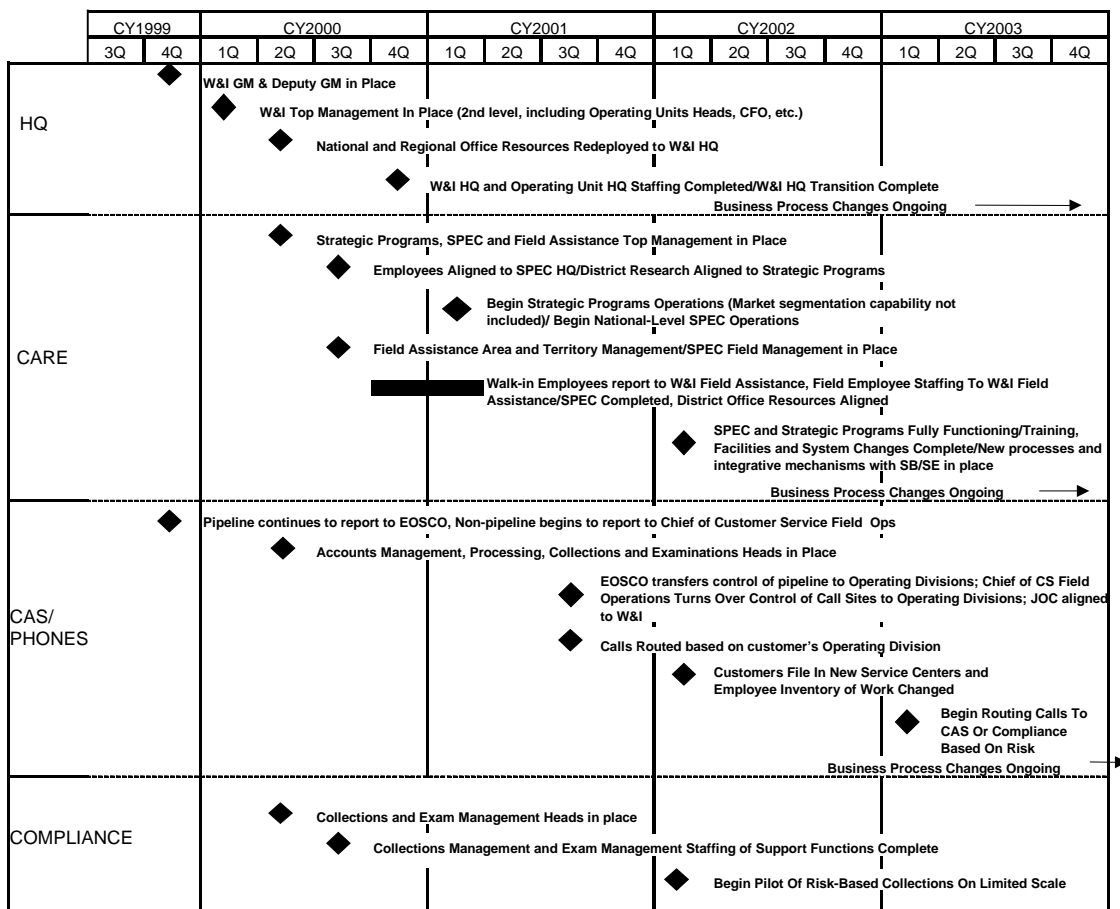
- Processing activities include processing paper and electronic returns, tax payments and refunds. Taxpayers and employees will experience continued high levels of service during these interactions.
- Accounts Management activities include responding to customers with technical account inquiries; resolving customer account issues; providing account settlement (payment) options; and working related issues across paper, phones, and electronic media. Dedicated call sites in Baltimore, Boston, Jacksonville, Dallas, Seattle and St. Louis will be an integral part of the Accounts Management process.

**Compliance** activities for W&I taxpayers will also be centrally managed at the five service centers (Andover, Atlanta, Austin, Fresno and Kansas City). Compliance will manage the relationship with taxpayers that have a high risk of not paying or whose return has a high risk of non-compliance. Most W&I taxpayers will be able to resolve compliance issues remotely through telephone, fax or correspondence. Cases including complex examination issues or requiring enforcement action will be subcontracted to SB/SE.

## Implementation Timing

During calendar year 1999, the top two leaders of the W&I Operating Division will be selected. In mid-2000, the remainder of the headquarters staff will have been recruited and selected. In January 2002, customers will be filing tax returns with W&I Service Centers, and employees in the W&I Service Centers will be exclusively dedicated to W&I work. The following figure and table illustrate the W&I high-level implementation plan as well as a description of each major milestone.

## W&I Implementation Plan



**Table 3**  
**Description of Major Milestones**

<b>Timeline</b>	<b>Initiative</b>
2Q CY 99:	Phase IIB kick-off, initially focusing on driving the design down to the front line and refining estimates of headcounts, training, etc.
4Q CY 99:	The top two leaders of W&I will be in place and the Customer Service Field Operations will be established. Submissions Processing will continue to report centrally (EOSCO).
1Q CY 00:	The second level of W&I senior management will be in place, including the leaders of CARE, CAS and Compliance Operating Units.
2Q CY 00:	W&I headquarters will be staffed. Leaders of the following sub-operating units are also in place: Strategic Programs, SPEC, Field Assistance, Processing, Accounts Management, Collections and Exam Management.
3Q CY 00:	Staffing for SPEC and Field Assistance management for the field will have been completed. SPEC headquarters staff, Collections and Exam Management support functions will have been recruited and selected by this time.
4Q CY 00:	The transition to the W&I Headquarters will have been completed and selected field employees will begin to align to W&I.
1Q CY 01:	Alignment of field employees to W&I will be completed. Also, Strategic Programs and SPEC (National Level) can begin operations.
3Q CY 01:	W&I will assume control of Customer Service Field Operations and Submissions Processing. Call routing to operating divisions will also begin at this time.
1Q CY 02:	Organizations such as SPEC, Field Assistance and Strategic Programs will be fully functioning by this time. For filing season 2002, customers will file in new service centers and a small pilot of risk-based collections will begin.
1Q CY 03:	Call routing to Customer Account Services or Compliance using a customer risk assessment will begin at this time.

# *Small Business/Self-Employed*

## **Taxpayer Characteristics**

The Small Business/Self-Employed (SB/SE) Operating Division serves approximately 40 million taxpayers. These taxpayers include fully or partially self-employed individuals and small businesses. This group has much more complex dealings with the IRS than wage and investment taxpayers. They have 4 to 60 routine transactions with the IRS per year and pay the IRS nearly \$559 billion in cash, representing nearly 40% of the total cash collected by the IRS. This amount includes personal and corporate income taxes, employment taxes, excise taxes and withholdings for employees, each of which has filing and technical requirements. Since business income and a range of taxes are involved, compliance issues are also complex. The probability for errors, resulting in collection and compliance problems, are greatest in this group because of the lack of withholding or information reporting and the large amount of cash paid. The result is much more frequent dealings with the IRS.

### **Small Businesses**

Approximately 7 million small businesses will be served by this operating division, including corporations and partnerships with assets less than or equal to \$5 million. These businesses are separate legal entities, requiring separation from their owners' and managers' personal obligations. These taxpayers generally file forms 1120S (S-corporation), 1065 (partnerships) and 1120 (small-incorporated businesses). A significant portion of this group's tax liabilities are employment taxes. Small business employment taxes are approximately one-third of their total tax obligations with the other two-thirds comprised of income tax obligations (including estate and gift taxes).

Small businesses are often corporations and face some of the complicated tax issues of large corporations, but usually do not have the financial resources to have tax professionals on staff. While compliance issues with large businesses stem heavily from differences in tax law interpretation, compliance issues in small businesses are varied and include a lack of understanding of the tax law requirements, lack of adequate accounting practices and resources and cash flow problems. For these reasons, small businesses require specialized service from the IRS, with greater emphasis on working with small businesses and their representatives to educate and develop less burdensome and more practical means of complying.

## **Self-Employed and Supplemental Income Earners**

The SB/SE Operating Division also serves approximately 33 million self-employed and supplemental income earners with business-like characteristics. These taxpayers are individuals filing income tax form 2106 (business expenses) and schedules C (self-employed), E (rental properties and royalties) and F (farmer). Although these taxpayers are individual filers and, therefore, have characteristics similar to those in the W&I Operating Division, they have much more complicated tax issues. Self-employed and supplemental income earners have substantial differences with wage earners including: substantially higher incomes (nearly four times the average tax obligation and filing over twice as many forms and schedules per return), requiring roughly twice as much time to prepare returns and a much heavier reliance on paid tax preparers. These factors not only increase the sophistication of the tax returns but also increase the demand for IRS expertise. For this reason, these taxpayers have been included with complicated small business taxpayers.

Although not completely the same, small businesses and self-employed/supplemental income earners have much in common. Both share the following characteristics: 1) relatively limited resources for record keeping, 2) close relationships between business and personal transactions, 3) similar size of operations, and 4) frequent interactions with the IRS.

## **Other SB/SE Taxpayers**

The SB/SE Operating Division will also have responsibility for servicing a third set of taxpayers - estate and gift taxpayers, fiduciary returns and all individual taxpayers with international tax returns, as indicated in the tables on the next page.

The SB/SE Operating Division will also have responsibility for processing all tax returns, including income tax, employment tax and excise tax returns, submitted by taxpayers serviced by the L&MSB and Tax Exempt Operating Divisions. This will be done under a service agreement with these operating divisions. The other divisions will have responsibility for education and compliance programs for these taxes for the taxpayers they serve.

Consistency of interpretation and guidance concerning excise taxes, employment taxes and international issues across units will be ensured through a process that includes tax administration councils including the affected operating division and Counsel. Usually, one division will have the lead role in each program area. It is expected that the SB/SE Operating Division will have the lead role with respect to employment taxes and excise taxes, while the L&MSB Operating Division will have the lead role in the international area. The specific process and assignment of detailed responsibilities for each program will be defined in Phase IIB.

**TABLE 1****Other SB/SE Responsibilities**

	<i><b>SB/SE RESPONSIBILITIES</b></i>	
<b>Estate and Gift (E&amp;G)</b>	<ul style="list-style-type: none"> <li>Educate and assist all E&amp;G filers</li> <li>Process all E&amp;G returns</li> </ul>	<ul style="list-style-type: none"> <li>Program administration; responsibility for all compliance issues</li> </ul>
<b>Fiduciary</b>	<ul style="list-style-type: none"> <li>Educate and assist all fiduciary/trust filers</li> <li>Process all fiduciary/trust returns</li> <li>Provide customer service to SB/SE taxpayers</li> </ul>	<ul style="list-style-type: none"> <li>Program administration</li> <li>Responsibility for all compliance issues</li> </ul>
<b>International *</b>	<ul style="list-style-type: none"> <li>Process all individual international tax returns at a centralized service center</li> </ul>	<ul style="list-style-type: none"> <li>Responsibility for International POD's</li> </ul>

\* A charter to further define the placement of International activities has been written and will need to be worked in a future phase.

**TABLE 2****Rationale for Placement of Other Responsibilities within SB/SE**

	<i><b>RATIONALE FOR FIT WITHIN SB/SE</b></i>
<b>Estate and Gift Fiduciary</b>	<ul style="list-style-type: none"> <li>SB/SE will have the geographical footprint required to conduct hands-on documentation and valuation for estate and gift taxpayers</li> <li>Access to historical records of these typically complex individual filers are usually under the purview of SB/SE</li> <li>Specialized legal knowledge required for these tax issues is related to small business ownership</li> <li>Knowledge of small business issues is useful in administration of these types of taxes</li> </ul>
<b>International</b>	<ul style="list-style-type: none"> <li>Accountability and single point of contact will be ensured by servicing the international tax needs of all individuals</li> </ul>

**Goals, Principles and Objectives**

Over the last year, IRS employees from around the country have worked together to research and analyze the characteristics and needs of the SB/SE taxpayers. The vision for the redesign effort focuses on our long-term objective of improving service to taxpayers and increasing the job satisfaction of our employees.

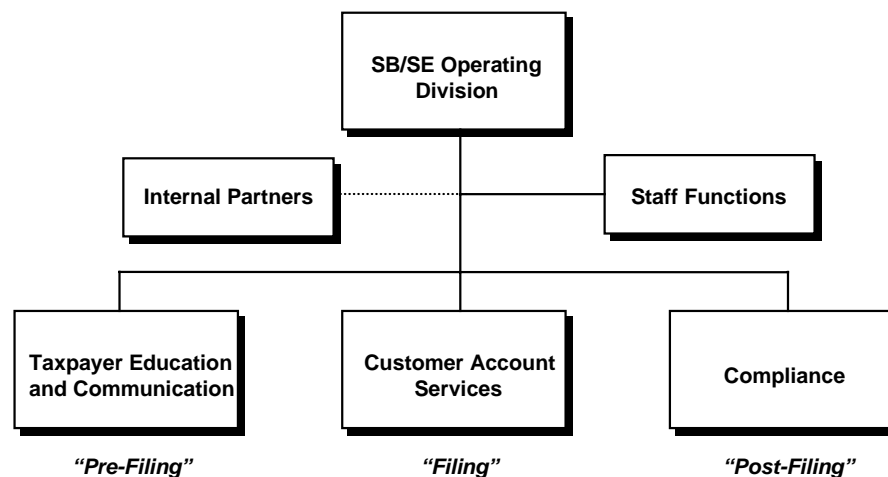
## SB/SE Organization Structure

Achieving these goals would be virtually impossible without a complete overhaul of our current organization structure. Accountability for providing high quality service to taxpayers was actually being impeded by too many layers of management and a lack of clear roles and responsibilities for front-line managers and employees. Both employees and taxpayers find it difficult to navigate through the complicated structure. This difficulty often results in increased frustration for both the customer and our employees.

Small businesses, self-employed and supplemental income earners, while having more complex tax issues, are best suited for a process-based organization structure similar to that of the Wage and Investment Operating Division. It is important to establish an organization and a management team that is accountable for every component of customer service. To accomplish this, the SB/SE Operating Division will be staffed by approximately 38,800 employees and organized around three major processes called **operating units**: “pre-filing” (Taxpayer Education and Communication), “filing” (Customer Account Services) and “post-filing” (Compliance). The organization for these three processes is illustrated below in Figure 1.

**Figure 1**

The Overall SB/SE Operating Division



The top management of each operating unit will work together as needed to ensure the overall goals of the SB/SE Operating Division are met. This coordination will be facilitated by the SB/SE Operating Division Headquarters.



## SB/SE Senior Management Team

The SB/SE senior management team is composed of the SB/SE Commissioner and Deputy Commissioner, the heads of its three major functional organizations (TEC, CAS and Compliance) and the heads of its staff functions (Strategy and Program Planning, Management and Finance, Communications and Liaison, EEO & Diversity and Business Systems Planning). The concept of a SB/SE senior management team, focused on providing overall strategic and operational direction to service its approximately 40 million customers, is a profound change in the way the IRS views its relationship with its largest customer base.

In today's IRS structure, management is focused on "functions" such as Customer Service, field Collection and field Examination work, which act independently of each other. This functional focus demands management excellence solely in their individual functional areas. While this structure works well for the current organization, it does not lend itself to an organization focused on delivering excellence to discrete customer segments. The SB/SE Operating Division will require a much higher level of integration at its senior management level.

In the SB/SE Operating Division, senior managers will focus on the mission of serving the SB/SE customer segment. Focused solely on its mission of providing world class service to this customer segment, the members of the senior management team will be much more interdependent on the success of one another. For example, changes in compliance strategy will be viewed holistically across all SB/SE units to determine how these changes impact both internal operations and service to the customer. Strategic direction as well as operational decisions will be made in the context of service to the customer base.

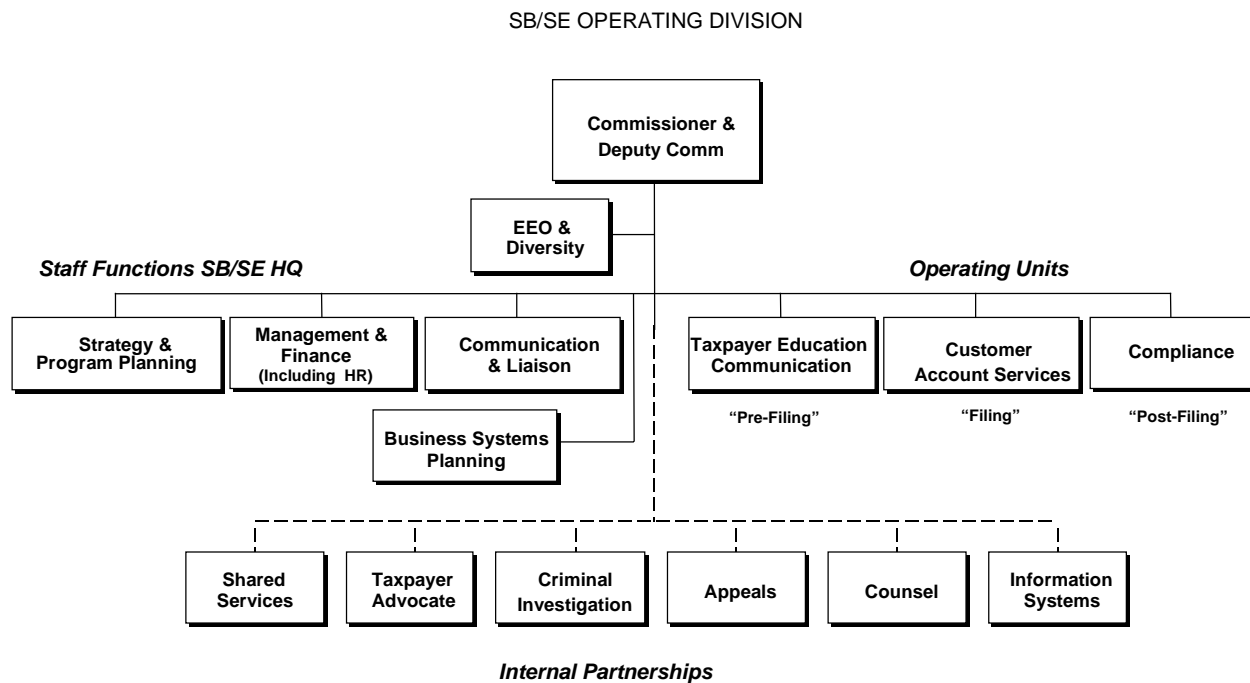
This top management team will develop compliance strategies that best address the needs of SB/SE taxpayers. The Taxpayer Education and Communication (TEC) unit can then develop targeted educational materials to get the word out through channels and partnerships most appropriate for SB/SE taxpayers. Compliance can then address the same topics in post-filing activities, assess taxpayer behavior and provide feedback to TEC, which will then modify the educational approach as necessary. This constant feedback loop is essential to best understand and address the needs of this taxpayer segment. In addition, SB/SE will work closely with Counsel to ensure that the necessary guidance is issued, alert the Taxpayer Advocate and Appeals of the issue and possible impact on their workload, and work with IS to develop technology enhancements to achieve this strategy.

All three of the SB/SE processes will be supported by a **headquarters** operation which will perform all necessary support activities. **Internal partnerships** will be developed with SB/SE Headquarters to ensure proper linkages with the rest of the IRS. These include partnerships with Shared Services, Taxpayer Advocate, Criminal Investigation, Appeals, Counsel and Information

Systems. Although these functions are not directly managed by SB/SE, strong internal partnerships will be created to ensure that taxpayers and employees receive the best service possible. This new organization structure is illustrated in Figure 2.

**Figure 2**

**The SB/SE Operating Division is composed of three operating units: TEC, CAS and Compliance, which are supported by headquarters and interact through internal partnerships**



## SB/SE Headquarters

SB/SE Headquarters will provide strategic leadership to all components of the SB/SE organization. The headquarters will provide one central contact point for small business customers, develop and monitor unique SB/SE business processes, and control and manage activities such as capital budgeting, forecasting and financial management for the SB/SE organization.

The critical operations of the SB/SE Headquarters include the following general activities within its structure:

- **Strategy and Program Planning** will develop the SB/SE strategic plan and coordinate across operating units

- **Management and Finance** will manage the overall SB/SE budget process and administrative accounting, and drive consistency and fair execution of IRS HR policies
- **Communications and Liaison** will manage internal and external stakeholder relationships
- **Equal Employment Opportunity & Diversity** will establish programs, procedures and policies; provide training to operating division staff on EEO; and prepare reports and conduct analysis on trends and actions
- **Business Systems Planning** will coordinate with Information Systems to create and implement system solutions for SB/SE

## **Process-Based Organizational Segments**

The three major organizations (TEC, CAS and Compliance) are process-based; that is, they have organizational structures that, together, manage the full life-cycle of interaction with SB/SE customers. This provides end-to-end accountability for a discrete taxpayer segment with unique characteristics and needs.

### ***Taxpayer Education and Communication Organization***

**Taxpayer Education and Communication (TEC)** will be a customer-focused organization that routinely solicits information concerning the needs and characteristics of its customers and implements programs based on the information received. The well-trained TEC staff will provide professional and courteous service to SB/SE customers and help them understand and fulfill their tax obligations.

The TEC organization will continuously research and analyze taxpayer trends to ensure that products/services being developed are meeting the needs of taxpayers. TEC will determine the appropriate tools needed to educate SB/SE taxpayers and forge liaison relationships with taxpayer representatives and other stakeholders to assist in our communication efforts.

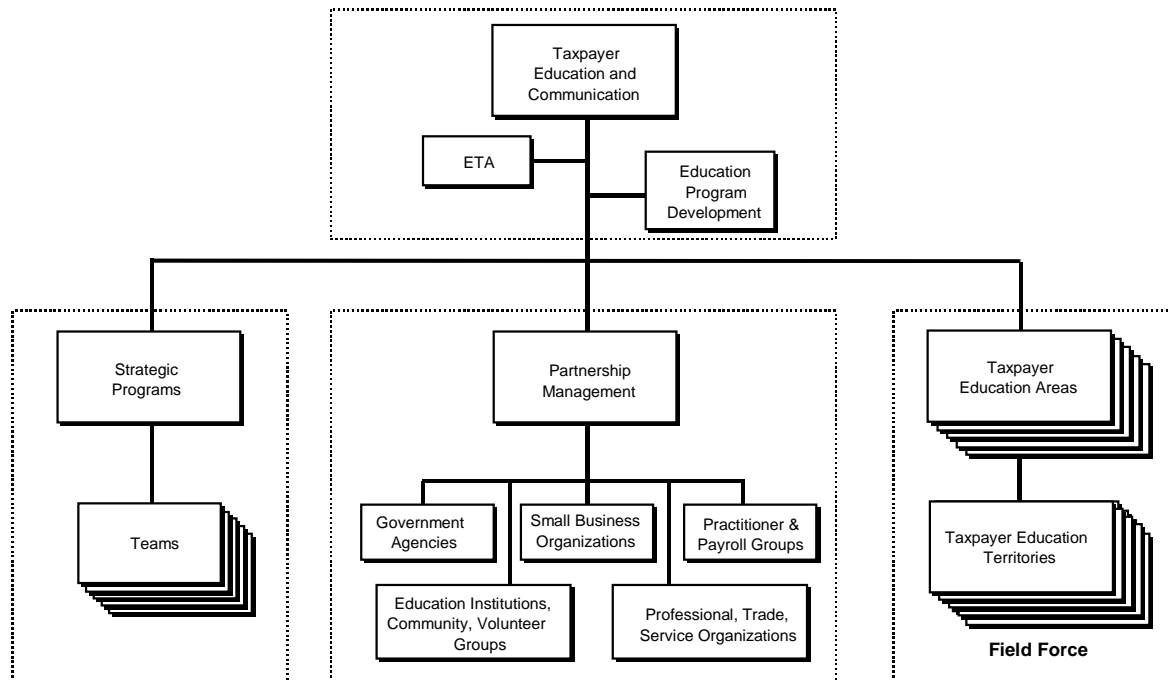
An important aspect of increasing overall compliance will be the information sharing process between Compliance and TEC. Information gained during compliance activities will help direct TEC assistance initiatives. For example, during many examinations, either locally or nationally, we may discover that taxpayers are making similar errors. In the future, this information will be systematically provided to the SB/SE TEC organization to develop and deploy outreach to quickly notify taxpayers of the trend and how to properly handle the situation. In addition to creating tailored educational products and services, we may hold meetings with stakeholders and taxpayer representatives to ask them to pass along this valuable information.

Taxpayers will benefit with improved end-to-end accountability for educating taxpayers, consistent policy setting and program guidance, and timely and effective communication with

taxpayers and employees throughout the SB/SE organization. The Taxpayer Education and Communication organization will have three components: 1) Strategic Programs, 2) Partnership Management and 3) Taxpayer Education Field Force. The Taxpayer Education and Communication organization is illustrated below in Figure 3.

**Figure 3**

**Taxpayer Education and Communication Organization (TEC)**



***TEC Strategic Programs***

TEC Strategic Programs teams will serve as internal consultants to the entire operating division and must maintain top-level expertise. For this reason, the teams will be built around specific topics utilizing both permanently assigned staff and temporary team members that are technical experts from other parts of the organization (e.g., CAS, Compliance, HQ, etc.). These teams will perform internal and external research to identify the characteristics and needs of SB/SE customers. These activities include monitoring changes in demographic trends, ensuring that SB/SE customer segmentation is optimal, validating customer satisfaction results to ensure that high-quality service is being provided to taxpayers, continuously evaluating business processes in search of improvements, conducting program evaluation, acquiring feedback on forms and publications and continuously working with Counsel to provide clear interpretation of tax law and guidance.

They will partner with TEC Partnership Management and with the Taxpayer Education field force to provide strategic direction for education programs, as well as ensure that these programs are meeting customer needs. They will partner with SB/SE Compliance and CAS to identify emerging issues that require proactive education services. They will also partner with other IRS research operations (i.e., W&I research, SB/SE research and HQ research) as necessary to perform joint research and ensure overall effective customer service.

### ***TEC Partnership Management***

TEC Partnership Management will proactively partner with government agencies, small business organizations, practitioner groups and other professional and volunteer organizations. These partnerships will improve our ability to provide: non-traditional sites for serving customers resulting in convenient and comprehensive levels of service, more channels to reach customers (e.g., seminars, newsletters, magazines), and an audience for us to share ideas, understand our customers and receive feedback on our progress. These partners will be leveraged as an additional resource from which assistance can be provided. In this way, TEC will be able to reach a larger number of taxpayers with a relatively small permanent staff of IRS employees.

### ***TEC Taxpayer Education Field Force***

TEC Taxpayer Education field force will provide customer-focused products, services and assistance to educate customers. Educational activities will be available for any business transaction that impacts tax obligations such as hiring employees, expanding a business, converting from a sole proprietorship, incorporating or exiting a business. The Taxpayer Education field force will work with the following three groups: 1) partnership groups at the local level to provide tax law and filing information as well as training and education services, 2) Strategic Programs to identify customer needs and determine how best to meet those needs and 3) SB/SE Compliance to educate customers as part of the daily work routine.

The Taxpayer Education field force will establish a close relationship with Compliance in order to understand SB/SE taxpayer compliance issues. This understanding will enable the Taxpayer Education staff to proactively offer customized assistance to taxpayers. To facilitate this interaction, the geographic footprint for both Taxpayer Education and Compliance will be the same. Figure 7 in the SB/SE Compliance section illustrates this geographic structure.

### ***Taxpayer Assistance Centers***

Walk-in services for SB/SE will be provided by W&I managed Taxpayer Assistance Centers (TACs). Although TACs will be managed by W&I, assistance will be provided to all customers. To ensure proper service for SB/SE taxpayers, SB/SE will provide extensive training to TAC staff/managers, establish a hotline to support TAC staff on SB/SE inquiries and, in some cases, temporarily/permanently staff TACs with SB/SE employees.

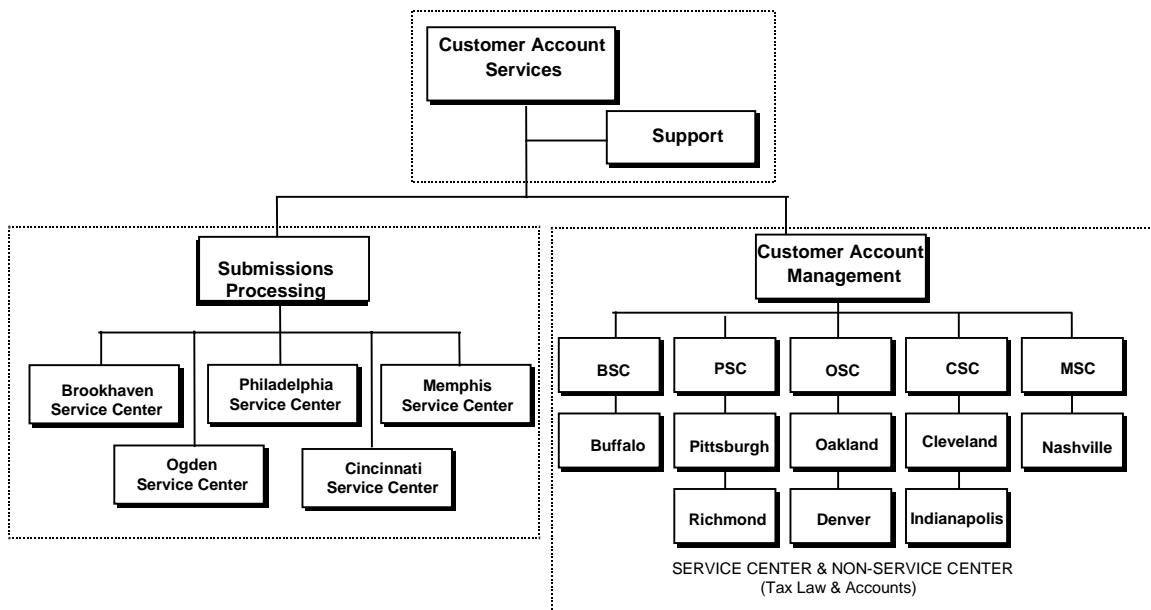
## Customer Account Services Organization

**Customer Account Services (CAS)** will be responsible for assisting customers in submitting accurate tax returns and remitting the proper amount of tax. The focus will be on processing returns timely and accurately, assisting customers with account specific questions and adjusting their accounts when necessary.

The CAS organization will be able to provide highly customized service due to the specialization of SB/SE staff. In the past, employees have been responsible for understanding tax law and filing requirements for all taxpayers (wage earners and small businesses). In the future, the SB/SE staff will be able to focus their efforts on becoming experts in only those tax code sections that impact SB/SE taxpayers. This will result in more qualified and technically competent IRS employees and better handling of taxpayer inquiries.

In the current organization, the processing of tax returns (Submission Processing) and the answering of taxpayer inquiries (Customer Account Services) have completely separate and distinct field management chains. The new organization will have both Submission Processing and Customer Account Services reporting to the same SB/SE headquarters executive. This will ensure that taxpayers receive consistently high-quality service and that one organization is responsible for end-to-end service for these taxpayers. The new and improved CAS structure is illustrated below in Figure 4.

**Figure 4**  
Customer Account Services Organization

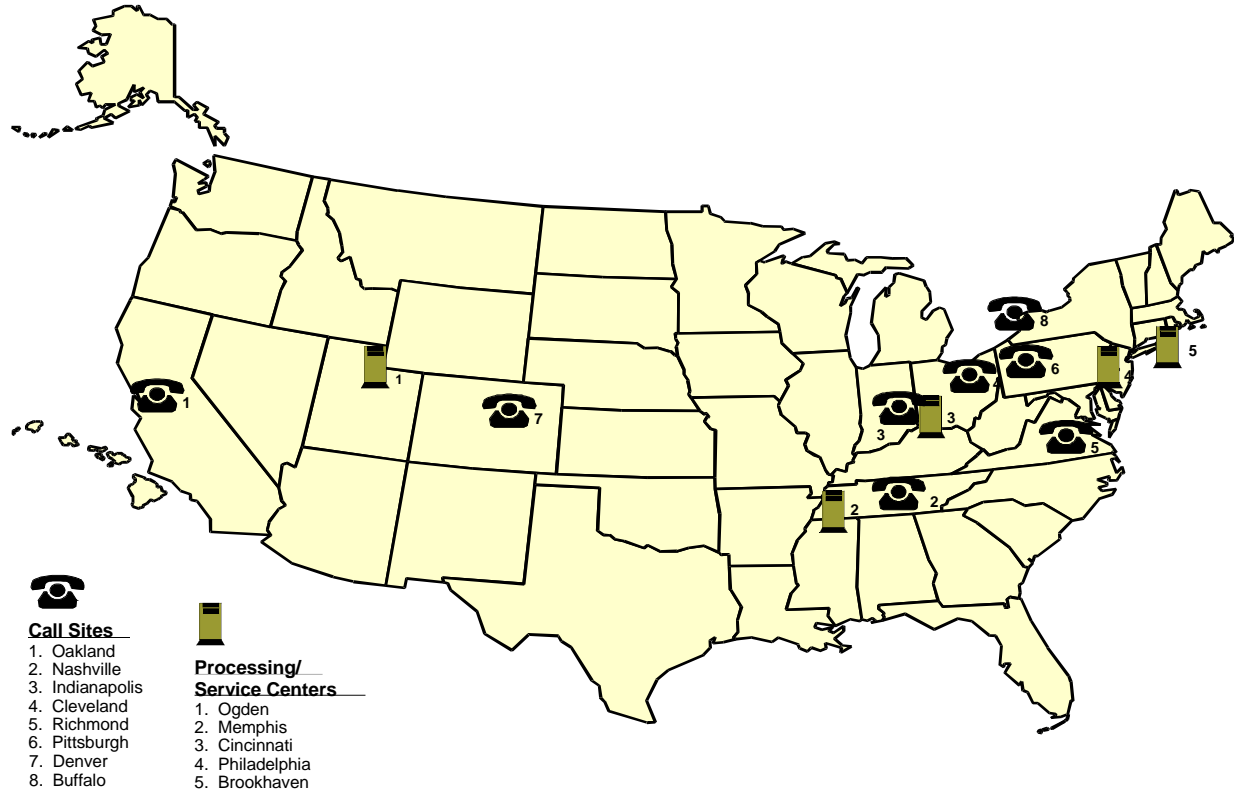


The activities within CAS naturally fall into either Submission Processing or Customer Account Management. **Submission Processing** activities are high volume, repetitive and include processing of paper returns, electronic submissions, payments and refunds. **Customer Account Management** activities are transactional and taxpayer specific and include responding to customer inquiries, solving customer problems, providing options to settle accounts and working issues received through phone calls, mail and e-mail.

As mentioned above, the dedication/specialization of staff for SB/SE taxpayers is critical to improving service to taxpayers. Dedication of sites will provide several benefits including increased accountability, effectiveness of the overall organization and taxpayer satisfaction. Specifically, the dedication of sites will enable the IRS to provide customized assistance to the taxpayer.

To accomplish this specialization, we have divided the service centers' pipeline and non-pipeline operations into three functions: Submissions Processing, Customer Account Management and Compliance. Submissions Processing and Customer Account Management will report to CAS. We have selected the following five service center sites to be dedicated to SB/SE: Brookhaven, Cincinnati, Memphis, Philadelphia and Ogden. Additionally, in order to round out the Customer Account Management function, we have selected the following eight district phone sites to be dedicated to SB/SE: Buffalo, Pittsburgh, Richmond, Oakland, Denver, Cleveland, Indianapolis and Nashville. (Note: The following call sites will also be dedicated to SB/SE and will report through the Compliance organization: Denver, Oakland, Indianapolis, Cleveland, Nashville, Brookhaven, Jacksonville, Philadelphia, Buffalo, Seattle/Portland and St. Louis.) The footprint of the Customer Account Services organization is illustrated on the next page in Figure 5.

**Figure 5: SB/SE Customer Account Services Geographic Footprint**



## ***Compliance Organization***

The SB/SE **Compliance** organization mission is to provide prompt, professional and helpful service to all customers. This focus will include increasing overall compliance and the fairness of compliance programs as we study and evaluate small business needs and trends. Compliance will provide educational guidance and community outreach, and apply holistic compliance treatments based on facts, circumstances and risk. The Compliance workforce will be empowered, flexible and accountable in providing world class customer service.

Due to the complexity of the SB/SE tax issues, the potential for errors, misunderstandings and confusion to result in a compliance action is high. For this reason, we must move away from our “one-size-fits-all” compliance program to a more tailored approach. To accomplish this, we will utilize risk-based compliance programs to identify taxpayer segments, and develop and employ effective treatments (including education and outreach) to bring them into compliance. The goal of this program is to intervene as quickly as possible to notify taxpayers that they have a balance due on their account and determine an appropriate course of action. The earlier we are able to begin working with the delinquent taxpayer, the higher the likelihood of avoiding further action by the IRS collection staff. In addition to reaching SB/SE taxpayers quickly, we must also

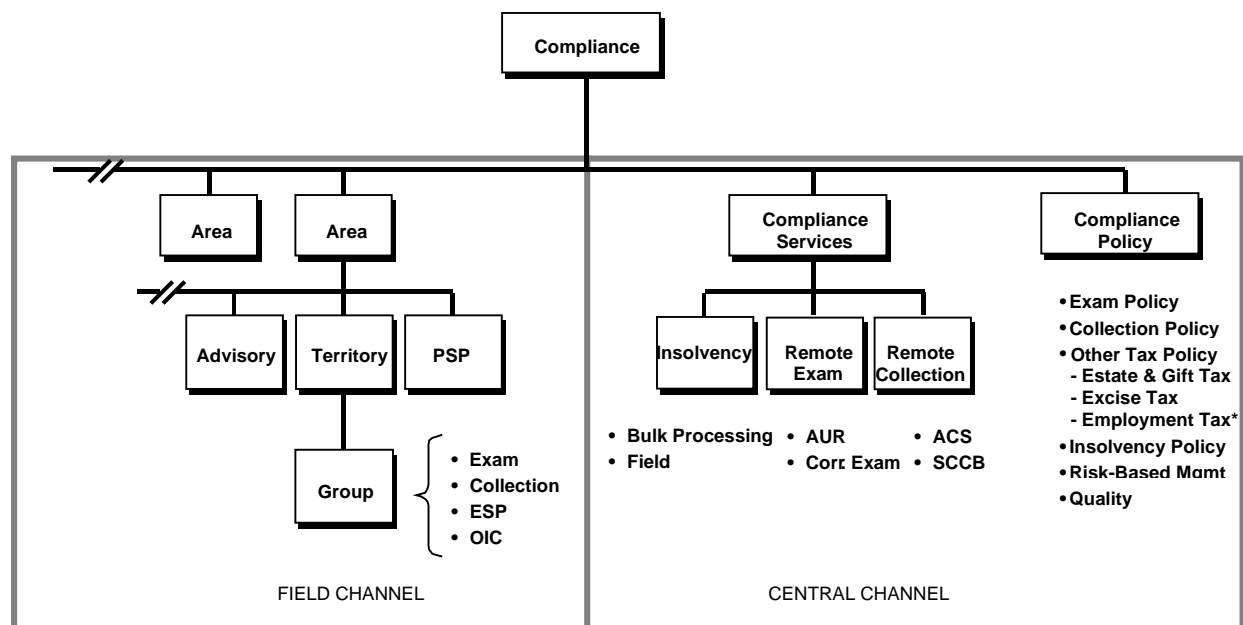


determine the taxpayer's past payment/filing history with the IRS. Similar to commercial financial institutions, we will provide more flexibility to those taxpayers that do not have a long-standing pattern of late payments or willful noncompliance. It is our strong belief that the majority of taxpayers finding themselves in a compliance situation are not willfully being non-compliant, but are experiencing temporary difficulties. In short, our new risk-based approach will assist to tailor our compliance activities based on a taxpayer risk profile.

An important aspect of increasing overall compliance will be the information sharing process between Compliance and TEC. Information gained during compliance activities will help direct TEC assistance initiatives. For example, during many examinations, either local or national, we may discover that taxpayers are making similar errors. In the future, this information will be systematically provided to the SB/SE TEC organization to develop and deploy outreach activities to quickly notify taxpayers of the trend and how to properly handle the situation. In addition to creating tailored educational products and services, we may hold meetings with stakeholders and taxpayer representatives to ask them to pass along this valuable information. While education may be the answer, in some cases we may want to elevate this issue to the Chief Counsel, the Taxpayer Advocate or the Treasury Department to obtain an interpretation, clarification or modification to the tax law. These are just some of the benefits gained by taxpayers when we systematically use the valuable information gained during compliance activities.

The compliance activities have been divided into those that require face-to-face interaction and those that do not. The structure of the Compliance organization is aligned around these activities. The organization structure for the Compliance function is illustrated on the next page in Figure 6.

**Figure 6:**  
**Proposed Compliance Organization Structure – Phase IIA**



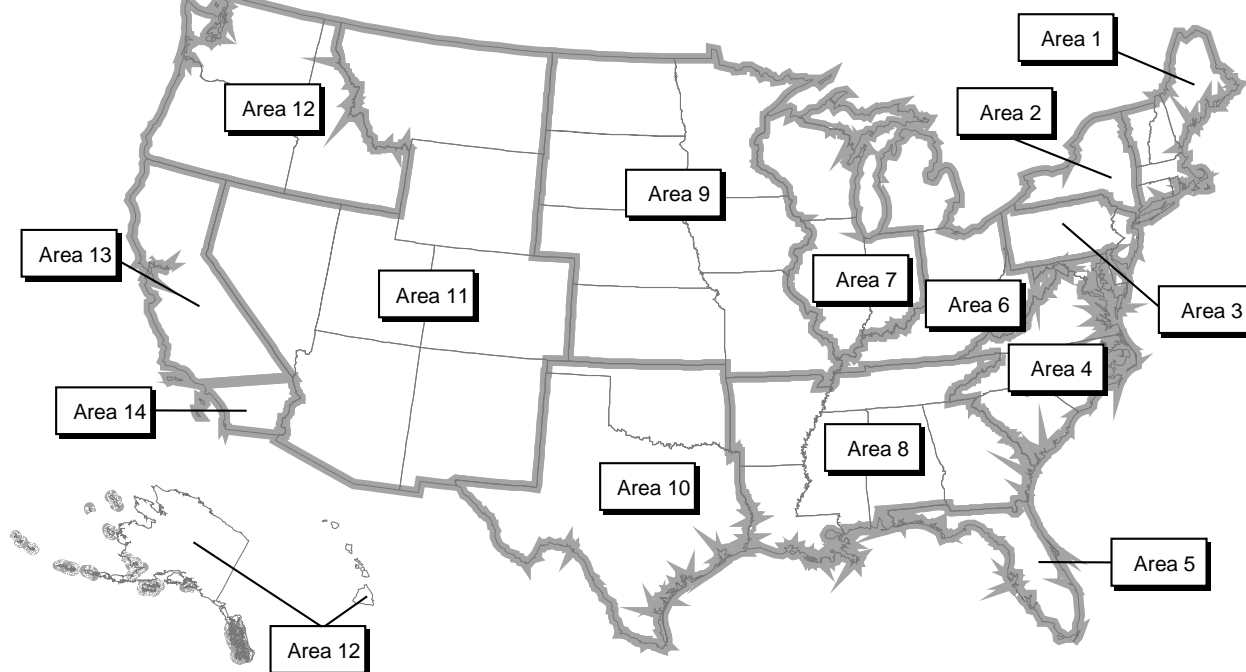
*\* SB/SE will provide the lead and coordinate the policies/actions of the other operating divisions on this issue*

This new Compliance organization structure will result in three overwhelming improvements: 1) increased managerial accountability, 2) cross-functional management of exam and collection issues resulting in faster case resolution and 3) improved compliance through an improved flow of information from Compliance to the pre-filing organization.

The structure consists of a field organization as well as centralized services and policy groups. The field organization will be segmented into geographic sections: areas, territories and groups. The locations for the areas are illustrated on the next page in Figure 7.

**Figure 7**

**Compliance Geographic Footprint - Areas**



1=Boston; 2=New York; 3=Philadelphia; 4=Baltimore; 5=Jacksonville; 6=Detroit; 7=Chicago; 8=Nashville; 9= St. Paul; 10=Dallas; 11=Denver; 12=Seattle; 13=Oakland; 14=Laguna Niguel

***Field Channel***

A geographically deployed **field force** will handle exam and collection activities requiring significant face-to-face interaction with the taxpayer. This organization will consist of 14 areas, 179 territories and 1,394 groups. This significant field presence will ensure that taxpayers are afforded the opportunity to meet face-to-face with IRS compliance staff when needed. In addition, this staff will also be assisting taxpayers during the filing season with face-to-face assistance in interpreting the tax law, preparing returns and other taxpayer requirements.

***Central Channel***

A **Compliance Services Organization** will handle those compliance activities not requiring significant face-to-face interaction with taxpayers. The three functional groups in this organization include: 1) Insolvency; 2) Remote Exam, which includes examinations conducted through correspondence and our automated system used to detect underreporting of income (currently the Automated Under Reporter - AUR); and 3) Remote Collection, which includes collection activity that can be handled by telephone (currently the Automated Collection System (ACS) and Service Center Collection Branch).

A **Compliance Policy Group** consisting of both exam and collection staff will be created to ensure that policies and procedures are sound and reflect SB/SE organizational priorities. This staff will also work with other components of the IRS to ensure that SB/SE compliance policies are consistent with the overall goals of the Service.

## **New Business Scenario**

### **Customized Assistance Helps Small Businesses Succeed**

Mr. Robinson was planning to open a dry cleaning business. He knew a lot about dry cleaning, but never ran a business before. He contacted the Small Business Administration (SBA) and was referred to the Small Business Development Center (SBDC). When Mr. Robinson visited the SBDC, he was given a Business Start-up Guide that covered everything from how to apply for loans to federal and state tax requirements. Since he had questions about federal tax requirements, the SBDC suggested that he attend the SBA/IRS sponsored Small Business Workshop.

Mr. Robinson attended the workshop and was pleased that IRS Taxpayer Education Specialist, Julie, presented the information in an easy-to-understand manner and provided material and a toll-free number for assistance. After the workshop, he felt comfortable enough to proceed.

Julie contacted Mr. Robinson three months later to see how he was doing in his business and if he had any questions about his federal tax obligations. He appreciated the call and took advantage of the opportunity to talk about hiring employees. Julie discussed the tax implications and offered to send the IRS Circular E, “The Employers’ Tax Guide,” and also provided the date, time and location of a workshop for new employers.

Julie, as part of the Small Business/Self-Employed Operating Division’s Taxpayer Education and Communication organization, works closely with the SBA to develop small business workshops. The workshops are opportunities to provide tax information, training and consultative services to small start-up businesses. Julie participates in workshop delivery by teaching classes and taking part in panel discussions. She partners with the SBA to ensure that the workshops are well advertised and held at convenient times and locations for customers. Sharing her knowledge of taxes, meeting people and helping new businesses get started are the rewards of Julie’s job. At the end of each workshop, Julie routinely gives participants a phone number so that she can be kept up to date of their progress and provide assistance to help them succeed.

Proactive and customized assistance is important to the IRS Taxpayer Education Specialist. That’s why Julie made a note to follow up with Mr. Robinson if she didn’t hear from him in the first couple of months after the workshop, to see how things were going and to offer assistance.

**Key Points:**

**Small Businesses/Self-employed customers have easy access to education**

**Employees help customers solve problems**

**Partnerships with other agencies to provide one-stop education for small businesses**

*Note: All taxpayers, businesses, IRS staff members and tax situations contained in this scenario are imaginary.*

## Implementation Timing

There are nine high-level initiatives associated with migrating to the new SB/SE organization – each brings the IRS one step closer to its desired future state (see Table 3). These nine initiatives extend over a period of three years.

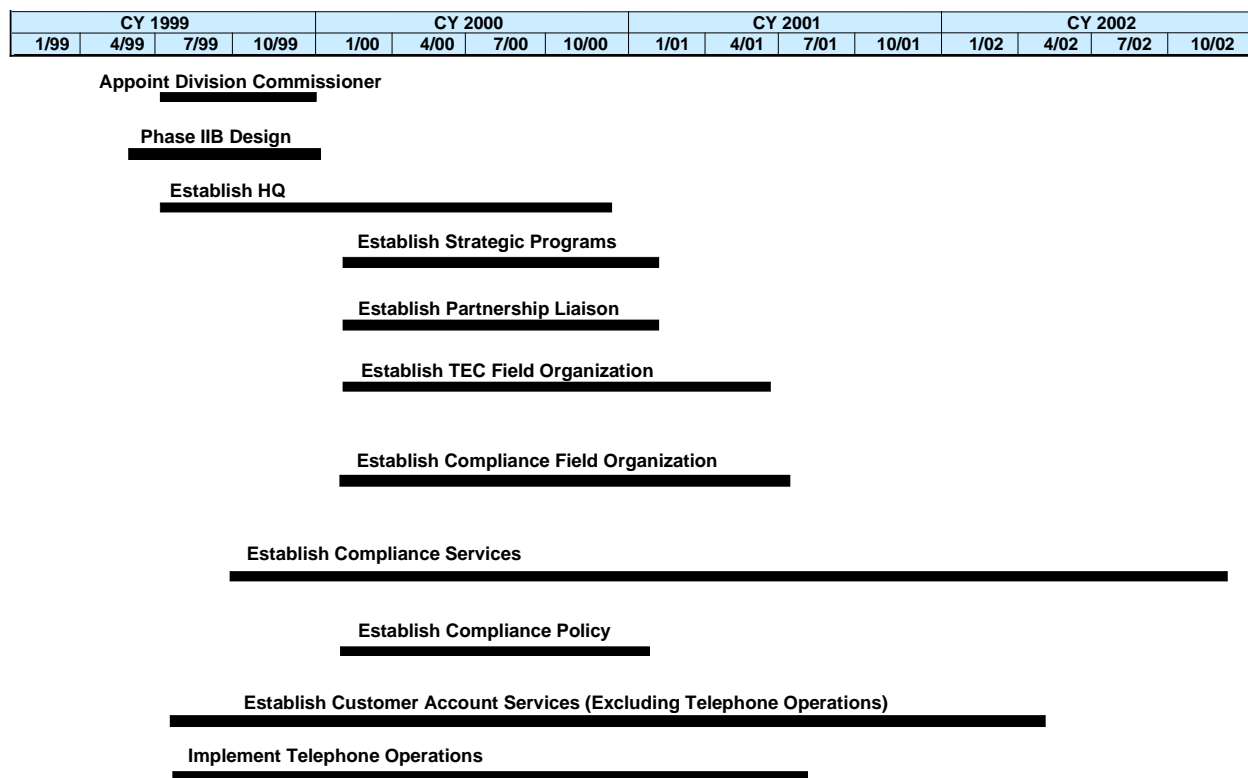
**TABLE 3**  
**Initiatives by Line Organization**

LINE ORGANIZATION	#	INITIATIVES
Headquarters	1.	Set up SB/SE Operating Division Headquarters (including support functions and operating units HQ)
Taxpayer Education & Communication	2.	Set up Strategic Programs organization
	3.	Set up Partnerships Liaison organization
	4.	Set up Taxpayer Education organization
Customer Account Services	5.	Transition service centers to functional organization dedicated to SB/SE (excluding Remote Exam and Collection at service centers)
Compliance	6.	Set up Compliance Policy Group (including risk-based modeling capability)
	7.	Set up Compliance Services Group (including Remote Exam and Collection at service centers)
	8.	Set up Compliance field organization
Cross - line organization	9.	Implement redesigned telephone operations to service SB/SE customers (includes district call sites and service center phone operations)

Headquarters Implementation: Starting in June/July 1999, the first initiative will start with the establishment of SB/SE Headquarters. The SB/SE Commissioner and Deputy will be recruited and in place by the end of calendar year 1999. In March 2000, the top executives for the operating units (TEC, CAS and Compliance) will be in place. In mid-June 2000, three tiers of management will be in place and we will begin aligning selected employees and programs to the SB/SE Headquarters.

Operating Unit Implementation: Starting in February/March 2000, the leaders of the three operating units will begin implementation of their operating units. The operating units will be fully aligned by July 2001. A high-level Gantt chart illustrating the SB/SE Implementation Plan is illustrated below in Figure 8.

**Figure 8**  
**SB/SE Implementation Plan**



# ***Large and Mid-Size Business (L&MSB)***

## **Taxpayer Characteristics**

The taxpayers served by the new Large and Mid-Size Operating Division have unique needs that required fundamentally re-thinking the way the IRS currently provides service and ensures compliance. Taxpayers with greater than \$5 million in assets require a dedicated IRS business unit to address sophisticated tax planning capabilities and complex filing requirements.

This L&MSB business unit will serve corporations, sub-chapter S corporations and partnerships with assets greater than \$5 million. These businesses are responsible for an annual tax liability of \$395 billion. Approximately 10% of these taxpayers are examined each year and the largest of these taxpayers deal with the IRS continuously.

These businesses generally have large employee bases and “in-house” tax organizations. While collection issues are rare, many other complicated issues such as tax law interpretation, accounting principles and regulatory issues arise frequently, particularly those with international dimensions. Approximately, 18 % of the largest corporate taxpayers are owned by foreign controlled corporations (FCC). These Coordinated Exam Program (CEP) returns contained approximately \$40 billion in foreign tax credits in 1996, which represents over 80% of all credits claimed.

## **Goals, Principles and Objectives**

During the past year, interviews with large corporations and associations provided four basic themes for change. First, the new IRS organization must strive to create an atmosphere of teamwork between the L&MSB taxpayer representatives and the L&MSB IRS staff. Second, the IRS must have knowledgeable, well-trained staff members who are universally recognized as experts on the tax code sections affecting large and middle market corporations. Third, the IRS should offer more pre-filing advice to mid-size businesses. The offering of pre-filing advice extends to pre-transactional advice and will require close coordination with Counsel. Fourth, compliance strategies can also be improved by more actively working with Counsel to produce guidance and clarify unclear areas of the tax code. Addressing these four overarching themes requires revamping much of what currently exists, including: a radically improved organizational structure, new and improved business processes, new tailored products and services, better trained employees, better technologically equipped employees, more managerial involvement in casework and improved compliance strategies.

These dramatic improvements will have clear benefits for the L&MSB taxpayers. The IRS will be proactively resolving taxpayer questions, concerns and issues. In the future, taxpayer interactions will be less difficult, less time consuming, less expensive and less contentious. This new and improved method of operating has proven successful when it has been used. The following is a case study from a large corporation that, for privacy reasons, will remain anonymous.

*Taxpayer X and the IRS agreed to work as a team to complete an audit of three tax years. Both sides agreed to: 1) assign their most knowledgeable industry experts to the audit; 2) set a closure date for the audit, which was 13 months as compared to the 30 months under the traditional process; 3) respond quickly to the other's request for information and not engage in delay tactics; 4) openly share concerns as soon as an issue is detected and not to hold findings until strategically advantageous; and 5) pursue a strategy of resolving issues not only for the audit cycle but also for future years.*

This method of working did not involve concession on substantive tax issues. In fact, the result was payment of the appropriate tax liability with far less burden on the taxpayer and the IRS. This example clearly illustrates that good cooperation is not a tradeoff between the government's compliance goals or the business' desire to pay the fair and appropriate amount of tax. Instead, this is an example of recognizing common goals and applying the best resources and full cooperation to achieving them. Those taxpayers who wish to work in this mutually efficient manner will discover that both parties can benefit. The IRS will conserve scarce resources that can be better used to address compliance issues. Likewise, the taxpayer may also conserve resources and obtain a faster resolution to their tax issues.

The new organizational design is built around this framework of cooperation and applying expert resources to the needs of these sophisticated taxpayers. The following table represents just some of the improvements that will result.



**TABLE 1**

**Key External and Internal Success Factors**

<b>Key External Success Factors:</b>	<i>Taxpayers will experience fewer delays when resolving complicated tax issues</i>
	<i>Taxpayers will recognize that our industry experts are well trained and provide specialized knowledge to their tax issues</i>
	<i>Taxpayers will see value added by more direct contact and involvement by IRS managers</i>
	<i>Taxpayers will be intimately involved in the measurement of our success through participation in evaluating our performance</i>
	<i>Taxpayers will be provided more accurate and timely information through our technological enhancements</i>
<b>Key Internal Success Factors</b>	<i>Front-line employees and managers will have in-depth knowledge of industry business practices and tax strategies</i>
	<i>Managers will be more involved in identifying and solving complex taxpayer issues</i>
	<i>Issues will be resolved at the lowest level possible (without risk of inconsistent treatment)</i>
	<i>Counsel personnel will be accountable for meeting the needs of L&amp;MSB staff and its customer base</i>
	<i>Front-line employees and managers will be proficient in conflict resolution</i>
	<i>Employees will have new technology that enables significantly improved taxpayer service</i>
	<i>Employees will be proficient in utilizing key technological tools</i>
	<i>Performance measures will be aligned with key objectives</i>

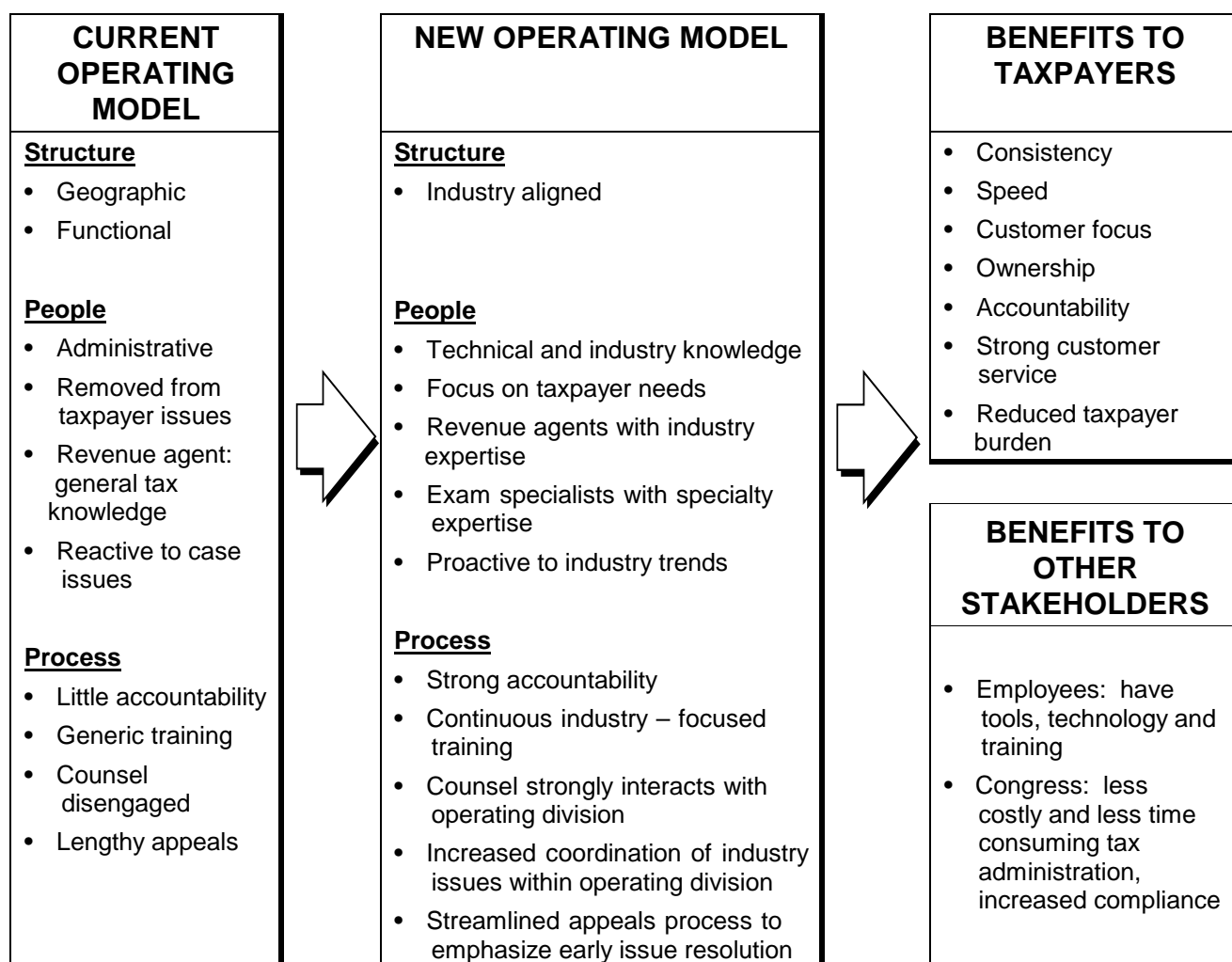
While these success factors will require changes in business processes, they also clearly demand a complete transformation of the current organizational structure.

## **New Organizational Model**

The Large and Mid-Size Business unit vision is to create a new operating model, which provides better consistency in customer focus, ownership and accountability to taxpayers and other stakeholders. This new model is illustrated in Figure 1.

**Figure 1**

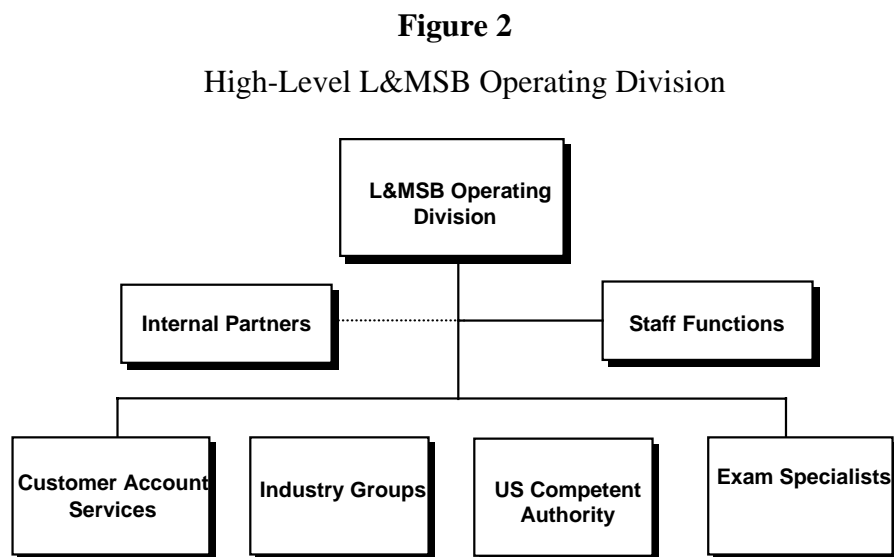
## The New Operating Model Results in Significant Benefits for Taxpayers



## L&MSB Organization Structure

As illustrated in the above figure, the L&MSB structure will be aligned by industry versus the current geographic alignment. This industry staff will be focused on taxpayer needs, have deep technical/industry expertise and will respond proactively to industry trends. In addition to improving compliance strategies, the IRS will also be increasing efforts to educate taxpayers prior to filing their tax returns and to work much more actively with Counsel to produce guidance and clarify unclear areas of the tax code. This increased focus on pre-filing activities will help reduce the issues arising in a post-filing/compliance situation.

The division will be aligned by industry groupings and will continue to have field offices throughout the nation, allowing the IRS to meet on-site with its customers. The largest component of the approximately 8,600 staff will be located in field offices. However, roughly 200 will be located at the division headquarters. The overall structure is illustrated below in Figure 2.



## L&MSB Senior Management Team

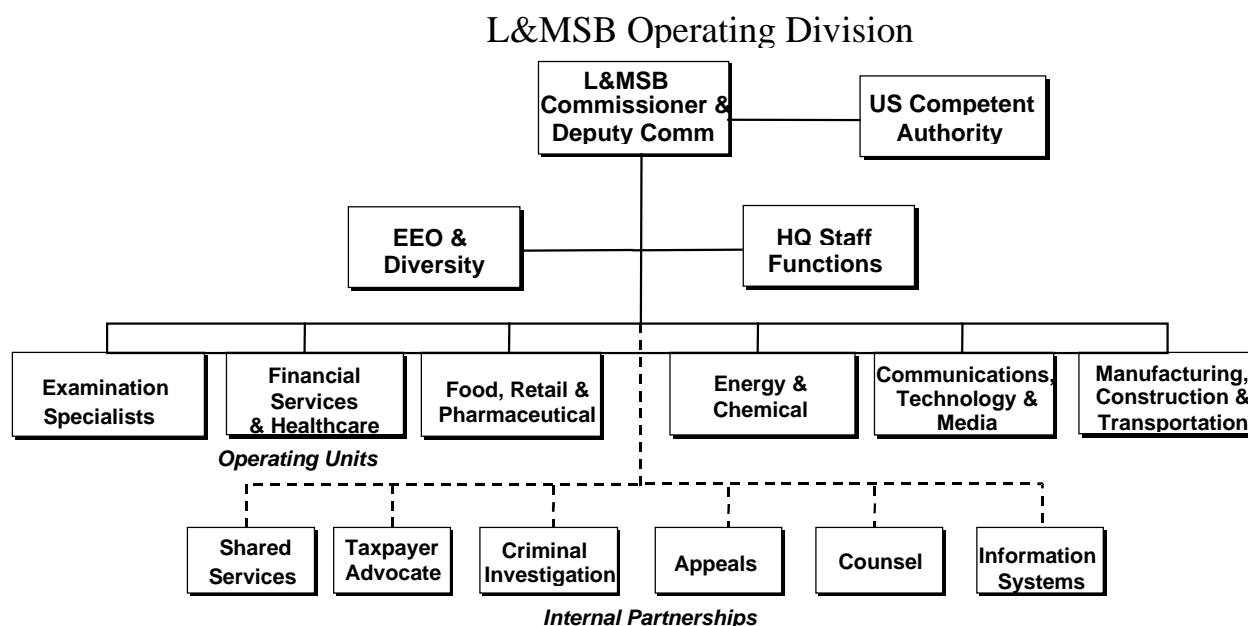
The L&MSB senior management team is composed of the L&MSB Commissioner and Deputy Commissioner, the heads of its five industry groups: 1) Financial Services and Healthcare; 2) Food, Retail and Pharmaceutical; 3) Energy and Chemical; 4) Communications, Technology and Media; and 5) Manufacturing, Construction and Transportation. In addition to the industry groups, the L&MSB top management team will also include Customer Account Services, Exam Specialists, and the heads of its staff functions (Strategy and Program Planning, Management and Finance, Communications and Liaison, EEO, Business Systems Planning). The concept of a L&MSB senior management team, focused on providing overall strategic and operational direction to service its approximately 180,000 customers, is a profound change in the way the IRS views its relationship with its largest customer base.

In the L&MSB Operating Division, senior managers will be focused on the mission of serving the L&MSB customer segment. Focused solely on its mission of providing world class service to this customer segment, the members of the senior management team will be much more interdependent on the success of one another. For example, changes in the compliance strategy will be viewed holistically across all L&MSB units and industries to determine how these changes impact both internal operations and service to customer. Strategic direction as well as operational decisions will be made in the context of service to this customer base.

This top management team will develop compliance strategies that best address the needs of L&MSB taxpayers. Education components, located within each industry group, can then develop targeted educational materials to get the word out to L&MSB taxpayers and their representatives through the appropriate channels and partnerships. Compliance can then address the same topics in post-filing activities, assess taxpayer behavior and provide feedback to the education staff, which will then modify the educational approach as necessary. This constant feedback loop is essential to best understand and address the needs of this taxpayer segment. In addition, L&MSB will work closely with Counsel to ensure that the necessary guidance is issued, quickly alert the Taxpayer Advocate and Appeals of the issue and potential impact on their case loads, and work with Information Systems to develop the technology enhancements needed to achieve this strategy.

All industry groups will be supported by a **headquarters** operation that will perform all necessary support activities. **Internal partnerships** will be developed within the L&MSB Headquarters and with Shared Services, the Taxpayer Advocate, Criminal Investigation, Appeals, Counsel and Information Systems. The partnership with Counsel will be facilitated by the newly-created Operating Division Counsel (ODC) position. The ODC will be an integral part of the strategic oversight throughout the L&MSB organization to achieve our taxpayer service and compliance goals. Although our partners are not directly managed by L&MSB, we are creating strong internal partnerships with them to ensure that taxpayers and employees receive the best service possible. This new organization structure is also illustrated in Figure 3 on the following page.

**Figure 3**



The Chief Counsel's office continues to be critical to the success of providing top quality advice to taxpayers. Due to the complexity of the issues raised by these taxpayers, the IRS often relies on the Chief Counsel's office to interpret the tax law and recommend a course of action. In order to ensure that Counsel's services meet the needs of the operating divisions, a strong partnership is being established between the L&MSB business unit and the Office of the Chief Counsel.

The strong partnership between L&MSB and Counsel will directly focus on ensuring timely and responsive advice to the Compliance staff, especially during the pre-filing stage. Dedicated teams of subject matter experts will develop strategies and provide legal advice and litigation support with respect to specific industry tax issues. This team includes the Operating Division Counsel (ODC) and is designed to focus more closely on providing L&MSB taxpayers quality service. The ODC and the L&MSB Commissioner will work together to escalate and resolve emerging L&MSB issues and prioritize Counsel resources for developing and executing litigation and non-docketed case strategies. The ODC will identify and forward litigation vehicles to promote compliance and resolve significant industry issues. All of these efforts will directly improve the timeliness and responsiveness of Counsel's services.

There will also be a continuing and expanded partnership with the Associate Chief Counsel for International due to the significance of international issues with L&MSB taxpayers.

## L&MSB Headquarters

The L&MSB Headquarters will be led by an Operating Division Commissioner and a Deputy Commissioner, both at the SES level. The Operating Division Commissioner and Deputy Commissioner will operate as one entity, with both having management responsibility for the strategic leadership of the L&MSB Operating Division. The L&MSB Headquarters will provide strategic leadership and focus in the development of capabilities unique to the organization, management of organizational activities, capital budgeting, forecasting and financial management. These executives will possess significant expertise and understanding of the needs and characteristics of the L&MSB customer base. The L&MSB Headquarters will interact significantly with the IRS National Headquarters and other operating division functions to fulfill its roles and responsibilities. The redesigned organization will improve both service and accountability to taxpayers, and improve consistency across geographies. In addition, improved L&MSB processes and systems will allow the L&MSB Headquarters to respond more proactively to changes in industry compliance behavior.

The critical operations of the L&MSB Headquarters include the following organizations within its structure:

- **US Competent Authority** will improve policy-setting activities, provide an IRS face in foreign countries, represent the U.S. government in resolving double taxation claims and coordinate the exchange of information with foreign tax administrators.
- **Customer Account Services** will respond to L&MSB taxpayer account inquiries.
- **Exam Specialists** (Financial Products Specialists, Economists, Engineers, Computer Audit Specialists and International Examiners) will continue to conduct efficient, fair and timely examinations in their respective specialty areas.
- **Strategy and Program Planning** will conduct cross-industry research and analysis, analyze tax law changes, create the compliance/examination plan and provide cross-industry advice and assistance as well as input to forms design and distribution.
- **Quality Measurement** will ensure that business processes are operating properly and all systems have the appropriate checks and balances in place.
- **Equal Employment Opportunity** will establish programs, procedures and policies, provide training, analyze trends and recommend actions.

- **Finance** will manage the overall L&MSB process and administrative accounting.
- **Human Resources** will drive consistency and fair execution of IRS Core HR policies.

## Industry Segments

As stated above, the L&MSB structure will be aligned by industry versus the current geographic alignment. This industry staff will be focused on taxpayer needs, have deep technical/industry expertise and will respond proactively to industry trends. In addition to improving compliance strategies, the IRS will also be increasing its efforts to educate taxpayers prior to filing their tax returns. This increased focus on pre-filing activities will help reduce the issues arising in post-filing/compliance situations.

## L&MSB Taxpayer Education

L&MSB taxpayers consist of businesses with sophisticated tax planning capabilities and complex filing requirements. The education of L&MSB taxpayers, with in-house tax organizations and counsel, will focus on providing industry advice and information to assist taxpayers in understanding and meeting their tax responsibilities.

L&MSB exam specialists such as international examiners, computer audit specialists, economists, engineers, and financial product specialists will provide expertise to industry groups as requested. The Industry & Issue Specialists will interact with key external stakeholders and build a productive relationship between those stakeholders and the IRS. The industry specialists will also track and develop emerging issues within the industry and provide training to field personnel in order to develop industry knowledge. Field personnel with increased industry knowledge can provide more information to taxpayers. The Industry Specialization Program Counsel, reporting to the Operating Division Counsel, will attend trade organization meetings to discuss industry specialist issues and emerging issues and trends. The ODC will also provide advice and litigation support to taxpayers in single industry as well as cross-industry issues.

Clearly, having IRS staff specialized by industry groups provides the greatest ability to retain an expert workforce, ensure end-to-end managerial accountability and provide one point of contact for taxpayers. Analysis of the taxpayer population, as well as the types and the frequency of interactions, indicated a clear method of dividing the 180,000 L&MSB taxpayers into the five industry segments shown in Figure 3.

## Industry Segmentation

1. ***Financial Services and Healthcare*** – This industry group constitutes the largest sector and consists of taxpayers related to commercial banking, savings and loans, securities and financial services, health care and insurance. All of these industries are highly related to each other and are universally understood to be a distinct market sector. Today, this sector is experiencing widespread consolidation across industries. In the near future, this sector expects to experience the largest growth from international expansion and sub-sectors (e.g., asset management, discount brokerage).

These 40,000 taxpayers include approximately 5,000 large businesses and 35,000 mid-size businesses.

2. ***Food, Retail and Pharmaceutical*** – This industry group consists of taxpayers related to food and beverage, retailing, pharmaceuticals, agricultural commodities and farms. This grouping of industries reflects the “food chain,” with all supporting segments of the chain. In addition, retailing is included due to the similarity of the financial reporting. For example, a grocery store chain fulfills the same basic requirements as a retail chain in terms of balance sheets, inventory management and investor accountability/reporting. In addition, both types of store chains have similar growth patterns and geographic dispersion.

These 25,000 taxpayers include approximately 1,000 large businesses and 24,000 mid-size businesses.

3. ***Energy and Chemical*** – This industry group consists of taxpayers related to oil and gas, mining, forest products and utilities. This industry grouping reflects chemical engineering, energy-related industries and all natural resources. These are process intensive industries that are expecting significant growth from overseas activities. The utilities component of this industry grouping is experiencing significant merger activities similar to the trend in the financial services industry.

These 15,000 taxpayers include 1,300 large businesses and 13,700 mid-size businesses.

4. ***Communications, Technology and Media*** – This industry is comprised of three basic types of taxpayers: 1) those that produce computers and related equipment; 2) those related to media, including communications and software; and 3) various types of sports franchises and recreational firms. This industry grouping is experiencing extremely high growth with significant industry convergence. This grouping of taxpayers represents differences in financial reporting such as balance sheets and income statements. These differences are primarily due to variations between “hard” manufacturing products and “soft” media/entertainment. It is also fairly common in this industry grouping to have sports franchises and recreational businesses being linked to media companies. In these cases, the



source revenue is often intertwined, which makes it practical to include them in the same industry grouping.

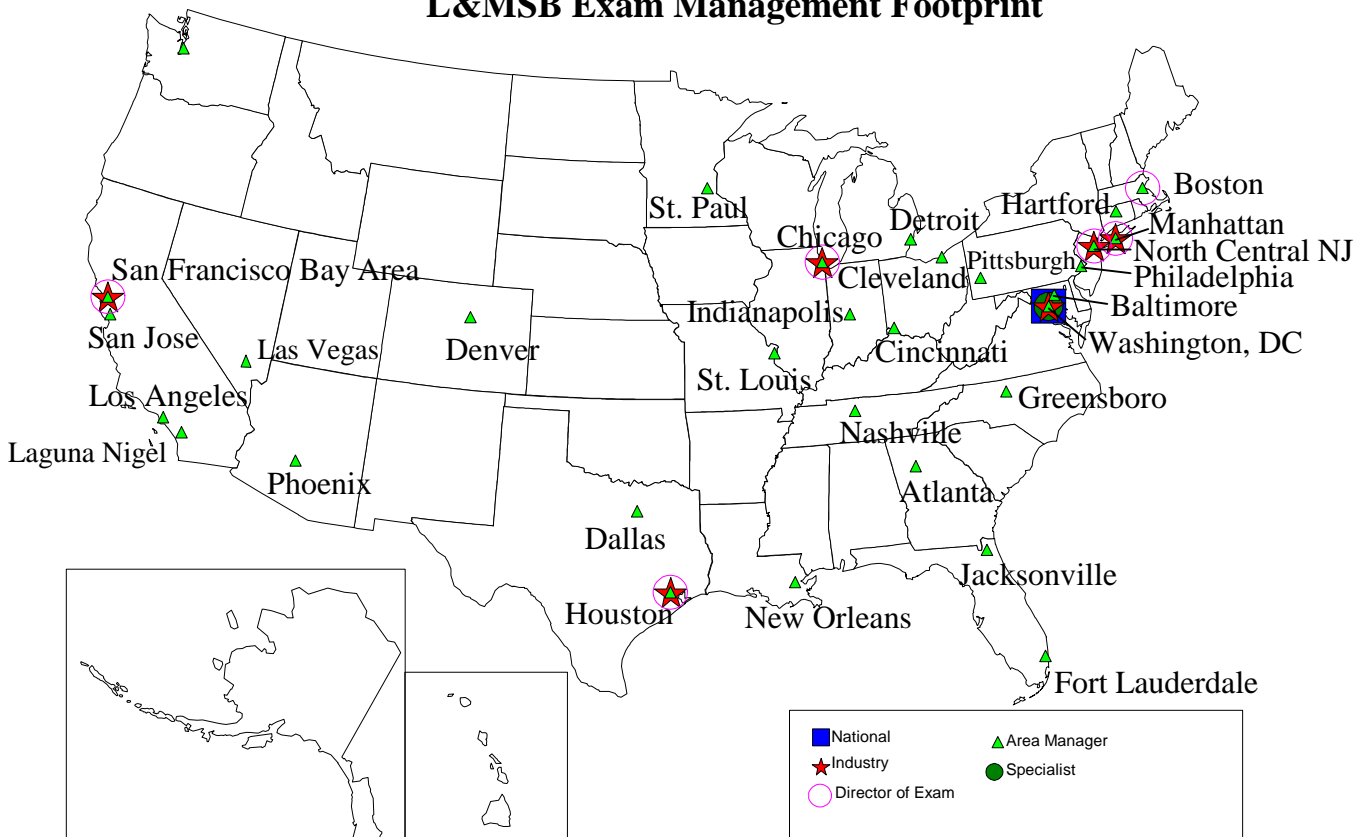
These 12,000 taxpayers include approximately 500 large businesses and 11,500 mid-size businesses.

5. ***Manufacturing, Construction and Transportation*** – This industry group consists of taxpayers involved in air and ground transportation, aerospace, motor vehicles, shipping, construction and real estate. This industry group reflects heavy manufacturing businesses that are very sensitive to interest rate changes/volatility. These industries are highly cyclical and are expecting slow to moderate growth. With the exception of the real estate firms, the financial reporting obligations of this industry are similar (e.g., balance sheets). In addition, the real estate market is closely tied to activities in the construction industry.

These 88,000 taxpayers include approximately 1,500 large businesses and 86,500 mid-size businesses.

**Figure 4**

**L&MSB Exam Management Footprint**



The five industry groups will be headquartered in cities with a high concentration of that industry's taxpayers. The headquarters office will be staffed with the appropriate resources required to fulfill the key operating support functions. These functions will report directly to L&MSB Headquarters with dotted-line reporting to the Industry Director.

INDUSTRY	HEADQUARTERS
Financial Services and Healthcare	Manhattan
Communication, Technology and Media	San Francisco Bay Area
Energy and Chemical	Houston
Food, Retail and Pharmaceutical	Chicago
Manufacturing, Construction and Transportation	Central New Jersey

At a high-level, the Industry Headquarters office will oversee the execution of fair and timely examinations, deploy resources across examination teams and resolve operational issues. industry research specialists, who will have both pre-filing and post-filing compliance responsibilities, will also provide technical support and expertise. For example, they will work with the Industry Director to provide specialized expertise in planning and conducting exams within an industry. Furthermore, they will be identifying the drivers of industry-specific compliance behaviors and address them through the various compliance initiatives. After identifying specific compliance areas needing attention, the Industry Director will work closely with Counsel to ensure that tax law interpretation and guidance adequately address the tax issues involved.

Area managers will ensure that the appropriate resources are available to resolve issues referred by team managers. Team managers will manage the front-line examination process. They will plan, direct and monitor examination cases. And as before, they will also coordinate with specialist managers, Appeals and Counsel to acquire the necessary expertise.

The revenue agent position will continue to conduct examinations, develop working relationships with taxpayers and obtain in-depth industry knowledge through training and seminars.

## **New Business Scenario**

### **Revenue Agents Coordinate with Small Business Liaison to Improve Customer Service**

John, a General Program revenue agent in the Large and Mid-Size Business (L&MSB) Manufacturing, Construction and Real Estate Industry Group, coordinated with other IRS employees and used electronic exchanges to close the examination of the fictitious company called, Rolling Hills Real Estate, Inc. Here's how it went...

John received a note from Rolling Hills saying that they were experiencing cash flow problems and would not have funds to pay their tax deficiency for six months. They wanted an installment agreement, so John accessed the Internal Revenue Manual on line to determine if the agreement was within the guideline parameters. Since the agreement was within the guidelines, John called Harry, revenue officer and L&MSB Collection Liaison, to discuss recommendations.

Harry asked John to prepare the documentation to substantiate the agreement. John downloaded the forms from the Internet, worked with Rolling Hills to complete them and gave the information to Harry. Harry then accessed Rolling Hills' account via his computer and established an installment agreement allowing a six-month delay in payments. He notified Rolling Hills and told them a reminder notice would be sent as the payment deadline approached.

Harry then sent a copy of the installment agreement to John to include with his work papers. When he returned to the office, John downloaded his electronic files from his laptop.

IRS employees worked together to resolve the case efficiently, with the convenience of electronic exchanges.

**Key Points:**

**IRS employees work together to resolve issues with one point of contact for the taxpayer**

**L&MSB employees contract with the SB/SE Operating Division to resolve customer issues involving collection matters**

**Electronic information exchanges improve communication**

*Note: All taxpayers, businesses, IRS staff members and tax situations contained in this scenario are imaginary.*

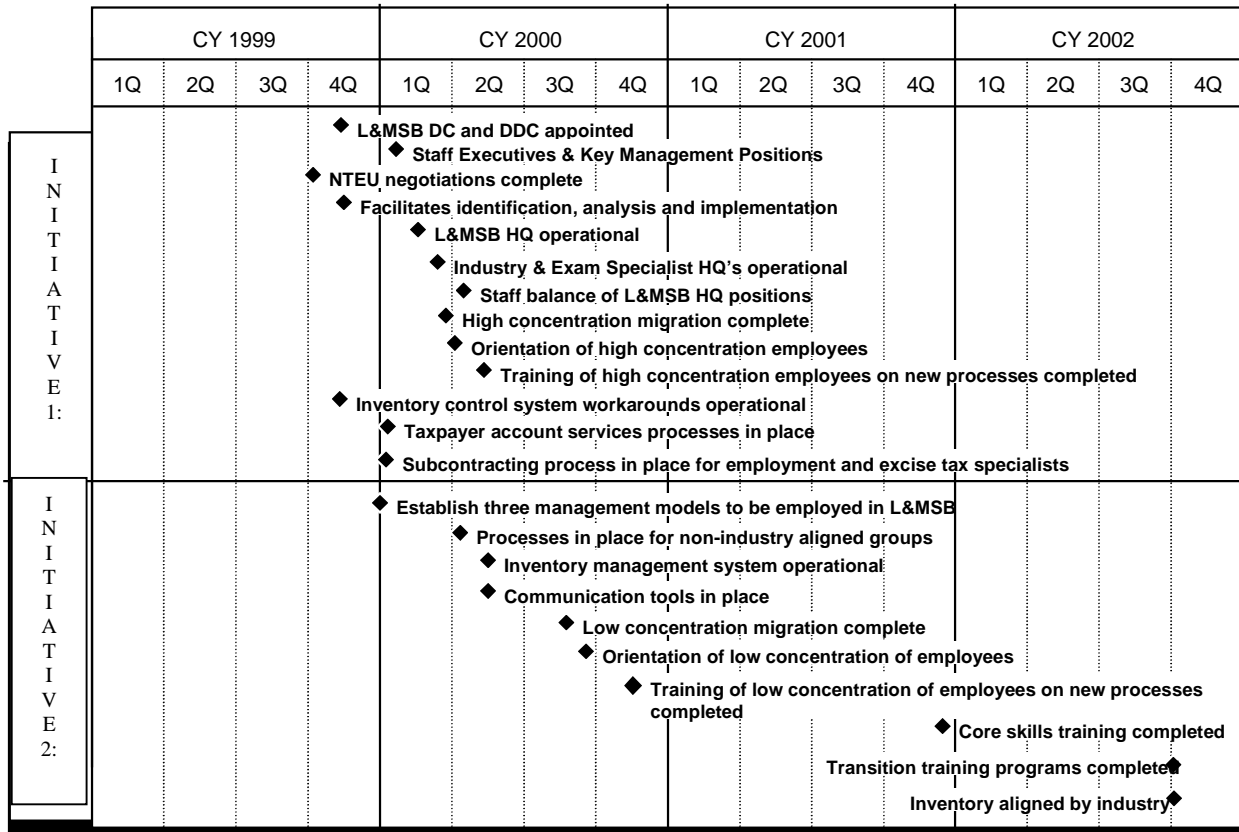
## Implementation Timing

During calendar year 1999, the IRS anticipates establishing the Large and Mid-Size Business Operating Division Headquarters. This includes recruiting for the top executive and managerial positions, preparing facilities for the headquarters staff and preparing to realign industry and exam specialists from a geographical structure to centralized management within the headquarters.

During the first half of calendar year 2000, realignment of the US Competent Authority, all specialists and all field staff responsible for large corporate accounts is anticipated. By the end of calendar year 2000, all 8,600 employees will be aligned appropriately and will have received training that prepares them for their new positions. A high-level illustration of our implementation plan is in Figure 5.

Figure 5

# L&MSB Implementation Plan



# ***Tax Exempt & Government Entities***

## **Taxpayer Characteristics**

The Tax Exempt and Government Entities (TE/GE) Operating Division will be created to serve the needs of three very distinct taxpayer segments: Employee Plans, Exempt Organizations and Government Entities. The customers range from small local community organizations and municipalities to major universities, huge pension funds, state governments and complex tax exempt bond deals. These organizations represent a large economic sector with unique needs and are governed by complex, highly specialized provisions of the tax law. For example, in the employee plans and exempt organizations areas, these provisions are not designed to generate revenue, but rather to ensure that the entities fulfill the policy goals that their tax exemption was designed to achieve. Although generally paying no income tax, this sector does pay over \$198 billion in employment taxes and income tax withholding and controls approximately \$6.7 trillion in assets.

***Employee Plans*** comprise private retirement plans and public retirement plans that control roughly \$4.1 trillion in assets. ***Exempt Organizations*** comprises over 1.5 million tax exempt organizations including an estimated 350,000 religious organizations controlling assets of \$1.3 trillion. ***Government Entities*** includes 270,000 outstanding tax exempt bond issuances with a total value of \$1.3 trillion, 86,000 Federal, state and local entities and 559 federally-recognized Indian Tribes.

## **Goals, Principles and Objectives**

Over the last year, a group of IRS managers and employees from across the nation joined together to develop an organization structure that best suits the tax exempt sector. This group of employees did not rely solely on their collective 250 years of IRS experience, but met with over 35 customer/stakeholder groups and over 550 IRS employees currently performing this work. These information-gathering meetings were used to learn more about the characteristics of TE/GE customers and the services they need from the IRS. During these meetings, we began to learn what was successful in our current operation, where we could improve existing programs and what new programs we needed to develop to meet the needs of our customers. Throughout the redesign effort, we approached every aspect of our analysis from the customer's point of view.

The mission developed for the new Tax Exempt and Government Entities Operating Division is:

*“To provide Tax Exempt and Government Entities customers top quality service by helping them understand and comply with applicable tax laws and to protect the public interest by applying the tax law with integrity and fairness to all.”*

With the objective of providing timely, accurate, consistent and fair service to customers, a number of key success factors and capabilities have been developed that are necessary for TE/GE to achieve this objective. These are highlighted in Table 1.

**Table 1: Key Success Factors and Capabilities**

<b>KEY SUCCESS FACTORS</b>	<b>CAPABILITIES</b>
<b>Continuous Emphasis on Understanding the Customer</b>	<ul style="list-style-type: none"> <li>• Assessment of customer needs on an ongoing basis</li> <li>• Systems that identify service delivery gaps and feed to appropriate sub-unit for action</li> <li>• Programs tailored to unique customer segments</li> <li>• Customer service performance measures</li> </ul>
<b>End-to-End Accountability</b>	<ul style="list-style-type: none"> <li>• Clear roles and responsibilities</li> <li>• Control over resources devoted to key processes</li> <li>• Balanced performance measures</li> <li>• Access to timely and accurate information through integrated information systems</li> </ul>
<b>Well Informed Employees Empowered to Make Decisions</b>	<ul style="list-style-type: none"> <li>• Access to just-in-time training – “technical excellence”</li> <li>• Access to timely and accurate customer information through integrated information systems</li> <li>• Performance measures that encourage customer service</li> <li>• Management philosophy that encourages and rewards decision making at all levels</li> </ul>
<b>Use of New Technology and Technological Enhancements to Allow Tax Exempt to Meet Customers’ Needs</b>	<ul style="list-style-type: none"> <li>• Increased access to and use of the Internet to disseminate information to internal and external customers, as well as to field customer inquiries</li> <li>• Integrated systems that allow access to timely and accurate information</li> <li>• Universal ability to communicate internally through voice mail and e-mail</li> <li>• Increased opportunities for customers to receive service outside traditional work day and location boundaries</li> </ul>
<b>Open, Honest and Clear Lines of Communication</b>	<ul style="list-style-type: none"> <li>• Organizational structure that provides clear lines of authority</li> <li>• Focused effort to communicate with employees and gather employee feedback</li> <li>• Honest communication, expression of concerns, appropriate risk taking and creativity are valued and rewarded</li> <li>• Successful management/NTEU partnership</li> </ul>
<b>Quality Control Over Key Processes</b>	<ul style="list-style-type: none"> <li>• Quality review system for all key processes</li> <li>• Systems to leverage quality review findings to improve customer service and training programs</li> </ul>

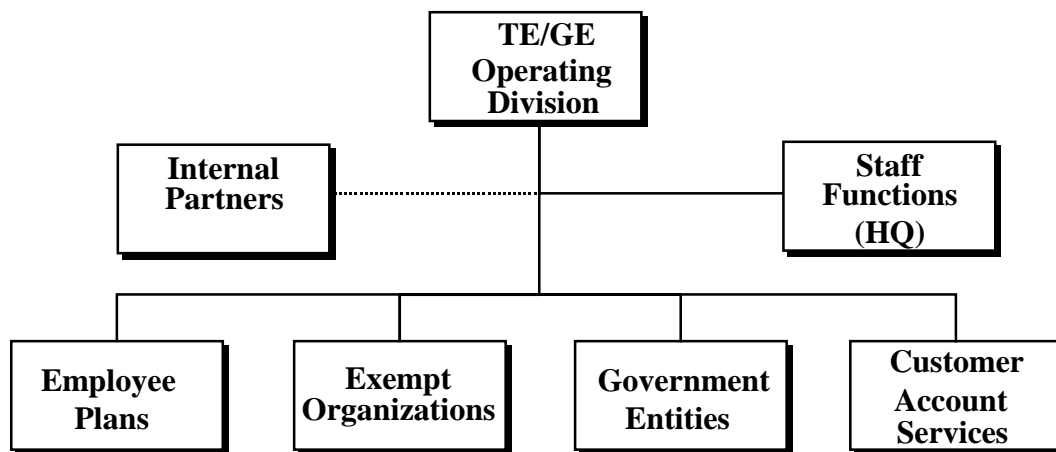
# Tax Exempt and Government Entities Organization Structure

## Organizing Around Customer Segments

After thorough research and analysis of the characteristics of TE/GE customers, it was determined that they fell into three very different groups with distinct characteristics: Employee Plans, Exempt Organizations and Government Entities. These three customer groupings have minimal overlap in governing law, different annual filing requirements and widely varying needs. As a consequence, the division will be divided into three functional units based on these three customer segments, plus Customer Account Services.

Organizing the division around customer segments will provide a number of advantages. It will provide direct end-to-end accountability for each distinct customer grouping and allow programs to be tailored to meet the specific needs of the customer. It will also promote a high degree of technical excellence, since each customer grouping is governed by distinct provisions of the tax law and has unique technical issues. Thus, the structure will promote a clear focus on the customer and customer needs at all levels of the new organization. Figure 1 illustrates this new organization structure.

**Figure 1: Tax Exempt & Government Entities  
Operating Division Organization Structure**

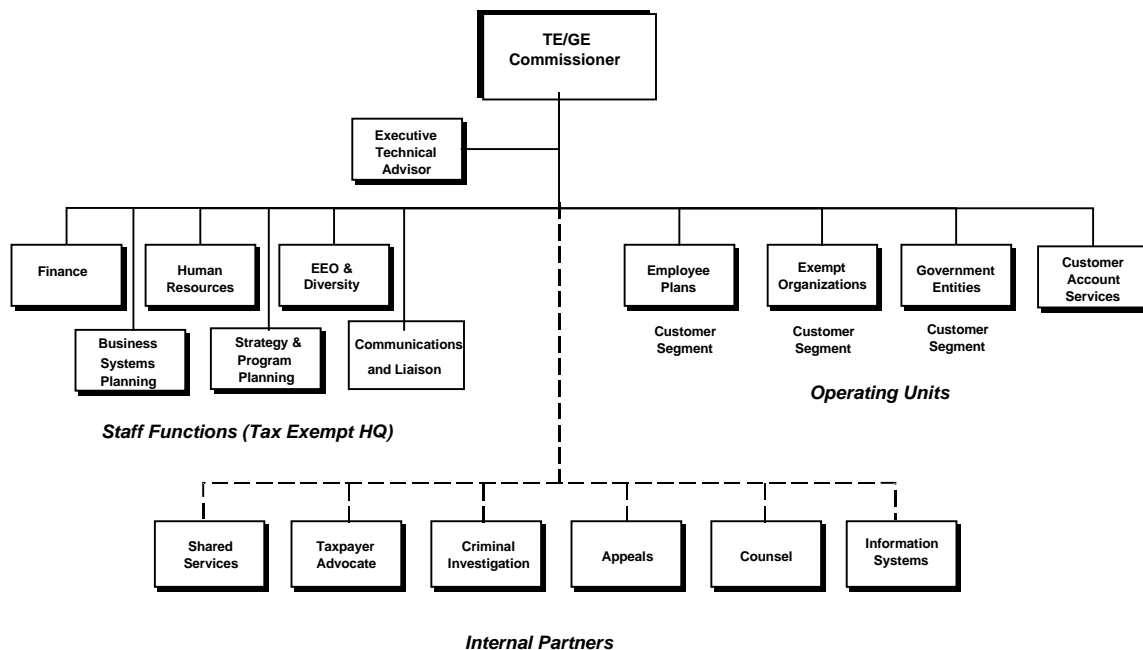


## TE/GE Senior Management Team

The Tax Exempt & Government Entities Operating Division will be headed by a Division Commissioner and Deputy Division Commissioner who will share the strategic and management leadership of the organization. Their top management team will include the Directors for Employee Plans, Exempt Organizations, Government Entities and Customer

Account Services, the Executive Technical Advisor and the Directors of the key headquarters staff functions: Finance, Human Resources, EEO, Business Systems Planning, Strategy and Program Planning, and Communication and Liaison (see Figure 2). In addition, the Operating Division Counsel and representatives of Appeals, Taxpayer Advocate and I/S will be part of the senior management team to integrate key internal stakeholder and supporting activities. This top management team will provide internal support and leadership and, in turn, build a network of relationships throughout the IRS with other operating divisions, National Headquarters functions, Shared Services and Criminal Investigations.

**Figure 2**  
**Overall Tax Exempt & Government Entities Operating Division Organization**



To support the guiding principles of “understanding and solving problems from the taxpayer’s point of view,” the Tax Exempt and Government Entities Operating Division will maintain strong collaborative relationships with outside stakeholders. Key players in that process will include the top management team, the Communications and Liaison office and the education and communications functions. External stakeholders include other federal and state agencies, specialized practitioner groups, trade associations and umbrella organizations, among many. Communication with these external groups will keep TE/GE focused on the needs and concerns of their customers. A new Advisory Council, with members drawn from each customer community, is also being set up to facilitate this ongoing input to the division.



## Tax Exempt and Government Entities Headquarters

The critical operations of the Tax Exempt and Government Entities Operating Division Headquarters include the following organizations within its structure:

- ***Executive Technical Advisor*** will provide technical and legal advice to the Office of the Division Commissioner, as well as manage the independent review process.
- ***Finance*** will coordinate strategic planning and budget preparation and execution across the operating units.
- ***Human Resources*** will manage the "people programs" including labor and employee relations.
- ***EEO and Diversity*** will establish policies and procedures, provide EEO training to division staff, and prepare reports and conduct analysis on trends and actions.
- ***Business Systems Planning*** will develop and execute the strategic plan for the division's technological resources through its relationship with Information Systems.
- ***Strategy and Program Planning*** will support the division's compliance efforts through baseline analysis, problem identification and treatment recommendation.
- ***Communications and Liaison*** will manage the division's external communications requirements.

## Organizing Around Major Processes

After a thorough review and analysis of TE/GE customer needs, we determined that these needs fell into four key categories: education and communication, rulings and agreements, customer account services and examination. While the management of the Customer Account Services function will be centralized, the other three key processes serve as the foundation for each of the three functional organizations (Employee Plans, Exempt Organizations and Government Entities).

The ***education and communication process*** will focus on helping customers understand their tax responsibilities. Within each customer segment, education and outreach activities will be tailored to the specific needs of the customer. To assist in formulating educational products, education and communication staff will be routinely interacting with examination. In addition, examination will provide insight into the level of success that educational efforts are having on compliance. A variety of delivery mechanisms will be used. This will include web sites, conferences, workshops, newsletters and publications specifically designed to reach the intended audience. The Tax Exempt and Government Entities Operating Division examination staff, located throughout the country, will also be used to assist in the delivery of education and communication services and products. In addition, relationships with stakeholder groups and national organizations will be leveraged to ensure that education and outreach efforts are effective in reaching members and local chapters.

The ***rulings and agreements process*** will provide a strong emphasis on up-front compliance programs, such as the determination program, voluntary compliance programs and the private letter ruling program. These programs focus primarily on customer-initiated requests for pre-transactional confirmation of the tax results. They also include mechanisms that allow customers to correct self-identified compliance problems. By creating a separate rulings and agreements function, we will facilitate a greater emphasis and shift to front-end compliance strategies.

The ***examination process*** will focus on identifying and correcting noncompliance. Examination activities will be customized within each customer segment and will utilize compliance checks, correspondence exams and on-site examinations, as appropriate. To facilitate face-to-face interaction, examination staff will be located throughout the country. A strong partnership will be developed with the education and communication function, as well as the rulings and agreement function. This will ensure that noncompliance trends identified by the examination staff will be used in the development of proactive outreach and education initiatives, as well as up-front compliance programs. It will also facilitate leveraging examination staff to deliver outreach programs designed by the education and communication staff to increase customer awareness of self-correction programs.

An important aspect of increasing overall compliance will be the information sharing process between examination and the education and communication staff. Information gained during compliance activities will help direct education and communication assistance initiatives. For example, during many examinations, either locally or nationally, we may discover that taxpayers are making similar errors. In the future, this information will be systematically provided to the TE/GE education and communication organization to develop and deploy outreach and quickly notify taxpayers of the trend and how to properly handle the situation. In addition to creating tailored educational products and services, we may hold meetings with stakeholders and taxpayer representatives to ask them to pass along this valuable information.

***Customer Account Services*** will focus on efficient processing of customer filings as well as providing accurate and timely responses to customer telephone inquiries and correspondence. Service agreements will be developed with various service centers responsible for processing returns for TE/GE customers. As noted above, the analysis performed revealed that this process can be more efficiently performed centrally for all three TE/GE customer segments.

## **Employee Plans (EP)**

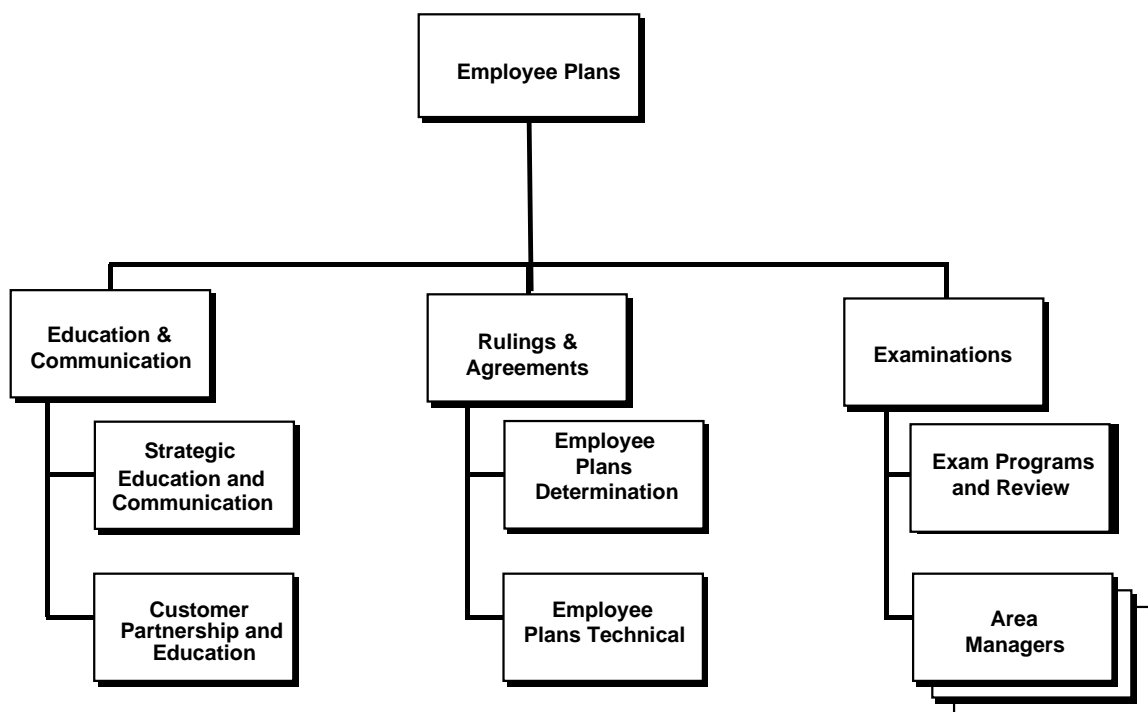
The EP organization will serve a wide range of employee plans customers. These include all types of qualified plans, such as pension plans, profit-sharing plans, money purchase plans and 401(k) plans. EP customers also include tax-sheltered annuities (so-called 403(b) plans) and government retirement plans (so-called 457 plans). Tax practitioners, with varying degrees of expertise in employee benefits law, generally represent these customers. Most of these customers file an annual information return (Form 5500). In addition, most plan sponsors file requests for determination letters to confirm the tax-qualified status of the plan. These requests are typically filed when the plan is first

established and as necessary thereafter, consistent with tax law changes and plan modifications.

The vast majority of EP customers are plans with less than 250 participants. These small and medium-sized plans typically rely on third-party administrators. While large plans represent only a small fraction of the customer population, the vast majority of employees who participate in employer-sponsored plans are covered by these large plans. These plans are sophisticated customers with knowledgeable in-house benefits staff. Needs of these customers vary, from plain-language publications and easy access to basic tax information to specific responses to complex issues and access to highly-technical customer service personnel. These customers also need outreach programs tailored to their level of sophistication and plan type. Similarly, self-correction programs need to be tailored.

By creating an organization with end-to-end accountability for service delivery to the wide range of EP customers, top quality service and tailored programs will be created that meet the specific needs of the customers. It was also determined that the appropriate balance between customer education efforts, up-front compliance programs and the examination process could best be achieved by the creation of sub-units, each of which would focus specifically on one of those three key processes. Figure 3 illustrates the Employee Plans organization structure (composed of approximately 1076 employees) and the supporting processes (Education and Communication, Rulings and Agreements, and Examination).

**Figure 3: Employee Plans Organization Structure**



## Exempt Organizations (EO)

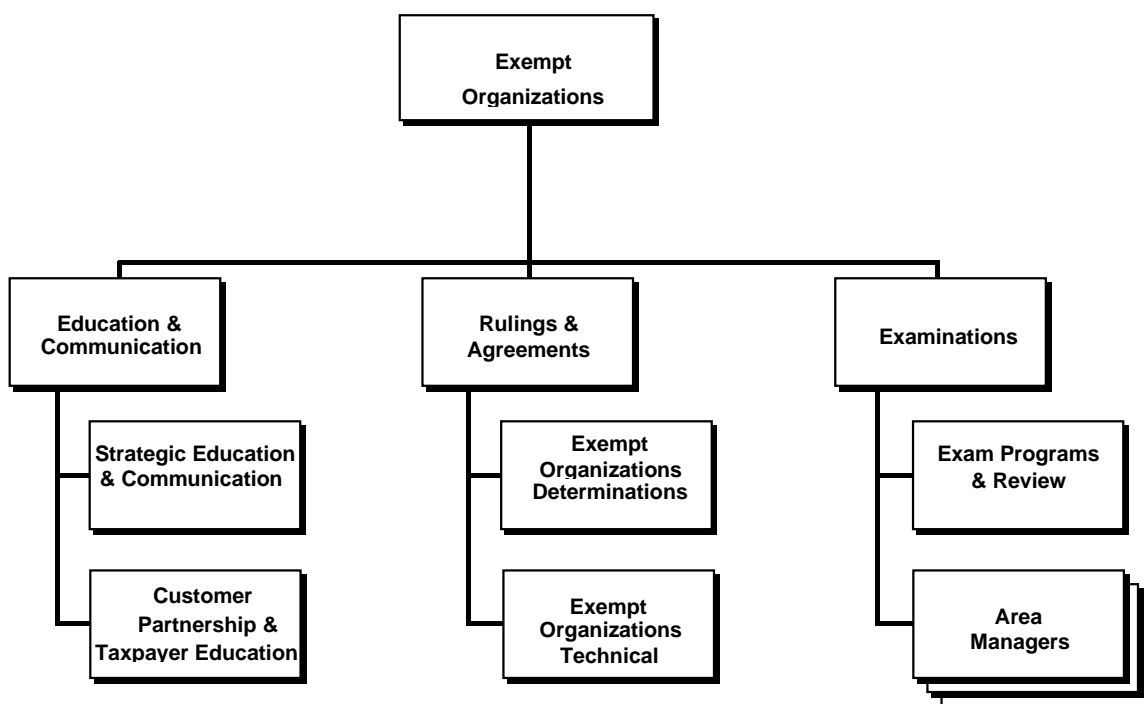
Exempt Organizations customers represent a very diverse segment ranging from churches and small local clubs to large national organizations. Common types of exempt organizations include charities, churches, private foundations, trade associations, unions and social clubs. The tax law governing these organizations is highly specialized and may differ depending on the type of exempt organization in question. Customer needs vary widely in this segment, from plain-language publications to complex private letter requests. These customers also need outreach programs tailored to their level of sophistication as well as self-correction programs.

Most EO customers file determination letters confirming their exempt status when they are first set up. Larger exempt organizations are required to file an annual information return (Form 990). However, roughly three-quarters of the exempt organizations (churches and organizations that fall below the \$25,000 annual filing threshold) are not required to file an annual return. Many exempt organizations are also employers and have employment tax responsibilities.

As noted above, most small exempt organizations do not have to meet an annual filing requirement. These organizations are often staffed with volunteers and typically are not represented by practitioners. In addition, there may be annual turnover in key recordkeeping positions such as treasurer. At the other end of the spectrum, the largest exempt organizations represent increasingly complex and diverse operations and file more complex returns. Their operations may involve multiple entities (both taxable and exempt) with wide geographic presence. They usually have in-house tax and accounting expertise that support their complex filings.

By creating an organization with end-to-end accountability for service delivery to the wide range of EO customers, we will facilitate top quality service and tailored programs that meet the specific needs of the various types of exempt organizations. We also determined that the appropriate balance among customer education efforts, up-front compliance programs and the examination process could best be achieved by the creation of organization sub-units, each of which would focus specifically on one of those three key processes. Figure 4 illustrates the Exempt Organizations structure (composed of approximately 915 employees) and the supporting processes (Education and Communication, Rulings and Agreements, and Examination).

**Figure 4: Exempt Organizations Structure**



## **Government Entities (GE)**

The Government Entities customer segment is comprised of three very distinct sub-segments: Tax Exempt Bonds; Federal, State and Local Governments; and Indian Tribal Governments. These governmental customers are similar in that they are not subject to income tax at the entity level and they have special relationships with the federal government. Beyond that, GE customers have highly diverse needs ranging from educational seminars and products to sophisticated rulings on complex issues.

One customer sub-segment in GE is Tax Exempt Bonds. An estimated \$1.3 trillion is currently invested in tax exempt bonds, which are typically issued by a government entity. The bond deals vary in size and complexity, and the governing tax law is highly specialized. These customers will need services tailored for their varying economic and legal sophistication.

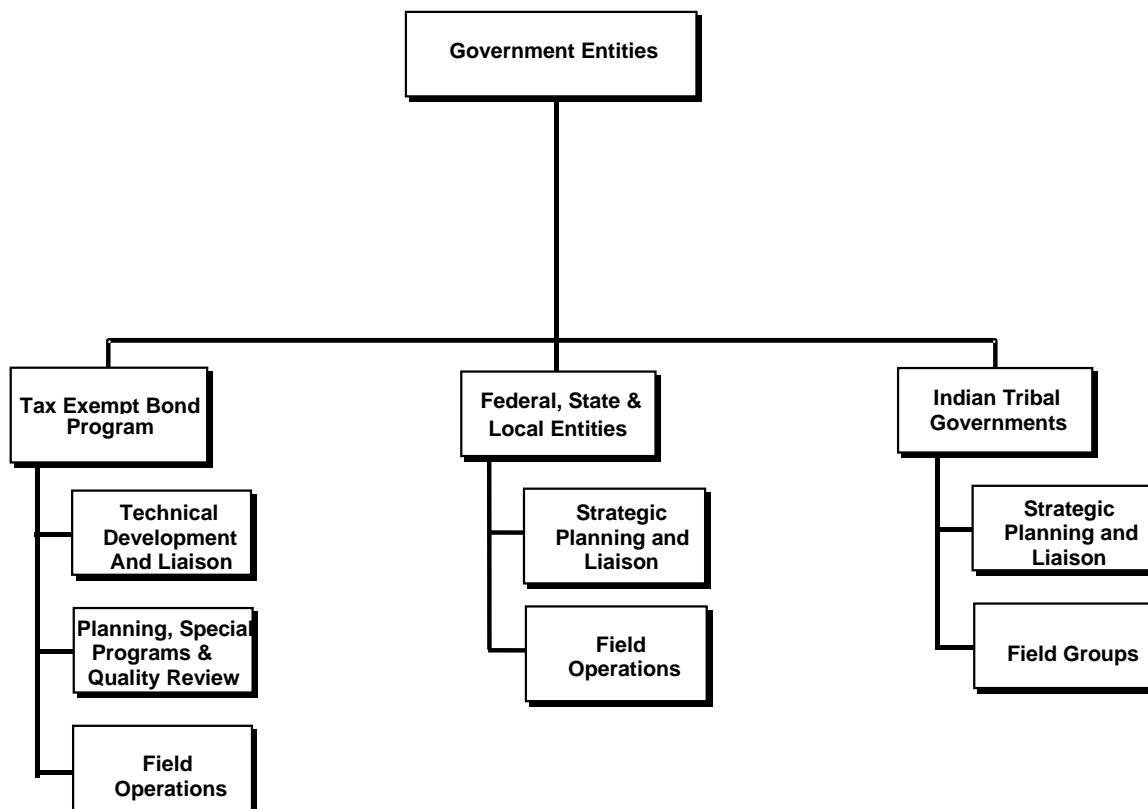
The second customer sub-segment is Federal, State and Local Governments. While not subject to federal income tax, these entities often have significant tax responsibilities arising from their status as employers, such as employment tax withholding and reporting. They may also have other tax issues such as excise taxes. These customers need highly tailored services at least in part due to governmental budgetary and legislative cycles.

The third sub-segment in GE is Indian Tribal Governments. These taxpayers have a special government-to-government relationship with the United States under the Constitution, individual treaties and Presidential Executive Orders. There has been a significant increase in interaction between these customers and the IRS in recent years.

Increased commercial activity by the tribal governments, especially but not exclusively in the area of gaming, has raised federal tax issues relating to governments as employers, distributions to tribal members and the establishment of governmental programs, trusts and businesses. Services on the very wide range of federal tax issues must be tailored within the special government-to-government framework.

Due to the special relationships and distinct characteristics and needs of these three groups, the recommended structure for GE is based on the customer sub-segments. Within each sub-segment a mixed centralized and decentralized workforce will provide the education and communication, rulings and agreements and examination services tailored for each group. This will enable each sub-office to provide end-to-end services in specialized areas to diverse customers. Approximately 270 employees will comprise the GE organization. Figure 5 illustrates the Government Entities organization structure.

**Figure 5: Government Entities Organization Structure**



## Geographic Footprint

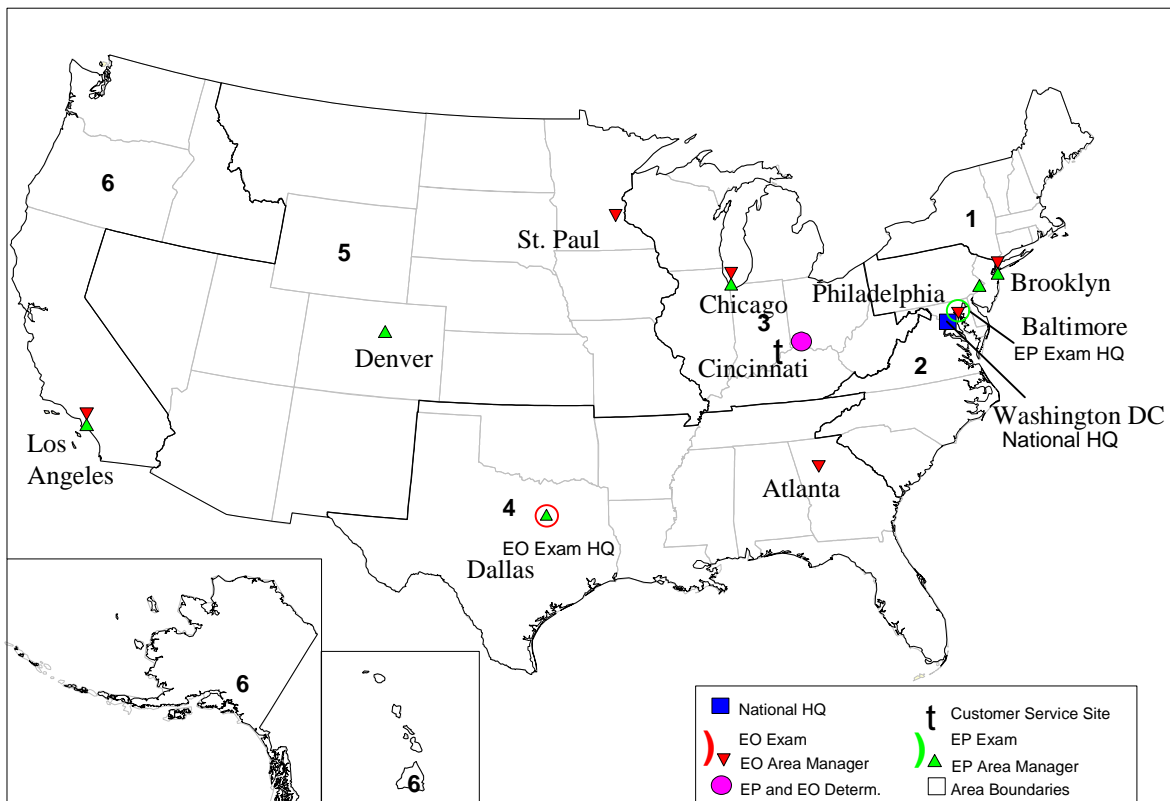
As is true today, the examination workforce for each customer segment will be dispersed throughout the United States to provide face-to-face service to customers. As discussed earlier, the examination employee resources will be increasingly leveraged to support education and outreach services. This will greatly enhance the availability and delivery

of up-front liaison services for customers around the country. For Tax Exempt and Government Entities employees, this will create a broader role in facilitating customer compliance while minimizing employee movement.

For the Employee Plans and the Exempt Organizations segments, the workforce will be managed through six geographic areas. These areas, as shown in Figure 6, were developed based on customer locations, workforce size and current employee locations, and area boundaries for other operating divisions. In turn, the recommended locations for managers (the two National Directors of Examination and 12 Area Managers) were based on workforce locations, proximity to customers and efficient internal management processes.

Due to the small number of resources and the newness of the Government Entities segment, these programs will be managed as national programs with various posts-of-duty. The geographic locations will be based on the current locations of employees working in the Tax Exempt Bond program and of employees moving into the GE programs for Indian Tribal Governments and Federal, State and Local Governments. This flexibility will enhance the application of resources to customer locations and unique procedures and projects. As these programs grow, there may be a need for a more complex geographic footprint similar to the one for EP and EO.

**Figure 6: EP and EO Examination Areas**



# New Business Scenario

## Top Quality Customer Service Helps Tax Exempt Customers

Ms. Fisher was recently appointed president of *Aid to All*, a tax-exempt organization that provides disaster relief in the Rocky Mountains area. The previous president had been transferred to another country, and left Connie with a box of records to organize.

A potential donor was ready to make a substantial contribution to *Aid to All*, but wanted assurance that it was qualified as tax exempt and that their contribution would be deductible. Ms. Fisher searched through the box but was unable to locate the necessary documentation. *Aid to All* was also beginning an annual fund raising activity and considering including gaming activities as part of their fund raising program.

Ms. Fisher found a brochure in her box about the IRS Tax Exempt Customer Service Unit so she called their toll-free telephone number, reaching Tax Exempt customer service representative, Thomas.

Thomas quickly retrieved the information on *Aid to All*'s tax-exempt status. He provided the confirmation of the organization's tax-exempt status and offered to mail or e-mail a confirmation letter.

Thomas recently completed Customer Service Training, so he took the time to ask Ms. Fisher a series of related questions that were typical concerns for organizations in positions similar to *Aid to All*. When Ms. Fisher mentioned the organization's current fund raising activities, Thomas was able to point out several areas that she needed to consider with respect to the proposed gaming activities. He told her how to get additional information on this and other related issues. He then offered to mail or e-mail several IRS publications directly to her. He also told her about workshops and seminars on filing requirements, return preparation and other subjects sponsored by the Tax Exempt Education and Communication staff.

Thomas' application of top quality customer service made Ms. Fisher's IRS experience pleasant, and left her feeling like she had received the service she expected.

### Key Points:

**Taxpayers receive one-stop service via toll-free telephone number**

**Automated services assist IRS employees and taxpayers**

**Customer service representative answers taxpayer's question and offers additional information and assistance**

*Note: All taxpayers, businesses, IRS staff members and tax situations contained in this scenario are imaginary.*



## **Implementation Timing**

A high-level implementation plan is being developed for the transition to the new Tax Exempt and Government Entities Operating Division organization. This plan targets startup of the operating division in late 1999. While the schedule could change as more detail is developed, the key steps must still be accomplished. The first step toward implementation was the selection of the Tax Exempt and Government Entities Operating Division Commissioner in April 1999. This kicked-off activities to recruit and select the other top executives in Tax Exempt and Government Entities. Many workforce realignment activities must then be accomplished. Another major milestone in the transition is the realignment of the staff of the current Employee Plans and Exempt Organizations function. This will align more than 80% of the future staffing of the new Tax Exempt and Government Entities Operating Division. With the exception of the tax exempt bond program, the Government Entities segment does not have existing organizational groups to draw from for the creation of the new organization. As a result, the implementation of this segment will be accomplished over a longer period. An extensive communication effort will be made throughout the transition and implementation to promote discussion of the Tax Exempt design with employees, customers and stakeholders.

# *Office of Chief Counsel*

## **Goals and Guiding Principles**

The IRS Office of Chief Counsel is expected to provide the correct legal interpretation of the internal revenue laws, to represent the IRS in litigation and to provide all other legal support the IRS needs to carry out its mission of serving America's taxpayers. To accomplish these goals, Counsel provides a wide variety of specific services to many different customers, including taxpayers and IRS components. For example, Counsel's work includes:

- ◆ Drafting regulations, rulings and other published legal guidance;
- ◆ Handling cases in Tax Court and the Bankruptcy Courts; and
- ◆ Providing specific legal advice and determinations, to taxpayers and to various IRS functions, both before and after returns are filed.

In carrying out these responsibilities, Counsel must interpret the law with complete impartiality, so that taxpayers will know the law is being applied with integrity and fairness.

As part of the overall IRS modernization effort, the Office of Chief Counsel has been re-evaluating its current organization in order to improve services to both its internal and external customers. Three basic principles have guided the Counsel redesign effort:

- ◆ Design an organization that will be capable of providing the highest quality legal services to the IRS, both now and in the future.
- ◆ Create an organization that will make it as easy as possible for all parts of the Chief Counsel's office to work in active partnership with colleagues in the IRS, Treasury and Justice Department to help accomplish the IRS mission.
- ◆ Build an organization structure that will help ensure that the legal advice Counsel provides reflects an impartial professional judgment as to the correct interpretation of the law.

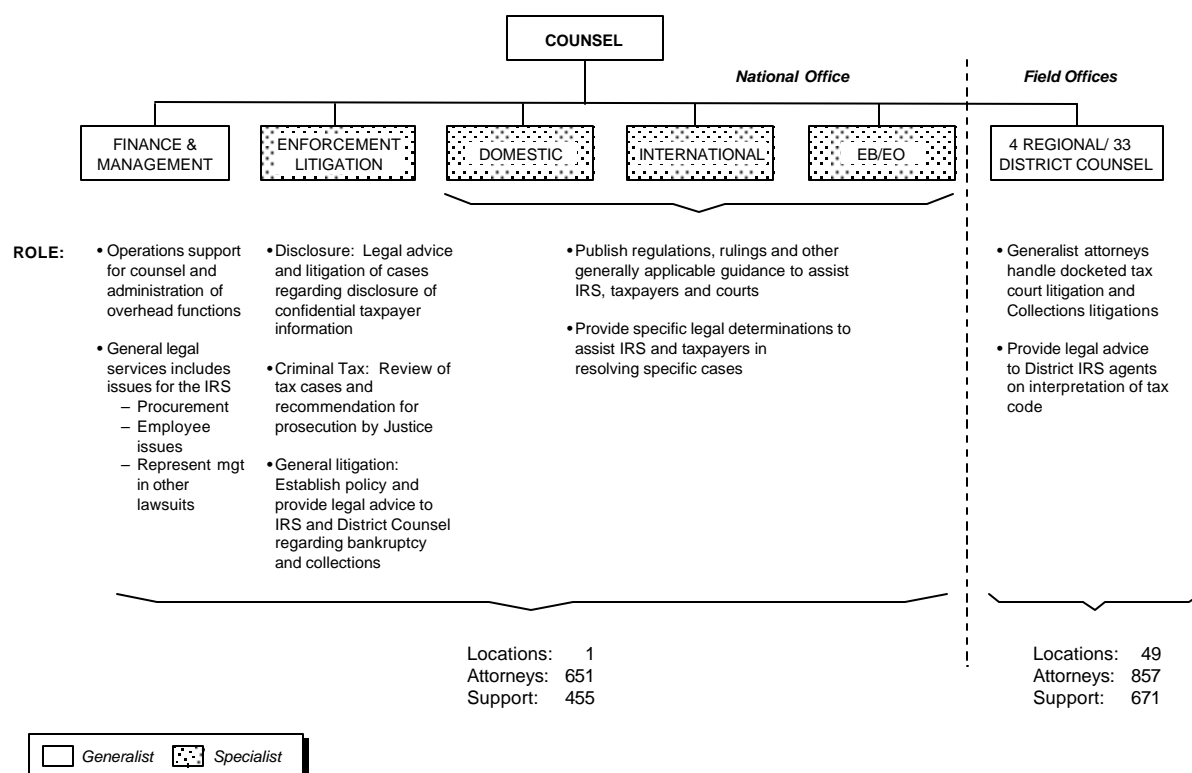
With these basic principles in mind, the Counsel redesign team worked in close coordination with other design teams to analyze customer needs and determine the optimal way to organize Counsel resources to meet those needs. This effort involved consultation with a broad range of stakeholders within the IRS, at the Departments of Treasury and Justice, at the Tax Court and across the private sector. The proposed design builds on the strengths of the current Counsel organization and addresses those areas in need of change in light of the new IRS structure.

## Current Counsel Organization

Until now, Counsel has been structured as a hybrid organization, with National Office and field components. The National Office primarily includes attorneys who are technical subject matter specialists, organized according to tax code area. By contrast, most field attorneys are subject matter generalists, with a focus on litigation and case-specific legal advice, organized according to a geographic management structure that mirrors the current IRS field structure of four regions and 33 districts.

**Figure 1**

### Current Counsel Organizational Structure



# Redesigned Counsel Organization

In this phase of the modernization process, the Counsel design team has developed the essential framework of a new organization structure. This new structure is based on an analysis of customer needs (both internal and external), considered in light of the new IRS organizational design and the three guiding principles previously discussed.

Several key decisions helped determine critical components of the new Counsel structure:

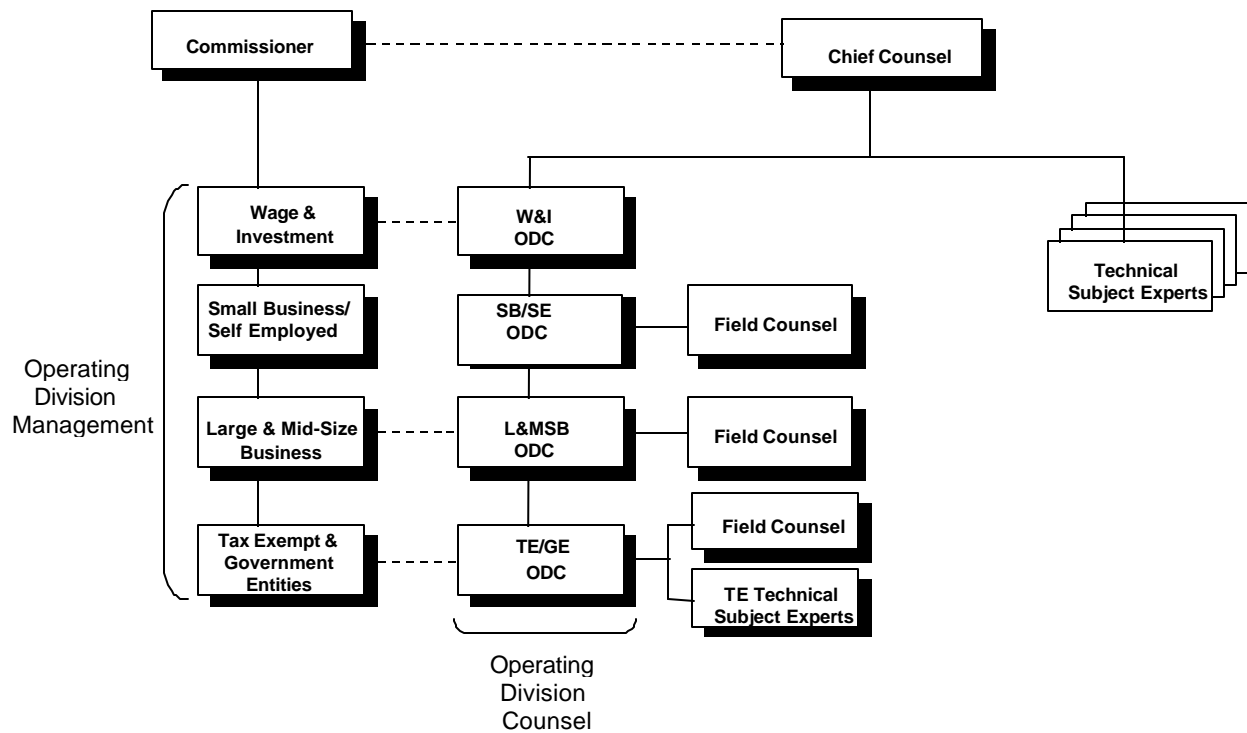
- ◆ To maintain consistency, uniformity and impartiality in tax law interpretations, all Counsel personnel will continue to be part of a unified, nationwide Chief Counsel organization.
- ◆ To develop an active, working partnership with the new IRS operating divisions, Counsel will establish four new SES-level Operating Division Counsel (ODC) positions that will be co-located with the Operating Division Commissioners. Each of these four ODCs will have a staff of attorneys at the headquarters location that will be dedicated to serving the needs of the particular operating division.
- ◆ Most of Counsel's field attorneys will be assigned to one or another of the ODC units. Over time, this alignment will both enhance the expertise of the attorneys in the areas of tax law most relevant to the operating division they serve, and will also help them develop close working relationships with the employees, managers and executives of the operating division.
- ◆ Counsel's National Office technical experts will remain in Washington, DC, and will continue to be organized primarily on the basis of the tax law technical subject areas required by the Internal Revenue Code. This should help preserve Counsel's depth of technical expertise and also ensure that legal interpretations are consistent for all taxpayers and all operating divisions.

## A. Operating Division Counsel

1. Headquarters. The new Operating Division Counsel (ODC) is a critical part of the new Counsel organization. Four ODC units will be established, one to serve each of the IRS operating divisions. Each of the ODC units will be headed by an SES-level attorney -- also called the Operating Division Counsel -- who will report directly to the Chief Counsel. The headquarters of each ODC will be located each IRS operating division headquarters. Additional ODC offices will also be in other key operating division locations.

**Figure 2**

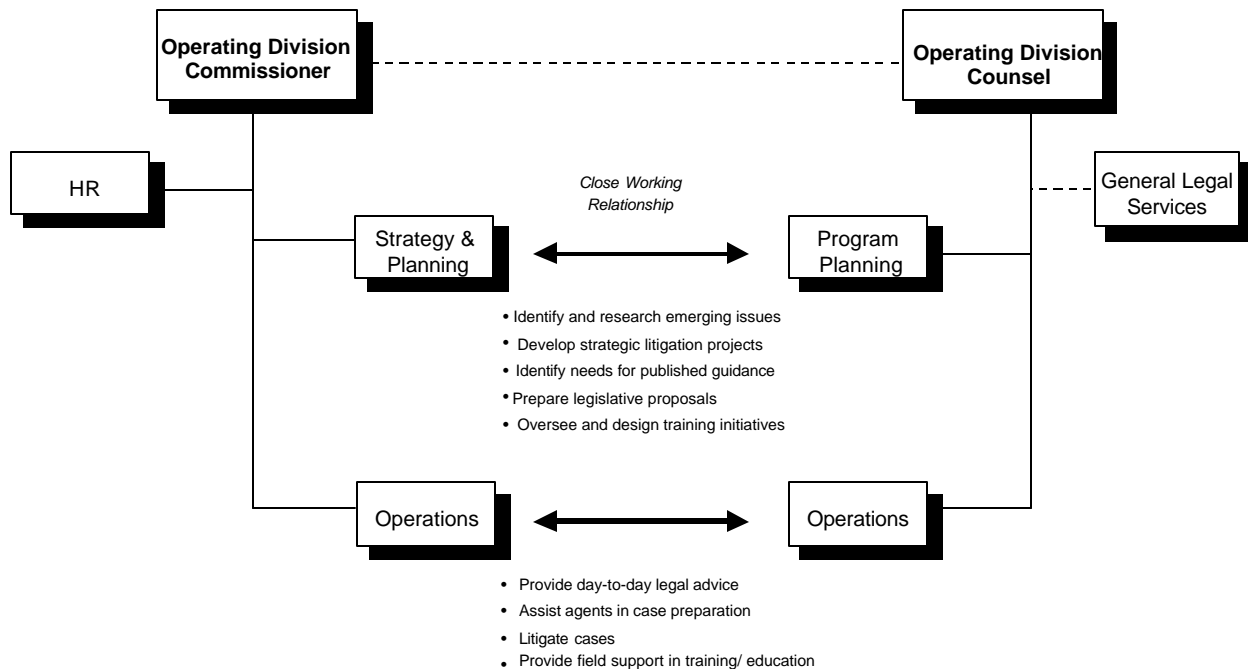
**Operating Division Counsel**



Each ODC unit will have an internal management structure designed to complement the management structure of the division it serves. The ODC will work closely with its operating division on strategy and program planning matters, such as identifying and prioritizing emerging issues and developing published guidance needs, as well as on operations matters, such as day-to-day legal advice and field litigation.

**Figure 3**

**Illustrative Operating Division/ODC Headquarters Structure**



To ensure that a successful partnership is established between the Operating Division Commissioner and the ODC, several strategic linkages and processes will be established. For example, the Operating Division Commissioner will participate with the Chief Counsel in the selection and annual evaluation of the ODC. Customer service agreements will also be developed between the operating division and the ODC to identify required service levels to meet operating division needs.

2. Field Counsel. Most of Counsel's current field organization will be assigned to one or another of the ODC units. This specialization will help the attorneys develop greater expertise in the specific areas of the tax law most relevant to the needs of the particular operating division they serve. It should also encourage development of strong working partnerships between the Field Counsel and the executives, managers and employees of the operating division they support. Field Counsel will continue to represent the IRS in the Tax Court and the Bankruptcy Courts and to provide legal advice to operating division personnel.

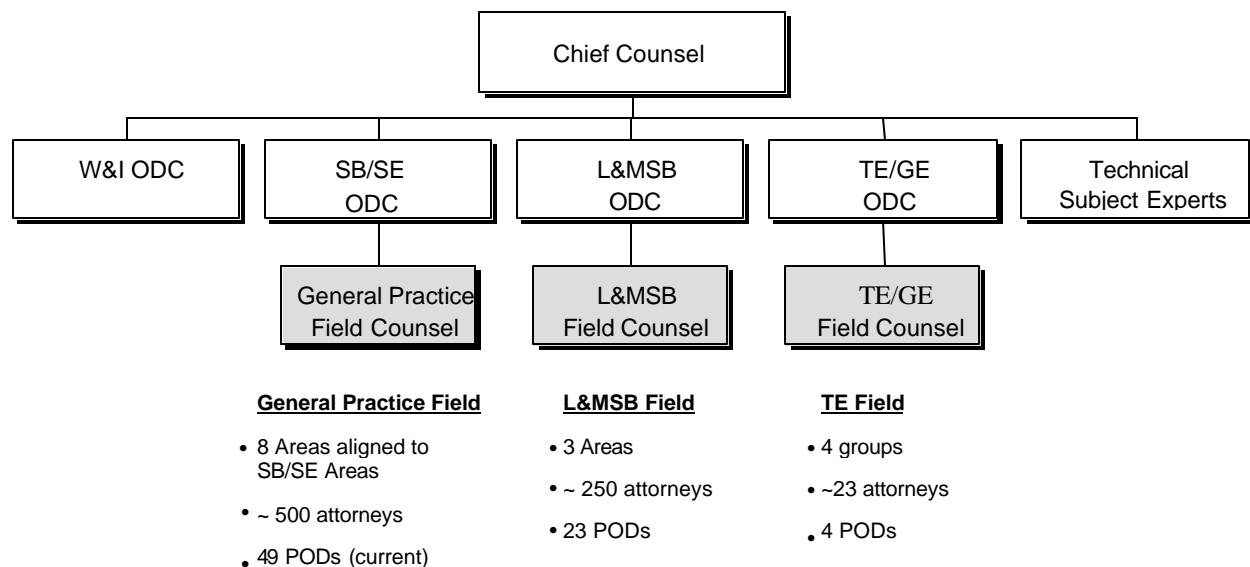
For example, field attorneys in the L&MSB ODC unit will provide legal advice and support for the Industry Specialization Program and the Coordinated Examination Program, and will litigate most of the large dollar Tax Court cases. Field attorneys in the TE/GE ODC unit will

specialize in deferred compensation and exempt organization issues. Field attorneys in the SB/SE ODC unit will be termed “General Practice” attorneys and will handle most cases in the Tax Court and Bankruptcy Courts, as well as much of the legal advice that is needed by either the SB/SE and the W&I Operating Divisions field organizations.

The specific number of field attorneys for the L&MSB, Tax Exempt and SB/SE Operating Division Counsels will be determined by workload requirements. The internal reporting structure for each ODC has not yet been finalized and will continue to be evaluated over the next several months. As proposed by the Counsel Design Team, the field structure will include about 500 General Practice attorneys located in 49 posts-of-duty, about 250 L&MSB attorneys located in 23 posts-of-duty and about 25 Tax Exempt attorneys located in four posts-of-duty.

**Figure 4**

### **Embedded Field Counsel Structure**



## **B. Technical Subject Matter Experts**

Counsel’s National Office will maintain its historic role of providing authoritative legal interpretations of the tax law. The National Office specialists will continue to be located together in Washington, DC and will be organized primarily on the basis of the substantive tax law knowledge required by related Code sections. Finally, the National Office will maintain its current responsibilities for many of the key processes that directly affect taxpayers; for example, issuing regulations, revenue rulings and other published guidance, as well as private letter rulings, technical advice and advance pricing agreements.

While the National Office responsibilities, organizational framework and location will not change, a number of significant changes will occur:

- ◆ While some of these proposed changes are subject to further review and refinement, Counsel anticipates combining responsibility for the Code sections dealing with many of the procedural aspects of tax administration and restructuring its existing Domestic Field Service Division.
- ◆ To improve the efficiency of the process for issuing regulations, rulings and other published guidance, there will be a new Executive Steering Committee for published guidance. This Steering Committee will be composed of senior executives from each of the IRS operating divisions, Counsel and the Department of Treasury. The Committee will meet regularly to identify and prioritize issues that need to be addressed through published guidance and will monitor the progress of guidance projects.

### **C. Other Counsel Functions**

Counsel is also considering changes that need to be made to other functions to better serve the needs of the IRS in the future. For example:

1. Counsel to the National Taxpayer Advocate. Counsel has established an SES level position, reporting directly to the Chief Counsel, dedicated solely to providing legal advice to the National Taxpayer Advocate. This “Counsel to the National Taxpayer Advocate” will be located in close proximity to the National Taxpayer Advocate’s offices, and will be supported by a small staff of attorneys.

2. Criminal Tax. Counsel will work with the design team that has been established to follow-up on the recommendations of the Webster Report in connection with the Criminal Investigation Division. While the specifics remain to be addressed, the general direction of the Webster Report’s recommendations with respect to Counsel seem fully consistent with other major elements of the new Counsel design (e.g., promoting greater specialization of attorneys involved in complex subject areas; building a closer working partnership between the attorneys and their clients).

3. General Legal Services. Counsel’s General Legal Services (GLS) unit will continue to provide the full-range of non-tax legal services to the IRS. As in the past, GLS responsibilities will include procurement support, labor relations, ethics issues, etc. In the future, all Counsel’s GLS attorneys will be managed on a centralized basis by an executive in Washington, DC (rather than through a combination of regional and National Office managers, as in the past).



## External Stakeholders

The Office of Chief Counsel will continue to play a critical role in dealing with external stakeholders such as the American Bar Association - Tax Section, Tax Executives Institute, the American Institute of Certified Public Accountants and many others. Input from these stakeholder groups is a particularly important element of IRS efforts to provide service to taxpayers on a pre-filing basis through regulations and other published guidance. These groups also provide a critical avenue of communication to the general public to help deliver important IRS messages.

## New Business Scenario

### Counsel Reorganized into Specialty Practice

During the initial planning stages of a large corporate tax examination, Large and Mid-Size Business (L&MSB) tax examiner Joe had been dealing with Manhattan attorney Mr. Johnston regarding potential legal considerations. The IRS modernization helped Joe receive the prompt legal advice he needed to prepare his examination case. It was easy for Counsel to provide timely and targeted advice since the field counsel attorneys had been reorganized into three specialized counsel groups: L&MSB, General Practice and Tax Exempt with single contact points designated for each area.

During the preparation, Joe discovered a potential issue that he wanted to discuss with Counsel. He called Mr. Johnston again to arrange a meeting to discuss the issue further. At the meeting, Mr. Johnston provided legal assistance and assured the examiner that he would continue to work with him as additional legal questions arose.

Joe was pleased with how easily he obtained legal help in the large case area.

#### **Key Points:**

**Counsel involved with large case audit from planning stage**

**Field Counsel reorganized into three Operating Division  
Counsel areas: L&MSB, General Practice and Tax Exempt**

**Counsel provides a single contact person in each specialty  
for initial contact — agents can use attorney already assigned  
to earlier issues for later case developments**

*Note: All taxpayers, businesses, IRS staff members and tax situations contained in this scenario are imaginary.*

## **Implementation Timing**

Counsel's implementation will proceed in stages. Some parts have already begun (e.g., the establishment of the Counsel to the National Taxpayer Advocate). Other parts can proceed somewhat independently of the rest (e.g., realignments in the National Office; creation of the Executive Steering Committee for Published Guidance). However, the establishment and organization of the ODC units, and the alignment of the field attorneys to them, must be closely coordinated with the schedule for establishment of the operating divisions.

# *Appeals*

## **Appeals Organization Roles and Responsibilities**

The Appeals function serves any taxpayer that is disputing a compliance action being taken by the IRS. These taxpayers not only disagree with the position being taken by the IRS, but also face substantial financial losses due to the dispute. The Appeals organization ensures that all taxpayers are provided an independent, impartial review of their cases after an audit is complete or collection action is proposed. It is the last opportunity the IRS and the taxpayer have to agree before the case enters the tax court system.

If a taxpayer has exhausted efforts to resolve a dispute with the IRS, Appeals plays a critical role in ensuring that the taxpayer receives a settlement offer that is fair and impartial to both the Government and the taxpayer. The goal of an Appeals officer is to resolve tax controversies, without litigation, in a manner that will enhance voluntary compliance and public confidence in the Service. Maintaining the rights to this impartial assistance is absolutely critical to the integrity of the American tax system.

## **Goals, Principles and Objectives**

Over the last year, we have continuously reminded ourselves of our key goals: to provide a “world class” dispute resolution service to all taxpayers; to better respond to the needs and expectations of external customers; to maintain flexibility to meet changing customer expectations and operating environments; and to provide a work environment that fosters employee job satisfaction and career development.

These goals have culminated into recommendations that create substantial benefits for both taxpayers and employees. The changes will: 1) reduce the taxpayer burden during the Appeals process; 2) create new processes to settle taxpayer disputes faster; 3) empower front-line Appeals officers to expeditiously settle disputes; 4) improve feedback processes with compliance functions to ensure high-quality case development; 5) provide better training to the Appeals staff to increase the quality of service provided to taxpayers; 6) result in a team-based environment for Appeals staff aimed at increasing quality and responsiveness; and 7) drive an overall redesign of business processes to be “more timely and customer focused.”

Taxpayers will benefit by experiencing a shorter and less burdensome Appeals process. Employees will gain additional resources, training and authority to enhance their performance and provide world class service. All taxpayers requiring assistance from Appeals will clearly benefit from expeditious resolution of cases, saving both time and money. To ensure that our new philosophy will result in increased taxpayer satisfaction, we have interviewed practitioners, associations and other stakeholders and received very positive reactions. In fact, one practitioner stated that, "Clearly, the IRS is focusing on more resolutions earlier. That's good for everybody."

## **New Organizational Model**

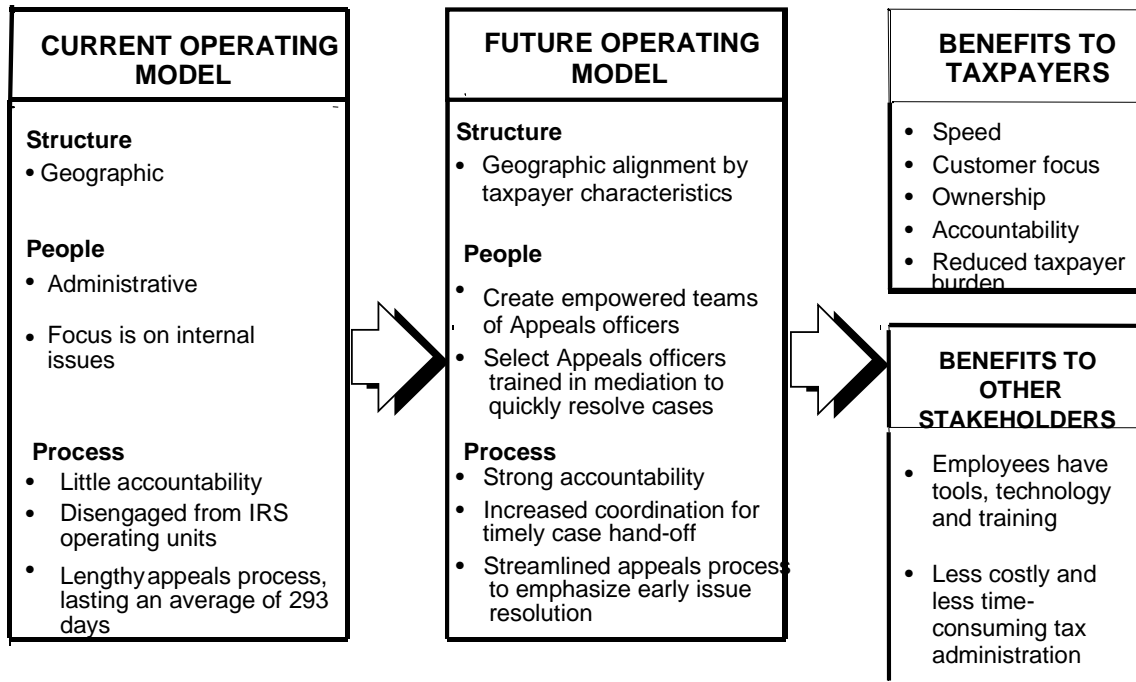
We have considered many options for both building on the success of the current Appeals organization and finding areas for improvement in service to taxpayers. Throughout our deliberations we considered three critical objectives:

- Maintain the independent structure of Appeals so taxpayers continue to receive impartial assistance on sensitive tax matters.
- Minimize the need for relocating employees. At the same time, ensure that our staff is located in areas convenient for taxpayers. Because the work continues to be similar and Appeals staff is already located in many cities across the nation, this will not pose a significant challenge.
- Design new products and services as well as process improvements to reduce taxpayer burden during the Appeals process. The end result of all our redesign efforts must be improved taxpayer satisfaction with the services provided by Appeals.

To ensure that our redesign effort results in dramatic improvements, we have placed a major emphasis on more efficient case resolution and increased teamwork by IRS staff to ensure that the highest level of expertise is invested in resolving these difficult cases.

The new Appeals organization structure builds on past successes of impartiality but adds new mechanisms to effectively serve taxpayers. It creates a new operating model designed to provide better consistency, quality, customer focus, ownership and accountability to taxpayers and other stakeholders. This new model is illustrated in Figure 1.

**Figure 1**  
**New Operating Model**



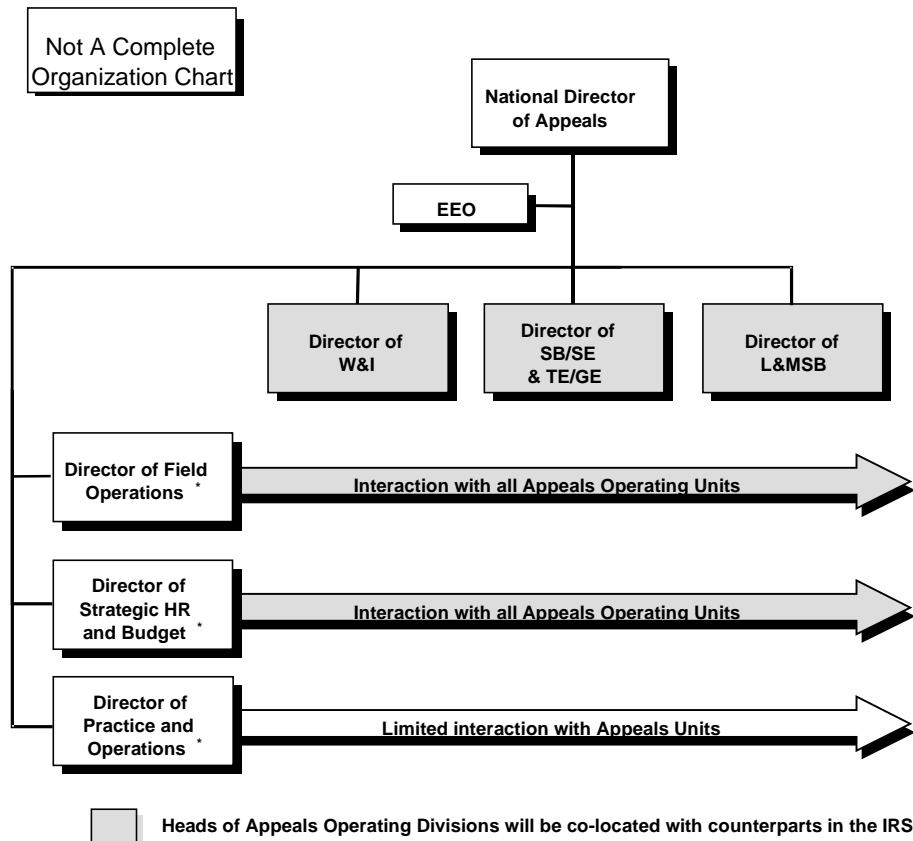
## Organization Structure

As illustrated above in Figure 1, the structure will not only maintain the current geographical alignment, but will also realign Appeals staff to closely mirror the new operating division structure. Similar to the rest of the IRS, Appeals officers will focus on taxpayers with similar concerns and issues, resulting in a more proactive management of emerging issues and trends.

Wage and Investment Appeals officers will be centralized and conduct appeals primarily by telephone or correspondence; Small Business and Self-Employed and Tax Exempt and Government Entities Appeals officers will be dispersed throughout the country to mirror the geographic dispersion of SB/SE staff. Due to the heavy concentration of Large and Mid-Size Business taxpayers in large metropolitan areas, L&MSB Appeals officers will be concentrated in those large cities, with limited representation elsewhere. On the next page, Figure 2 illustrates this new structure.

Figure 2

## APPEALS ORGANIZATION



In total, the staffing will include approximately 1,100 highly-skilled Appeals officers. In addition to being specialized, the new organizational design requires casework to be handled in a team-based environment. This team-based environment will ensure that we capitalize on all of the expertise available when determining the correct course of action. Clearly, this approach will improve the quality and consistency of case decisions.

In addition to the Appeals staff that is located in field offices to interact locally with taxpayers and other IRS offices, the Appeals function also maintains a headquarters function. Due to the success of the current headquarters operations, the redesigned structure basically leaves the **Appeals headquarters** unchanged. The headquarters office manages three primary operations:

- **Strategic Research and Planning** will be responsible for research and analysis that is aimed at understanding tax law changes and customer needs. Fully understanding these needs will assist us in creating more tailored products/services. Constantly updating our knowledge of the tax law will

increase the quality of our casework and improve our ability to keep taxpayers informed. In addition to staying abreast of emerging issues, this function will ensure that Appeals creates and executes an effective strategic plan.

- **Human Resources and Budget** function is an internal, process-based organization that creates, updates and monitors the annual budget and ensures that employees are skilled and provided the necessary tools to deliver top quality service. This includes recruiting new highly-skilled employees, retaining current employees and continuously training employees to be experts in their particular area.
- **Director of Practice and National Office Operations** will be responsible for the Director of Practice program, appeals of Freedom of Information Act denials and art advisory services.

## Internal Partnerships

To ensure that these changes can be implemented, several key internal and external partnerships have been created. First, a liaison will be established between Appeals and all of the new operating divisions (W&I, SB/SE, L&MSB and TE/GE) to ensure that disputes are resolved at the lowest level possible in the IRS and as quickly as possible. When issues are not resolved by the operating division, this liaison will ensure that the cases are forwarded to Appeals in a timely manner. Through the combined effort of Appeals and the operating division, the IRS can provide better service to taxpayers. Effective coordination between Appeals and the operating divisions will decrease the average time required to complete cases, resolve factual issues at lower levels in the IRS organization and ensure issues are developed properly and facts are correct so that taxpayers do not experience unnecessary delays.

To ensure that the operating division and Appeals are successfully resolving taxpayer disputes, we are instituting a new process. A mandatory group manager conference between a group manager and the taxpayer must be held in an attempt to resolve any factual issues before closing the case in the operating division. Managers will receive training in order to effectively carry out this responsibility. If the group manager conference is unsuccessful, the case can be passed to our new “Fast Track Mediation” process.

At the end of an audit, taxpayers will now have an opportunity to quickly resolve factual disputes through “Fast Track Mediation.” This new process will seek to resolve factual disputes within an average of 14 days, as opposed to the nine months currently required for a full appeal. Taxpayers who are unsatisfied with the results of Fast Track Mediation will still have the option of requesting a traditional appeal. Implementing the new Fast Track Mediation process will require coordination with the operating divisions.

In cases where Appeals cannot find an agreeable solution to the dispute, the IRS may decide to forward the case to litigation. This process will be supported by a strategic partnership between Appeals and the Office of Chief Counsel. This partnership will work to design processes and

feedback mechanisms to ensure that docketed cases flow smoothly between Appeals and litigation. This allows the taxpayer to easily move to the next phase of case resolution. The Appeals function will continuously partner with Counsel to avoid disputes unnecessarily lingering in the system. This partnership, as well as the liaison relationship with the operating divisions, will result in cases moving through the system in a more timely manner.

Another critical partnership will be with the Taxpayer Advocate's office. This linkage is critical so that, when the Taxpayer Advocate has intervened on a taxpayer's behalf, the Appeals organization is able to assist whenever needed. Taxpayer satisfaction with Appeals performance will also be measured annually by independent observers with input from Taxpayer Advocate. This linkage will ensure taxpayers' problems are resolved rapidly and equitably. Through combined efforts of both offices, complicated systemic or legislative problems of taxpayers who request appeals will be addressed.

## **New Business Scenario**

### **Fast Track Mediation Quickly Resolves Taxpayer Disputes**

The IRS audited Mr. Brown, a cattle rancher in Oklahoma, for a deduction claiming cattle feed expenses. The IRS agent requested receipts to prove that the feed had, in fact, been purchased; however, Mr. Brown had lost the receipts. Although the auditor visited Brown's ranch and saw that cattle were indeed being fed, no deduction was allowable without receipts.

The IRS notified Mr. Brown by mail that he owed taxes and a penalty on his return. The letter also stated that he could request either a full appeal or participate in a new program called Fast Track Mediation. Fast Track Mediation attempts to quickly resolve factual disputes and resolves cases in less than 14 days, on average. A full appeal could easily last over six months. Mr. Brown was anxious to resolve his case and get back to his cattle ranching business. He requested Fast Track Mediation.

The Brown case was forwarded to an IRS Appeals Officer. After looking for similar cases and seeking advice from his newly created team (which handled similar cases), the Appeals Officer concluded that this case could be quickly resolved. He called Mr. Brown to explain the process and schedule a mediation conference. Mr. Brown was pleased to learn that the mediation would be conducted over the phone, so he would not even need to leave his home.

On the day of the mediation, the Appeals Officer served as an independent mediator between Mr. Brown and the IRS examiner. The Appeals Officer guided the meeting and explained the rules, including the fact that if the problem could not be solved immediately, Mr. Brown could still request a full IRS appeal. The teleconference lasted less than one hour and, in the end, the Appeals officer suggested a possible resolution. The cost of cattle feed could be estimated based on the number of cattle and other records related to feed costs. Mr. Brown was pleased



that the Appeals Officer was willing to consider an alternative solution, and impressed with the Appeals Officer's knowledge of the cattle ranching business. After a short discussion, Mr. Brown and the IRS auditor agreed on the proposed solution. While the suggested resolution amount was less than Brown's original deduction, the amount was close enough that a settlement made sense. The Appeals officer then explained that he had authority to settle the case immediately, on the phone.

Fast Track Mediation paid off greatly. In just one meeting, everyone agreed on a solution. Mr. Brown could now stay focused on his business, and the IRS auditor could focus on his other cases. Most importantly, the Appeals officer gained the satisfaction of knowing that the case was resolved quickly and that both the IRS and taxpayer were satisfied with the results.

**Key Points:**

**Fast Track Mediation allows taxpayers to resolve factual disputes quickly**

**Examiners and group managers are able to present their case personally to the Appeals officer and receive immediate feedback on the settlement**

**The Appeals officer is empowered to settle the case and mediate a fair resolution for the taxpayer and the IRS**

*Note: All taxpayers, businesses, IRS staff members and tax situations contained in this scenario are imaginary.*

## Implementation Timing

During calendar year 1999, we anticipate piloting new Appeals processes and selecting new Appeals executives. The three operating unit headquarters will be created.

During the first half of calendar year 2000, we anticipate creating all three of the operating unit headquarters and realignment of the front-line Appeals officer. By June 2000, most Appeals employees will be aligned and will have received training to prepare them for their new roles. During the second half of 2000, national implementation of all new Appeals programs will be complete.

# ***Taxpayer Advocate***

## **Taxpayer Characteristics**

The Taxpayer Advocate organization serves any taxpayer who has encountered a problem that is not resolved by the IRS in the agreed upon timeframe. It is imperative that all taxpayers have an opportunity to receive independent, objective assistance when resolving problems with the IRS. In 1998, the Advocate resolved approximately 400,000 taxpayer problems. The majority of these Taxpayer Advocate cases will fall into the Wage and Investment and Small Business and Self-Employed segments.

In addition to serving taxpayers one at a time, the National Taxpayer Advocate also serves all taxpayers by reporting regularly to the Congress of the United States. It is the responsibility of the National Taxpayer Advocate to keep the Congress fully up-to-date on the Advocate's success at resolving taxpayer problems, as well as to report any systemic issues that may be adversely affecting taxpayers. To accomplish this, the National Taxpayer Advocate publishes two reports each year that are submitted to the House Ways and Means Committee and the Senate Finance Committee. The first, submitted by June 30 of each year, reports on the objectives of the Advocate organization for the coming year. The second, submitted by December 31 of each year, reports on the activities of the Advocate's office and specific information about problem areas and initiatives for solving them. The report also identifies areas of the tax law that impose significant compliance burdens on either the taxpayer or the IRS and proposes remedies for these situations. In addition, the Congress is informed as to the ten most litigated issues where taxpayers are finding difficulty with the tax law.

## **Goals, Principles and Objectives**

Since the summer of 1998, the Taxpayer Advocate organization has been reorganizing to better meet the needs of taxpayers, to comply with the 1998 Restructuring and Reform Act (RRA 98), and to keep pace with the massive changes underway throughout the IRS. As mentioned above, the Restructuring Commission and the RRA 98 recommended strengthening the independence of both the National Taxpayer Advocate and the local Advocate organization. Two key changes were mandated that included 1) an independent reporting structure for all Taxpayer Advocate employees and 2) Taxpayer Advocate representation in every state. This mandate is a significant departure from the past. Previously, many of the Taxpayer Advocate employees did not report to the National Taxpayer Advocate, but to local IRS management. Additionally, many taxpayers did not have access to assistance from the Advocate's office in their state.

Over the last year, the Taxpayer Advocate organization has been planning to implement the mandated changes from the RRA 98 and create options for improving its organization structure and the products/services offered to customers. The National Taxpayer Advocate and the IRS

leadership have been working closely together to ensure that a strong partnership is formed in the modernized IRS. To accomplish this, the Taxpayer Advocate organization also reevaluated its structure to ensure that it complimented the new IRS organization structure.

A team of IRS managers and employees from across the nation joined together to design a structure that best meets the needs of taxpayers. The team interviewed employees, taxpayers and stakeholders and reviewed data gathered from past customer surveys to identify customer/stakeholder needs. Table 1 highlights some of the results of the analysis and illustrates high-level needs of each of these customer types.

**Table 1 : Taxpayer Advocate Customer Needs**

<b>CUSTOMER</b>	<b>CUSTOMER NEEDS</b>
<b><i>Taxpayers</i></b>	<ul style="list-style-type: none"> <li>• Easy, one-stop access to Taxpayer Advocates</li> <li>• Timely, error-free and fair handling of tax cases</li> <li>• Objective review and relief in cases characterized by extenuating circumstances, IRS mishandling or hardship</li> <li>• Highly-efficient and manageable IRS policies, procedures and systems through which to process individual cases</li> </ul>
<b><i>Congress</i></b>	<ul style="list-style-type: none"> <li>• Implementation of policies and procedures that drive systemic change enabling IRS employees to provide more efficient, effective and customer-oriented service to taxpayers</li> <li>• Annual plans and reports of Taxpayer Advocate objectives and accomplishments</li> <li>• Timely, error-free and fair handling of constituents' tax cases</li> <li>• Easy, one-stop-shopping access to Taxpayer Advocates</li> </ul>
<b><i>Advocate Employees</i></b>	<ul style="list-style-type: none"> <li>• Career development and continuing education</li> <li>• Career opportunities, both inside and outside the Advocate organization</li> <li>• Good communication with operating divisions and continuing education</li> </ul>
<b><i>Operating Divisions</i></b>	<ul style="list-style-type: none"> <li>• An objective, knowledgeable Advocate in cases involving a dispute with a taxpayer</li> <li>• An office to help reach a balance between service to taxpayers and enforcement to ensure taxpayers are treated fairly within the confines of the law</li> <li>• Responsible Advocate organization with strong technical skills to provide taxpayers with relief when standard policies and procedures have failed</li> </ul>

To guide the redesign effort, the Taxpayer Advocate's organization created a new mission:

*To ensure that when the IRS' standard policies and procedures have failed, taxpayers' problems are resolved rapidly and equitably and to ensure systemic process and procedural change when necessary to avoid problems in the future.*

To support this new mission, the Advocate organization clearly articulated new roles and responsibilities for all of its managers/employees:

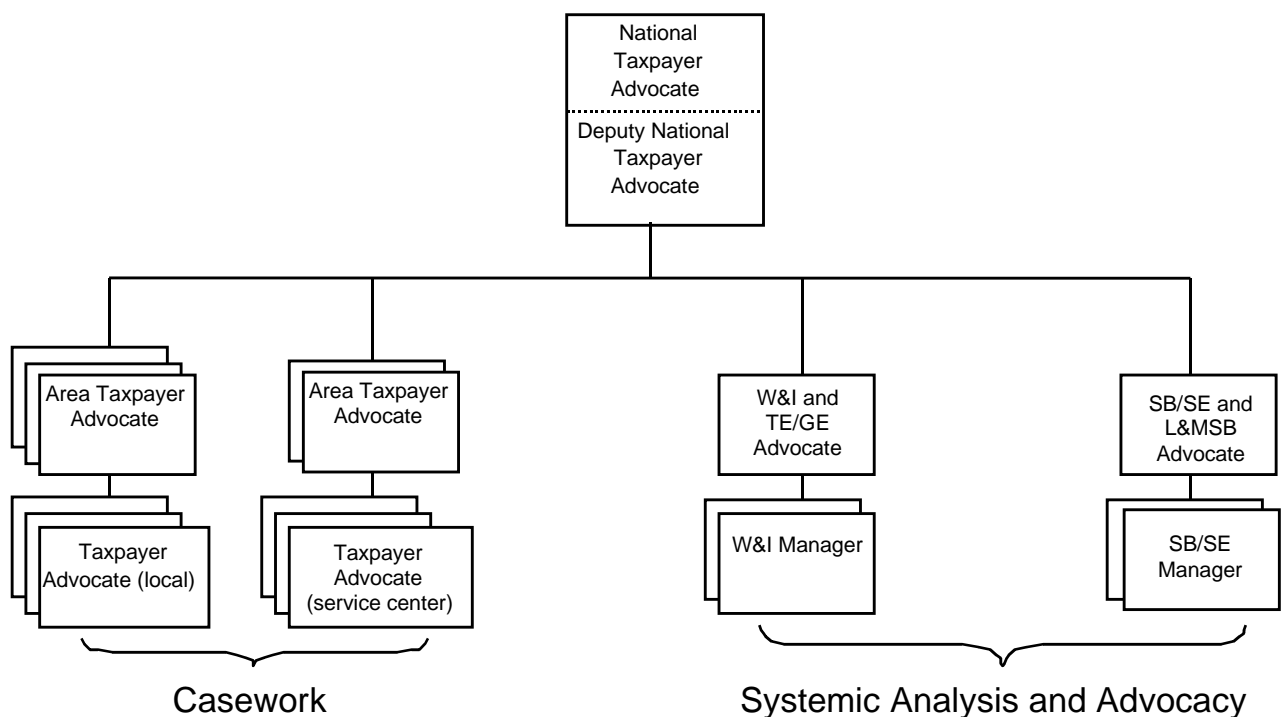
- ◆ To effectively represent the interests of individual taxpayers in disputes with the IRS;
- ◆ To quickly and accurately address taxpayer problems when there is a failure of systems, policies or procedures;
- ◆ To operate with the utmost independence while continuing to work toward the IRS mission;
- ◆ To continuously drive procedural, systemic and legislative changes to benefit taxpayers;
- ◆ To effectively communicate with and educate stakeholders and taxpayers to ensure awareness of Advocate services; and
- ◆ To solicit feedback from taxpayers and key stakeholders about IRS problems.

## Organization Structure

Section 1102(D) of RRA 98 requires that Taxpayer Advocates in the regions, districts and service centers report to the National Taxpayer Advocate in Washington, DC, as opposed to their local Heads of Office. Congress' intent was to ensure both independence and objectivity on the part of Advocates in dealing with tax-related concerns. Therefore, in the new Advocate organization, all employees will report directly to the National Taxpayer Advocate organization. This will provide an independent perspective and ensure that taxpayers get a second opinion while providing full accountability to the Advocate organization. Figure 1 illustrates this new organization structure.

**Figure 1**

### National Taxpayer Advocate Organization Structure



*Note: This is a high level organization chart and is not meant to be comprehensive.*

The Taxpayer Advocate will be organized around two major units: casework and systemic analysis and advocacy. The Casework Unit will be responsible for resolving all individual taxpayer problems that meet Taxpayer Advocate criteria. The Systemic Analysis and Advocacy Unit will be responsible for working with the operating divisions to identify systemic problems, analyze root causes, implement solutions and proactively identify potential problems with new systems and procedures. The advantages of the functional structure include:

- ◆ Providing clear accountability for advocacy results;
- ◆ Ensuring greater consistency of casework;
- ◆ Allowing greater flexibility in assigning Advocate resources between offices to cover workload fluctuations; and
- ◆ Minimizing the likelihood of Taxpayer Advocate staff being redirected to cover IRS compliance cases.

The casework unit will be organized geographically with at least one Taxpayer Advocate in every state and every service center. There will be nine Area Advocates responsible for managing all local Taxpayer Advocates -- seven Area Advocates will oversee the local offices and two will oversee the service centers.

The Systemic Analysis and Advocacy Unit will be aligned to operating divisions taxpayer advocates. One will be assigned to the Wage and Investment and Tax Exempt and Government Entities Operating Divisions, and a second will be assigned to the Small Business/Self-Employed and Large and Mid-Size Operating Divisions. In addition, Grade 15 Taxpayer Advocates will be assigned to both the Wage and Investment and Small Business/Self-Employed Operating Divisions.

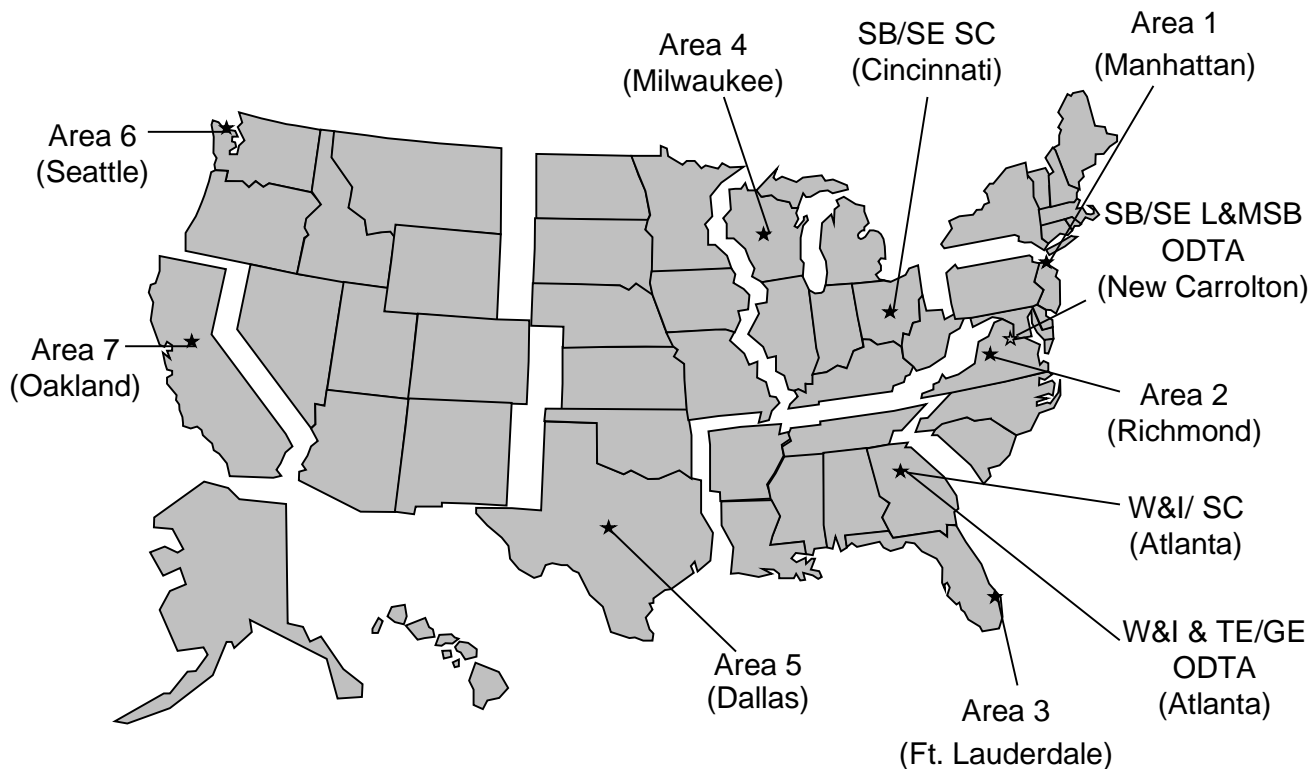
To effectively accomplish the casework, three new types of positions have been developed: an Associate Advocate (AA), a Senior Associate Advocate (SAA) and a Technical Advisor. All AAs and SAAs will be cross-functional generalists handling problems from taxpayers in all business units. The technical advisors will be members of cross-functional teams. Each geographical area will have at least one team comprised of revenue agents and revenue officers who will handle more complex cases. The three new positions will be filled through a competitive process affording all employees the opportunity to apply. This will also ensure the Advocate staff has the appropriate knowledge, skills and abilities to serve our taxpayers, and it will provide career paths within the Taxpayer Advocate Organization.

Taxpayer problems will be classified into "routine" and "complex," with the routine problems handled by the AAs. SAAs and TAs will be responsible for the complex cases. A case will be classified routine or complex based on set criteria; for example, a case with a single issue that can be resolved with standard procedures with no significant hardship would most likely be routine. Whereas, a case might be classified complex if there are multiple issues or significant cross-functional issues, if the taxpayer has a dispute with the operating division, or if the taxpayer faces a significant hardship as a result of the IRS action. These specific criteria are currently being refined.

Approximately 2,000 of the 2,300 total staff will be assigned to the Casework unit. The remaining 300 employees will work in the Systemic Analysis and Advocacy unit and the National Office functions.

Figure 2

### Taxpayer Advocate Areas



## Geographic Footprint

There will be seven Area Advocates overseeing local offices (located in Manhattan, NY; Richmond, VA; Fort Lauderdale, FL; Milwaukee, WI; Dallas, TX; Seattle, WA and Oakland, CA) and two Area Advocates overseeing the service centers (located in Atlanta, GA and Cincinnati, OH). The four Operating Division Advocates will be co-located with the respective headquarters organizations in New Carrollton, MD and Atlanta, GA.

Area boundaries were based on the assumption that the majority of cases resolved in local offices will belong to small business, self-employed and supplemental income taxpayers. Area Advocates will be directly responsible for management of two SB/SE territories and the

corresponding W&I territories. City locations were determined based on the location of current regional Advocates, the location of Small Business ‘key states’ and the need to maintain a service-wide geographic presence.

## **New Business Scenario**

### **Complicated Issues Are Resolved By Taxpayer Advocate Technical Advisor Teams**

Early one morning, Marsha, an associate Taxpayer Advocate in the Houston, Texas, office, was reviewing her new case receipts. She reviewed a Form 911 on Ms. Collins that identified the issue of a returned refund check. Marsha checked IDRS with the social security number (SSN) on the Form 911 and found that the SSN belonged to a Mr. Collins, with no indication of any returned checks.

Marsha called Ms. Collins to get clarification and her SSN. Ms. Collins explained that she had contacted the Taxpayer Advocate toll-free number because she had been receiving bills, even though she knew she did not have any outstanding balances. She was very concerned and frustrated because this had been going on for several years without a solution.

Marsha checked IDRS again, using the SSN given her. She saw that the account had Non-Master File (NMF) indicators on several years, bankruptcy indicators, audit assessments (non-petitioning spouse), returned refund checks, and was currently assigned to a revenue officer. All of these issues added up to a very complex case, and Marsha knew she would need assistance to straighten it out. Therefore, she took the Form 911 and transcripts to her manager, Ross. Ross reviewed the case and agreed that, since it involved multiple years, NMF issues and bankruptcy, it should be assigned to an advisor. He assigned the case to Bill since he is a technical advisor revenue officer reporting to the local Taxpayer Advocate in Houston. (The Area Taxpayer Advocates have technical advisor teams strategically placed in various offices.) Team members may be revenue agents or revenue officers who work for the Taxpayer Advocate organization.

Bill reviewed the case and recognized that he would need assistance from a technical advisor revenue agent to resolve the exam issues. Since he is the only technical advisor in Houston, he contacted Molly, a revenue agent technical advisor reporting to the local Taxpayer Advocate in Dallas, and asked her to work with him on getting Ms. Collin's account straightened out.

While Bill and Molly report to different local Taxpayer Advocates, they are part of the same Taxpayer Advocate area. Taxpayer Advocate staff members in the same area work as virtual teams, collaborating to solve taxpayer problems. By working together, both technical advisors pooled their Collection and Examination knowledge to resolve a series of complicated issues. Bill called Ms. Collins to let her know of his plan of action and to tell her that he will keep her informed of the status of her case until all issues are resolved.

**Key Points:**

**Revenue agents and revenue officers work together on the Taxpayer Advocate's Technical Advisor Teams**

**Technical Advisor Teams are strategically located in various offices throughout the Service**

**Technical Advisor Teams pool their Collection and Examination knowledge to resolve a series of complicated issues**

## **Implementation Timing**

Due to RRA 98, the implementation for the Taxpayer Advocate is on a very aggressive timeline. A team charged with implementing the new organization started in mid-February 1999.

Taxpayer Advocate's implementation plan consists of 5 major initiatives – Phase IIB design, establishment of division headquarters, establishment of operating division Advocate offices, establishment of area offices, and establishment of local and service center offices. Phase IIB design is scheduled to last from April through August 1999. The next three initiatives began in the first quarter of 1999 and will be completed in July 1999. The final initiative – establishment of local and service center offices – also started in the first quarter of 1999, but is not scheduled for completion until early fourth quarter of calendar year 1999. The first milestone accounted for in this last initiative requires that Associate and Senior Associate Advocates be identified. Once the remaining staff realigns and reports to the new Taxpayer Advocate division, this initiative will be completed and Taxpayer Advocate fully established.



**Figure 3**

Taxpayer Advocate Implementation Plan

CY 1999				CY 2000				CY 2001				CY 2002			
1/99	4/99	7/99	10/99	1/00	4/00	7/00	10/00	1/01	4/01	7/01	10/01	1/02	4/02	7/02	10/02
<p><b>Phase IIB</b></p> <p>◆ Centralized Teams Staffed</p> <p>◆ Divisional Teams Staffed</p> <p><b>Establish Division HQ</b></p> <p>◆ Senior Team in Place</p> <p>◆ HQ Operational</p> <p><b>Establish Operating Division Advocate Office</b></p> <p>◆ Senior Team in Place</p> <p>◆ OD Advocate Office Fully Operational</p> <p><b>Establish Area Offices</b></p> <p>◆ Area Advocates in Place</p> <p>◆ Local Advocates in Place</p> <p><b>Establish Local / Service Center Offices</b></p> <p>◆ Associate and Senior Associate Advocates Identified</p> <p>◆ Staff Reports to TA</p> <p>◆ Workload Assigned Based on New Org</p> <p>◆ Inventory Completely Realigned</p>															

# *Shared Services*

## **Customer Characteristics**

The Agency-Wide Shared Services (AWSS) Operating Division serves over 98,000 IRS employees directly and all taxpayers indirectly. The employees served are located in over 700 different locations across the country, from service centers where thousands work to one-person posts-of-duty. AWSS provides administrative services, such as agency-wide procurement, printing and publication of internal and taxpayer forms and documents, design and execution of space moves, processing of vacancy and promotional application packages, support to management and the National Treasury Employees Union (NTEU) during grievance processes and ensuring that each IRS employee receives a timely paycheck each pay period.

## **Goals, Principles and Objectives**

The AWSS vision for the future involves supporting the operating divisions in providing world class service to America's taxpayers. This will be done by providing world class customer service to IRS employees. While we work toward our future vision, our short-term priority is to provide all of the support required for the transition to the new operating divisions while continuing to meet the day-to-day operational business needs.

In addition, balanced measures of performance will be used, for customers and employees, to measure AWSS performance. Open and honest communication with our customers and employees is essential to ensure our commitment to continual improvement. Finally, we must ensure that the integrity of the AWSS organization, as well as its employees, is beyond reproach.

The guiding principles of AWSS focus on providing best-in-class products and services using a business enterprise model. Under this model, AWSS will strive to become the provider of choice for administrative services, offering services that our customers value and charging for each service, identifying and deploying best practices quickly and providing an environment where work is rewarding and employee satisfaction is high.

# Business Enterprise Model

Table 1 illustrates the new AWSS business model which has several key elements.

**Table 1**

## Key Elements of the AWSS Business Model

ELEMENT	DESCRIPTION/PURPOSE
Portfolio of Services	<ul style="list-style-type: none"><li>• A standardized definition of each service offered will establish clear expectations for service delivery with the customer</li><li>• Establishes the "product" mentality within Support Services that all products will improve and advance</li><li>• Represents groupings of like services to create synergies</li></ul>
Service Level Agreements	<ul style="list-style-type: none"><li>• Establishes clear expectations with customers on the quantity, quality, location and price of services to be provided</li><li>• Forms a plan that can be managed by both parties</li><li>• Establishes accountability</li></ul>
Charge-back	<ul style="list-style-type: none"><li>• Places the purchase decision in the customer's hand</li><li>• Establishes price clarity and creates incentives for demand management by customers</li></ul>
Governance	<ul style="list-style-type: none"><li>• Establishes strong linkages to operating divisions at various levels</li><li>• Enables services to be planned and developed with customer feedback</li></ul>
Customer Relationship Management	<ul style="list-style-type: none"><li>• Provides operational linkage with customer base</li><li>• Creates an advocate for the customer</li><li>• Enables cross-functional coordination when necessary—builds a team approach</li></ul>





While all of these elements are important, two (Service Level Agreements and Governance) are of primary importance to customer engagement and satisfaction.

## Service Level Agreements

Service Level Agreements (SLAs) will improve customer satisfaction by clearly establishing the expectations of both the customer and the service provider and by providing a mechanism for ensuring accountability. Figure 1 illustrates the general purpose of these SLAs.

**Figure 1**

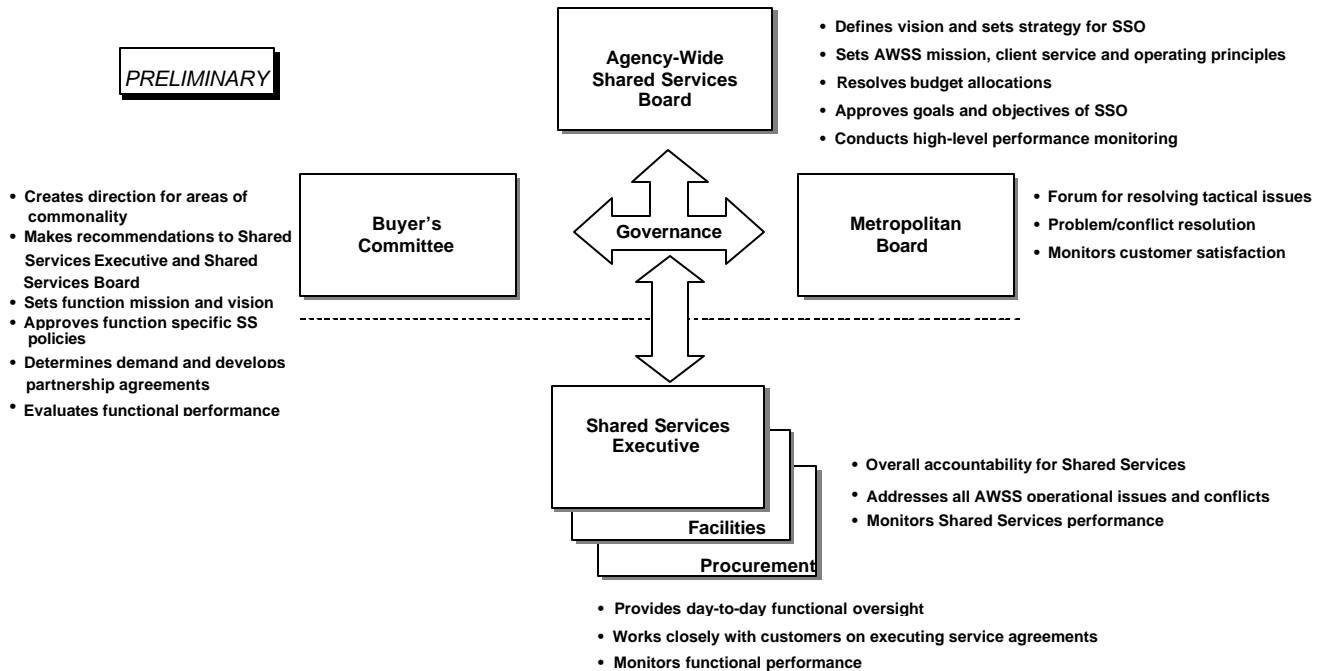
### **Purpose, Elements and Principles of SLAs**

PURPOSE	ELEMENTS	PRINCIPLES
<ul style="list-style-type: none"> <li>Establish dialog between AWSS and clients</li> </ul>	 Services and Levels	<input checked="" type="checkbox"/> SIMPLE <ul style="list-style-type: none"> <li>1-2 page base agreement</li> <li>Addenda as necessary</li> </ul>
<ul style="list-style-type: none"> <li>Identify services to be provided at agreed levels and costs</li> </ul>	 Service Costs	<input checked="" type="checkbox"/> CLEAR <ul style="list-style-type: none"> <li>Not bureaucratic</li> <li>Avoid jargon</li> </ul>
<ul style="list-style-type: none"> <li>Align direction with objectives</li> </ul>	 Expectations, Priorities & Improvement Plans	<input checked="" type="checkbox"/> COMMUNICATED <ul style="list-style-type: none"> <li>To AWSS and client</li> <li>To senior management</li> </ul>
<ul style="list-style-type: none"> <li>Build foundation for successful partnership</li> </ul>	 Performance Measures and Targets	<input checked="" type="checkbox"/> MONITORED <ul style="list-style-type: none"> <li>Progress tracked and reported</li> </ul> <input checked="" type="checkbox"/> ALL COSTS <ul style="list-style-type: none"> <li>All costs should be charged to a client</li> </ul>

## Governance

In order to create a market-based partnership between the operating divisions and service providers, AWSS will operate in a governance system. The **proposed** governance system provides strategic and tactical linkages to our customers. The AWSS Governance Board and the metropolitan councils will enable the operating divisions' top management team to work in concert with the AWSS leadership team to determine AWSS strategy and policies for delivering the support services and products necessary to accomplish the IRS mission.

**Figure 2**  
**Governance System**



## AWSS Organization Structure

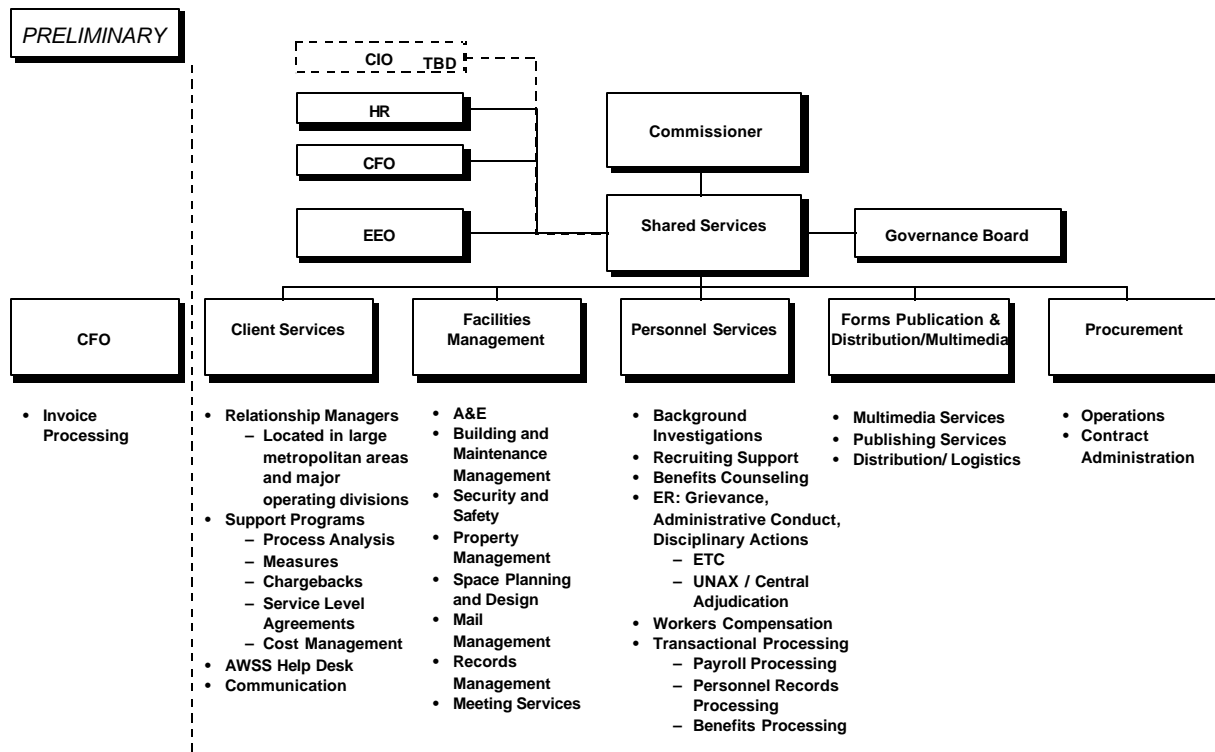
### Organizational Alignment

The Design Team believes that the best way to implement this business enterprise model is through a functional organizational alignment. The functional alignment of AWSS provides clear lines of authority, focuses on improving program delivery, enables accurate cost management and provides customer focus and accountability. A client services capability has been established to provide a focal point for handling client issues and resolving problems.

Figure 3 illustrates how the proposed new AWSS organization is aligned along four major functional lines, combined with the client services capability.

Figure 3

### AWSS Organization Structure



Note: (1) Invoice Processing will report to the CFO as a shared service until the SSE organization is stabilized, then it will move to the SSE

(2) Shared Services will have a business unit structure that will require its own support structure (e.g., Finance, HR, Accounting)

Each of the functional service groups will be organized to meet customer needs and enable efficient and effective service delivery. Generally, Facilities Management and Personnel Services will be functionally aligned and geographically distributed. However, there are some components that will be functionally aligned but centralized, such as Architect and Engineering, Worker's Compensation, Background Investigations, Employee Tax Cases, and Wage and Garnishments. Forms Publication and Distribution/Multimedia will be responsible for the layout, publishing and distribution of internal and tax forms. Forms Publication and Distribution/Multimedia, as well as Procurement, will generally be functionally aligned and centralized.

## **Organizational Footprint**

Currently, Support Services staffing exceeds 5,400 FTEs. The structure of the AWSS organization will require realignment of the FTEs in several ways:

- ◆ Reductions in staffing due to components of Personnel and Education being realigned to the National Office staff or being embedded in the operating divisions (Labor Relations Oversight, Policy and National Negotiations; Strategic Recruiting, Education; Career Counseling and Organizational Development; and Centralized Position Management and Position Classification);
- ◆ Reductions in staffing due to Information System Appropriation Funding to the Information Systems organization;
- ◆ Additions in staffing due to Meeting Services being moved from Education to Facilities;
- ◆ Additions in staffing, in the long term, due to moving Procurement and Forms Publication and Distribution to AWSS.

Frontline and first-level manager positions will remain relatively unchanged. The vast majority of employees moving into AWSS will continue to perform similar jobs in their existing locations. Minimal disruption will support our goal of ensuring that all current and transition business needs are met.

The proposed Shared Services organization deployment will build upon the existing structure with modifications to deploy the Client Services organization, eliminate the existing national, regional and host site structures and build in span-of-control improvements at the branch chief level. Span-of-control considerations, as well as the reduced number of Personnel Services positions, leads to the recommendation of three operations managers in Facilities Management, two operations managers in Personnel Services and one operations manager to oversee Transactional Processing Centers (part of the Personnel Services function).

The recommendation for establishing operations managers is based upon the following evaluation criteria: 1) placement in cities having operating division area managers; 2) placement in cities having the heaviest Support Services workloads; 3) maintaining a level of geographical dispersion; 4) placing a higher priority on the need for operations managers to be closer to field components rather than the AWSS headquarters; and 5) placement in cities with major airline hubs, due to the travel involved.

The **proposed** locations for the operations managers are as follows:

- ◆ Facilities Management: Dallas, Oakland/San Francisco and Philadelphia;
- ◆ Personnel Services: Atlanta, Oakland/San Francisco and Washington, DC.

On the first day of the newly-implemented AWSS organization (expected to be October 1, 1999), the current level of branch managers will be maintained to support the current organization through transition. After the transition, and as positions become vacant through attrition, branch chief positions will be reduced and span-of-control increased in Personnel Services and Facilities.

Using a similar set of criteria as employed with the operations managers locations, the following locations are **proposed** for “end-state” branch positions.

- ◆ Facilities Management: The current service center sites (Atlanta, Philadelphia, Ogden, Cincinnati, Memphis, Fresno, Austin, Kansas City, Brookhaven and Andover) plus Washington, DC, New Carrollton, Dallas, Oakland/San Francisco and Manhattan.
- ◆ Personnel Services: The current service center sites (Atlanta, Philadelphia, Ogden, Cincinnati, Memphis, Fresno, Austin, Kansas City, Brookhaven and Andover) plus Washington, DC, and New Carrollton.

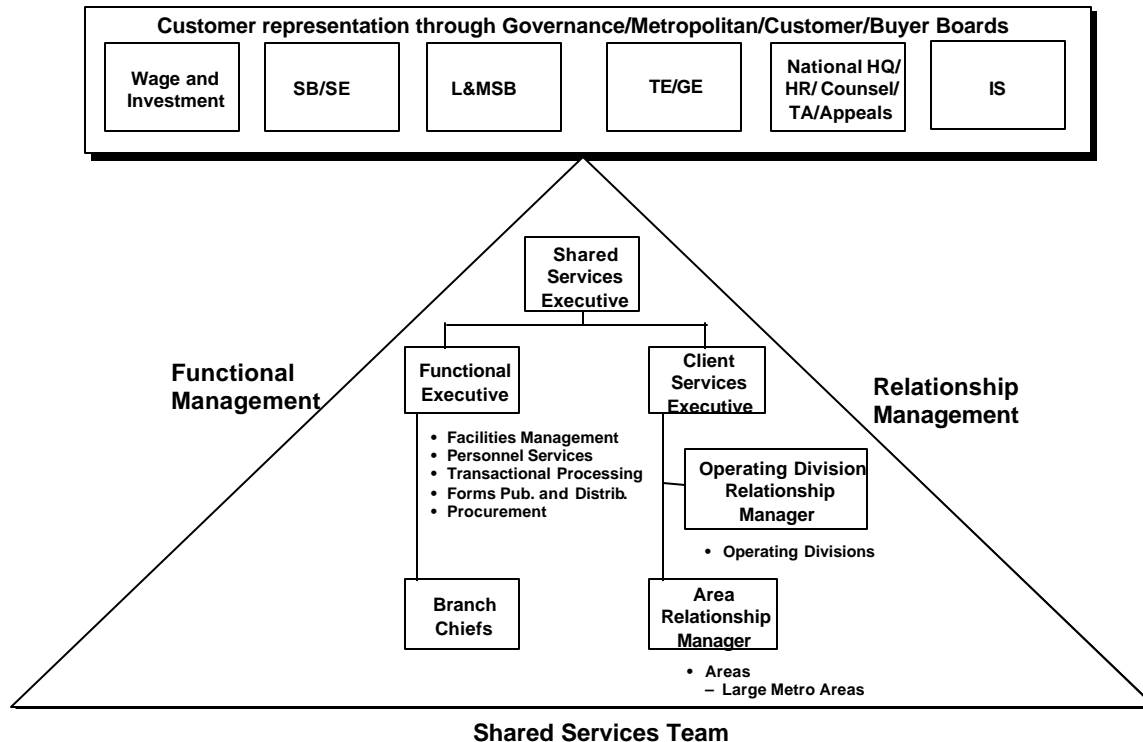
The proposed AWSS deployment aligns very tightly with the operating division structures. This provides support for implementation of the new operating divisions while minimizing realignments caused by the elimination of support to the regional and district structures.



A Client Services organization was designed to provide a focal point for customers, manage cross-functional projects and handle problem/issue resolution. Client Services managers will work with functional service providers to reinforce customer focus and service delivery improvement.

**Figure 4**

### **Integrated Customer Management Approach**



A Client Services team will consist of a Client Services manager, analyst(s) and administrative support. A team will be assigned to provide dedicated service to each of the large operating divisions (Wage and Investment, SB/SE, Large & Mid-Size Business and Information Systems). A Client Services team will also be assigned to provide support to the group of smaller operating divisions. Each service center will have a co-located Client Services team, and each metropolitan area will also have a team working with all of the operating divisions located in that area. Client Services representation will be available to service all business locations throughout the country.

The location of operating division (OD) headquarters offices was the driver for placement of our operating division specific Client Services staff. **Recommended** OD Client Services locations:

- ◆ Atlanta (Wage & Investment)
- ◆ New Carrollton (Small Business and Self-Employed)
- ◆ New Carrollton (Information Systems)
- ◆ To be determined (Large & Mid-Size Business)
- ◆ Washington, DC (Counsel, Appeals, Tax Exempt & Government Entities, Taxpayer Advocate and National Headquarters)

The placement of the metropolitan area Client Services organization was driven by three major factors. The primary consideration for the placement recommendation was the location of the largest operating division area offices. The other factors were complexity of work and client population in the service area. **Recommended** metropolitan area Client Services locations:

- ◆ Andover/Boston, MA
- ◆ Atlanta, GA
- ◆ Austin, TX
- ◆ Baltimore, MD
- ◆ Chicago, IL
- ◆ Cincinnati, OH/Covington, KY
- ◆ Dallas, TX
- ◆ Denver, CO
- ◆ Detroit, MI
- ◆ Fresno, CA
- ◆ Brookhaven, NY
- ◆ Jacksonville, FL
- ◆ Kansas City, MO
- ◆ Los Angeles, CA
- ◆ Manhattan, NY
- ◆ Memphis, TN
- ◆ New Carrollton, MD
- ◆ Ogden, UT
- ◆ Philadelphia, PA
- ◆ San Francisco/Oakland, CA
- ◆ Seattle, WA
- ◆ St. Louis, MO
- ◆ Washington, DC

Another proposal of the Client Services organization is the establishment of an AWSS Client Services Support Center (help desk). It will enable easier access to services, improve accountability and allow continuous improvement of service delivery. This Support Center would provide a single point of contact, handle routine informational and service requests and enable service providers to focus on delivering efficient services. The Support Center design will assist AWSS in meeting current organizational and future customer needs in the following ways:

- ◆ Address customer needs
  - Provide a single point of contact for services provided by AWSS
  - Eliminate need for multiple contact points to access service
  - Enable access procedures to be independent of the location of the customers
  - Improve knowledge of who to contact to resolve issues
  - Improve consistency of service delivery
  - Improve accountability by implementing service request tracking process
- ◆ Assist providers in improving service delivery
  - Track service requests consistently by implementing request tracking process
  - Improve customer service knowledge base by centralizing and pooling resources
  - Enable early detection and resolution of service issues by tracking and analyzing source and nature of service calls
  - Track service requests to enable chargeback based on usage
- ◆ Address operating divisions' transition needs
  - Provide efficient handling of anticipated increase in demand for AWSS services by providing a location independent contact point for AWSS services during transition

## **New Business Scenario**

### **Shared Services Simplifies Hiring Process**

I'm JoAnn, the Small Business Area Office Executive in Dallas. I just finished a large recruiting project with Shared Services, the new support arm of the IRS that replaced Support Services. Two months ago, I was notified that I could fill 50 compliance positions in my area. I used to have to juggle separate contacts with specialists in Personnel, Facilities and Education Branches to ensure that hiring went smoothly. In the new Shared Services, I had a single point of contact, just like the customer of a business. I was surprised at how easy the process was and how Shared Services focused on my needs. Here's how it went...

Susan was my Client Services manager from Shared Services in Dallas and my contact for all Shared Services issues. She explained that I'd get my desired level of service through a Client Services Agreement, previously established between executives from Shared Services and Small Business, which spelled out how much service would be provided at a given cost. We estimated my needs and completed a preliminary workplan.

Under the plan, Small Business Strategic Human Resources developed an external recruitment strategy to attract high-quality candidates, including visits to colleges, designing ads and targeting organizations. The Personnel Services Branch of Shared Services qualified the external applicants and assisted in establishing a selection certificate. They handled the internal announcement process. Susan coordinated with the Facilities Management Branch and Information Systems to ensure adequate space, infrastructure and computers. She also monitored our Client Services Agreement.

Personnel Services really hit a home run when they announced the positions on the IRS website. We received over 100 applications! After Personnel Services completed qualifications of the external candidates, our managers worked closely with them to create a selection certificate. While this was going on, Personnel Services announced the position internally (we got another great response), and reviewed the applications to verify that applicants were qualified. Susan kept me apprised of the progress, telling me that we were two days ahead of schedule.

I designated a frontline manager as the ranking official and Susan arranged informal refresher training from Personnel Services on the ranking process (which led to an early completion). Now we were ready to conduct interviews. With the assistance of my Small Business Human Resources staff, I created the interview panel from managers in the Dallas area. When interviews were completed, I made my 50 selections. After our operating division managers made the informal notification to the candidates, I returned the package to Susan and advised her of the desired reporting date. She sent the package to Personnel Services so that they could make formal offers to the candidates, tell them of their reporting dates and let them know where they would be assigned. Facilities Branch was already working to ensure space was available by the reporting date.

When the new employees reported, Susan arranged for staff from Personnel Services to meet them. The external hires would require help understanding their benefits options and completing paperwork. The current IRS employees might have questions about their current level of benefits and other matters, too.

**Key Points:**

**Client Services manager is single point of contact**

**Client Service Agreements clearly articulate service levels, costs and joint expectations**

**Executives are able to focus more attention on business operations and hiring strategies and less attention on recruitment process and procedures**

*Note: All taxpayers, businesses, IRS staff members and tax situations contained in this scenario are imaginary.*

## **Implementation Timing**

The AWSS implementation must be staged in such a way to ensure that the operating divisions' transition needs are met while we continue to support day-to-day operational business needs. The initial steps needed to move towards the AWSS structure will begin during the summer of 1999. They include hiring a Shared Services executive and realigning the Directors of Support Services and the Host Site Chiefs reporting structure to this executive. A detailed migration plan is being developed that will outline the specific AWSS implementation steps and targeted timeframes.

# *Strategic Human Resources*

## **Roles and Responsibilities**

The Strategic Human Resources organization will set the policies and focus on agency-wide people issues. These issues include instilling core values, leadership and employee development; promoting partnership; and ensuring a positive work environment.

This new organization will better enable the IRS workforce to perform at its full potential in an environment that supports high performance.

Strategic Human Resources is not an organization in the traditional sense. Strategic Human Resources will be composed of a group of experts in certain Human Resources (HR) fields whose collective role is to set the overall agency strategy for human resources, set HR policy and design HR systems that can work effectively within and across the operating divisions.

There are four main elements necessary to create a Strategic Human Resources capability: 1) new and enhanced processes, 2) new competencies of our Human Resources professionals, 3) enabling technologies and systems and 4) a supporting organization structure. These elements are guided by an overarching philosophy on attracting, retaining and developing employees.

## **Goals, Principles and Objectives**

The mission of the Strategic Human Resources function is to develop a talented, highly-skilled workforce that is equipped and committed to providing world class service to taxpayers and meeting our overall mission. Underlying this mission is a continuing commitment to the ideals of Equal Employment Opportunity, Diversity and Partnership.

Although the current approach to Human Resources does encompass several of the ideas for the new organization, there is not a cohesive strategy present. Without such a strategy, the ideas are not linked in the way they need to be in order to retain and develop our talent.

Human Resources activities have been aligned to the National Office or the operating divisions, depending on the nature of the activity. National Office HR will be responsible for activities critical to the agency vision and strategy. National Office will also handle HR activities that help build organizational capabilities, manage risk, define performance measures and maintain core values.

# Organization

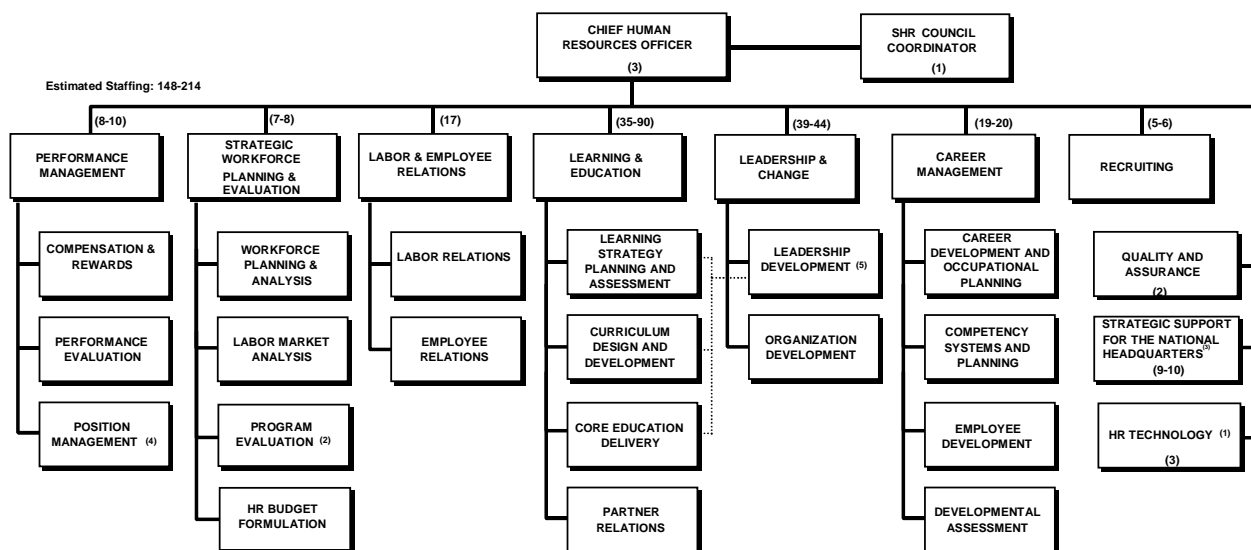
## **Eight groups will align HR responsibilities to business priorities**

Eight key areas exist within HR to effectively manage human resources needs for each operating division. The following is a description of the eight groups and their major roles.

- ◆ *Career Management* will design assessment methods and competency models. This group will also oversee employee development programs across the Service and enhance career paths according to Servicewide objectives.
- ◆ *Leadership and Change* will design the leadership development system, coordinate executive selection and assist in formulating an organization development framework.
- ◆ *Education and Learning* will develop a core curriculum to help build a commitment to learning and education throughout the Service.
- ◆ *Recruiting* will lead executive recruitment and develop agency-wide recruiting guidelines.
- ◆ *Labor and Employee Relations* will set the spirit of partnership by defining, promoting and monitoring partnership principles and guidelines.
- ◆ *Workforce Planning and Evaluation* will lead agency-wide analysis of workforce imbalances, supply and demand. They will also develop an HR budget.
- ◆ *Performance Management* will lead the development of performance evaluation, compensation and reward systems. They will ensure that the operating divisions adhere to set standards.
- ◆ *HR Technologies* will develop technology strategies including standards and policies around performance support and integrated HR systems.

**Figure 1**

## STEADY STATE CORE STRATEGIC HUMAN RESOURCES ORGANIZATION



### A mirror structure exists in the operating divisions

A mirror structure in the National Headquarters and operating division headquarters will ensure that strategic HR capabilities are aligned with both the goals of the agency and the needs of the business. A structure similar to core HR will be embedded in each operating division to customize HR programs and processes to satisfy each division's unique needs. While the National Office HR would be responsible for HR functions relating to the agency as a whole, operating division HR would be able to create specific career paths for predominant occupations and provide job-specific career counseling.

The operating division HR blueprint will be formulated according to need, but based on a generic template. For example, the Small Business/Self-Employed Operating Division -- with its approximate 40,000 employees -- will have a strong need for strategic labor relations. Operating division HR would receive guidance from National Office HR. Functional leadership and broad direction will come from Core Strategic HR, while the operating divisions will be accountable for meeting their own strategic HR objectives.

### Strategic HR Council will be a guiding force

A separate component of the Strategic HR network is the Strategic HR Council. This Council is the mechanism that will provide governance, assurance and functional leadership. It will address agency-wide people issues and ensure that agency-wide

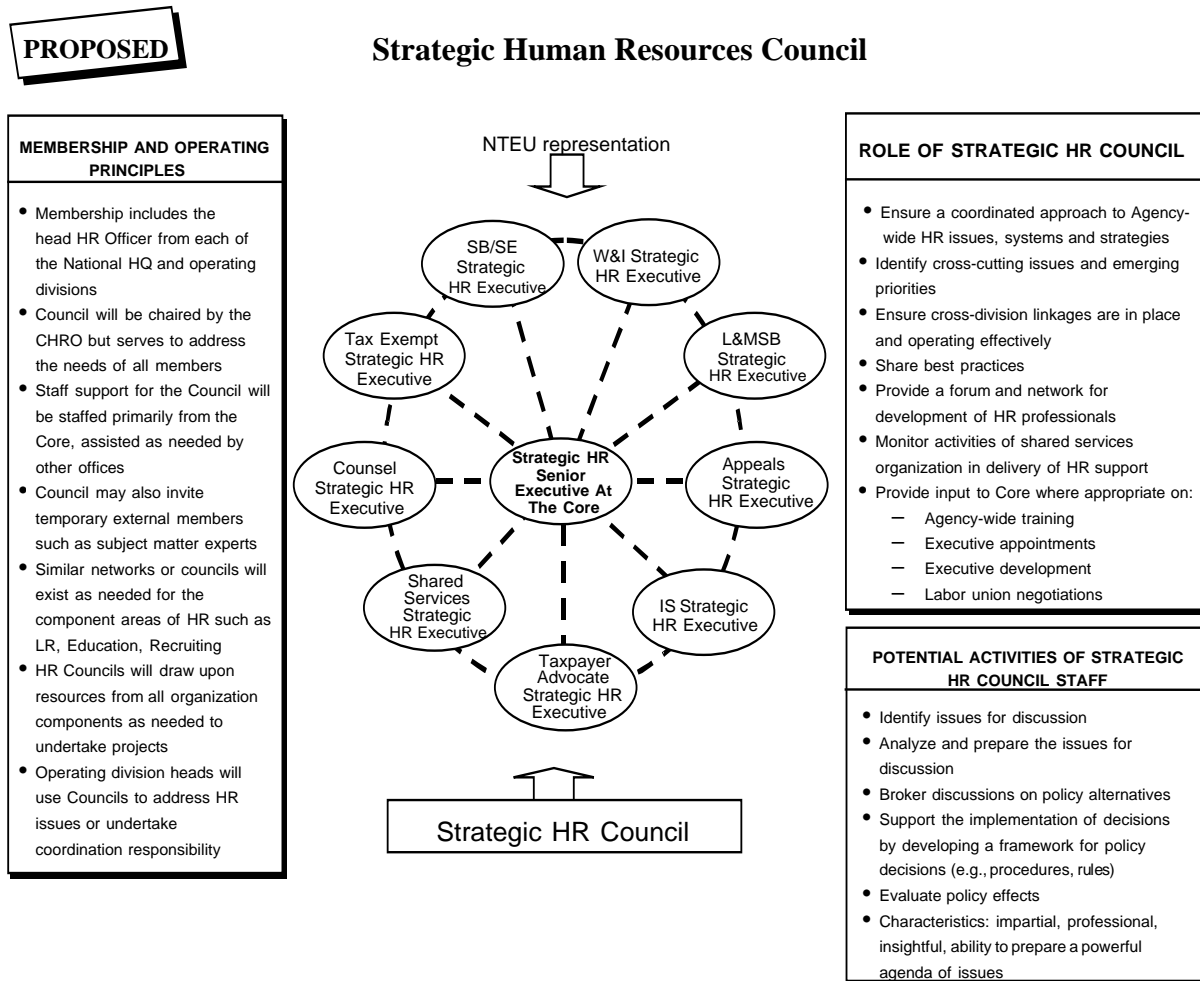


decisions do not adversely impact any facet of the organization. It will also ensure that issues crossing division lines are coordinated. The Council will be a forum and network for development of HR professionals and will provide feedback to the Core. It will also monitor the activities of the Shared Services organization in delivering HR support.

The Council will comprise the Chief Human Resources Officer – who will serve as the Chair -- and the senior HR officer from each operating division and functional division. NTEU will also participate on the Council. The Council may also include temporary external members, such as subject matter experts, and will draw upon resources from throughout the organization as needed.

The Council is seen as an impartial, professional and insightful entity that can assume several potential duties. It can identify and analyze issues for discussion, evaluate policy effects and support the implementation of decisions.

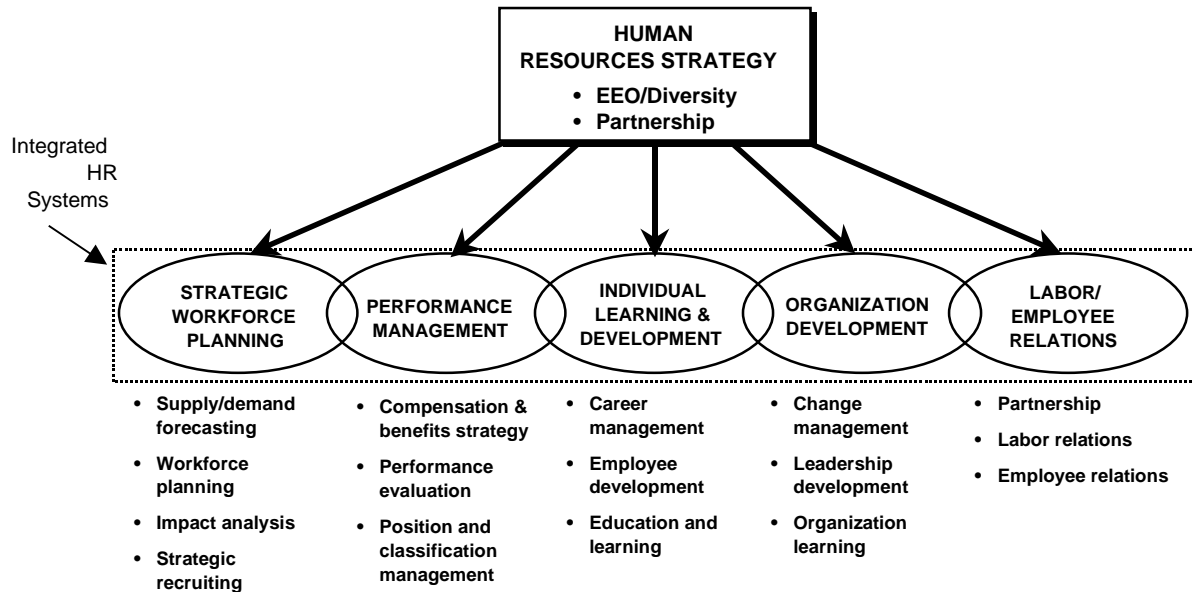
**Figure 2**



## Five systems will provide framework for Strategic HR

The Strategic Human Resources organization is based on a framework of five critical people systems. These systems are Strategic Workforce Planning, Performance Management, Individual Learning and Development, Organization Development and Labor/Employee Relations.

Figure 3



- ◆ The *Strategic Workforce Planning* system will complete supply and demand forecasting, including researching labor market analysis and IRS people requirements. It will also develop recruitment requirements and strategies and conduct impact analysis.
- ◆ The *Performance Management* system will be responsible for management of the agency grade structure and development of evaluation tools and quality assurance measures. This system will also formulate compensation and benefits strategies.
- ◆ The *Individual Learning and Development* system will focus on career path development, staffing policies and identification of training needs. It will have the ability to identify and implement training techniques and establish a curriculum.
- ◆ The *Organization Development* system will be involved in implementation of leadership education and development programs. It will also be active in change management and effectiveness intervention.

- ◆ *The Labor/Employee Relations* system will negotiate contracts that have multi-unit impact and that affect workplace relations. This system will also develop and implement a strategy to promote a good working environment.

These five systems work together to achieve two major purposes. First, they will provide support for an employee's entire career, and second, they will generate valuable feedback to the organization so it can grow with the needs of its employees.

## **New Business Scenario**

### **Streamlined Employee Education Gives Managers Greater Flexibility And Accountability**

In the modernized IRS, a streamlined education structure places operating division-specific training closer to the customer. I'm Pete, an IRS manager who is benefiting from this change. As the Wage and Investment (W&I) processing executive for the Fresno Service Center, I manage approximately 300 full-time and 700 seasonal employees who process tax forms filed by individual wage earners without Small Business or Self-Employed (SB/SE) income.

The new balanced performance management system holds me accountable for the training and development of my employees. I also have greater flexibility. Because W&I has its own strategic human resources group and training budget, it is easier to ensure that my employees have the skills and capabilities needed to perform their jobs effectively.

I develop my training plans with Jan, our Learning and Education Manager who works exclusively with W&I. Jan is co-located in the same area with her customers in the service center, but also works closely with her colleagues in the Customer Account Services (CAS) headquarters who lead the design of special training for the W&I service centers.

Each fiscal year, Jan and I discuss our service center training needs, based on our business plan and the individual and collective development needs of service center employees. We then establish an education plan, forecast changes and make projections for the support we'll require from Shared Services for facilities, materials, etc. Jan designs a strategy to meet our requirements with considerations for the objectives of the operating division and agency. Jan's staff works closely with Fresno's client services manager for Shared Services. Since modernization, Shared Services handles the management of training facilities and materials, audiovisual and video teleconferencing services and equipment support.

I now spend more time improving operations and delivering better service to customers while building the skills and competencies of my employees. With the help of our training professionals, I can support employees in achieving their own personal development objectives and at the same time support the training needs of the IRS.

**Key Points:**

**Managers have more flexibility and greater accountability for the training and development of their employees**

**A dedicated strategic human resources group ensures that employees have the necessary skills to perform their jobs**

**Operating divisions control their own training budgets**

*Note: All taxpayers, businesses, IRS staff members and tax situations contained in this scenario are imaginary.*

## **Implementation Timing**

To fully support the modernized IRS, the Chief Human Resources Organization will be fully in place by the end of fiscal year 1999. In addition, during calendar year 1999 and 2000, we anticipate piloting new Human Resources processes. For example, new capabilities in areas such as Workforce Planning and Human Resources technology will be developed for use by a small group of selected individuals to use in determining what capabilities for all employees are necessary in the new organization. During the transition, the Human Resources organization will support the operating divisions in the areas of personnel policies, career management advice, career counseling and support and change management.

# *Information Systems*

## Technology: A Key Resource

IRS employees depend on the IRS computer systems every day to do their jobs. Over 70,000 of those employees use those systems to deliver direct service to taxpayers. IRS' current technology inventory is very large and diverse. It includes 84 mainframe computers from four different vendors, 1,500 mid-range computers from 23 vendors and over 100,000 individual personal computers. In addition, these systems run over 18,000 vendor-supplied software products and 50 million lines of IRS-maintained computer code. There are three major wide area data networks and 1,182 local area networks. The IRS voice network processes 143 million phone calls each year.

Many of the applications that run on these systems were created to meet the needs of specific operational units, such as Collection, Customer Service or Examination. The large and extremely fragmented nature of the IRS technology inventory creates many problems, including high costs, long timelines to implement changes and improvements, and difficult control and security issues.

The current technology configuration also relies upon a tape-based Master File system to hold all taxpayer account data. This system feeds many other operational systems and causes a week or longer delay in placing current information on systems used by IRS customer service representatives. The current configuration poses a fundamental barrier to quick, efficient customer service and creates a serious risk to IRS in achieving its strategic goals.

Over the next several years, the IRS will work toward solutions to technology barriers. Several short-term customer service improvements are planned, but real leaps in the IRS' ability to provide top quality service will depend on transitioning the current Master File to a modern database.

## **Enabling IRS Employees to Better Serve Customers**

IRS employees have been working in spite of the current systems for years. In addition to problems with IRS technology, the decentralized nature of the Information Systems (IS) organization has created uneven IS support and services throughout the IRS. IRS employees served by the IS organization recognize technology as an important factor in their ability to deliver quality customer service.

In interviews with employees, they identified several frustrations they have with the current level of IS service. They reported inconsistent service levels and support, difficult help-desk procedures and, most importantly, multiple points of contact to acquire IS services, which leads to duplicate IS personnel embedded in operations functions. In addition, during focus groups with the Commissioner, employees identified the tools they use every day – computers, batch printers and the like – among the barriers they face in providing quality service to taxpayers.

To resolve the concerns and frustrations of IRS employees, the IS organization is improving its organizational structure and creating a more responsive organization that can handle customer requests as well as manage a large technology modernization program. For example, IS is creating executive-level positions for each of the new operating divisions. These IS executives will manage program planning with the responsibility of planning information systems improvements required to support each operating division strategy. Over the next several years, IS will also transition to a shared service structure that will put in place a market-based approach to delivering IS support and services and tailor services to the unique needs of the operating divisions. IS is also implementing a single, virtual help desk to increase efficiency and improve responsiveness to customers.

To fully realize these benefits for IS customers, IS is taking several steps. First, IS has begun to implement a new organization structure. This will continue for the next year or so until service levels throughout the IRS are standardized and centralization of IS resources is complete. To ensure standard services, IS will also be improving computer desktops.

The biggest challenge in standardizing service and implementing a new organization structure is timing. These steps must happen at the same time the IRS is undertaking one of the largest systems modernization efforts in any private or public sector organization. The close alignment of the Chief Information Officer (CIO) Office with the Director of Strategic Planning will ensure organizational improvements stay on track.

## **Goals, Principles and Objectives**

To guide the implementation of a new organization structure, Information Systems has developed specific goals and principles in line with the high-level goals of the Service. IS has also developed transformation strategies that will allow the organization to achieve its goals. These high-level goals and strategies follow.

**Figure 1**

**Information Systems Mission:** A team of professionals, customer focused, who provide quality information systems to deliver the business vision of the IRS.

**Leadership Principles:**

- Communicate openly and honestly
- Understand the business
- Keep an open mind
- Cultivate enthusiasm with staff
- Foster learning
- Value diversity

**Goals:**

Service to each IS customer

- Align with business units and improve customer relations
- Meet needs of filing season and support operational systems
- Support taxpayer service initiatives
- Deliver new services to address changing business needs
- Improve responsiveness to service requests
- Eliminate need for “shadow staffs”

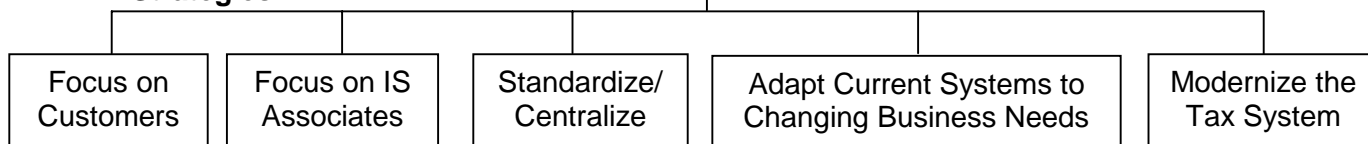
Service to IRS and its major stakeholders

- Deliver a modernized tax system
- Improve financial and administrative systems
- Ensure security and reliability of infrastructure
- Expand range of services through standardization
- Manage IS as a national resource
- Deliver seamless service through IT infrastructure enhancements

Productivity through a quality work environment

- Communicate strategic direction, objectives and priorities
- Provide motivational career paths and training opportunities for all IS employees
- Provide effective tools and methodology for all IS work
- Standardize to increase efficiency

**Strategies:**



The five transformation strategies will guide IS’ ongoing change effort. Listed below are each of the strategies with examples of key changes that IS is making to improve service to customers and ensure effective and efficient IS support throughout the IRS.

**Focus On Customers**

IS is planning a multi-year transition to a shared service structure designed to improve customer service and more effectively serve its internal customers. The shared service structure will include Service Level Agreements between IS and customers as well as performance metrics designed to improve customer service. IS will also establish five

Division Information Officer positions to increase emphasis on customer service. These individuals will be responsible for managing demand and coordinated service with their customers. A small staff of analysts will be assigned to each executive to focus on unique operating division needs.

### **Focus on IS Associates (Employees)**

IS will establish an IS Resource Management area to ensure IS associates receive the career development they need to succeed. This will include an embedded HR function. IS is using the term associates to refer to employees in the IS organization because the term identifies all IS employees as peers working to accomplish projects in a team environment.

### **Standardize and Centralize**

IS reporting lines have been centralized under the CIO to eliminate redundancy and maximize effectiveness of IS resources. Groups of non-IS employees performing key IS work, such as systems development, systems operations, network management, telecommunications and desktop support, will transition to IS before December 2000. As stated earlier, help desks across the IRS will be consolidated into a single, virtual help desk that provides a single point of contact for end-users. And IS will make additional investments in standard infrastructure and technology to respond to customer requests and increase support.

### **Adapt Current Systems to Changing Business Needs**

The Office of Strategic Planning will report directly to the CIO to increase emphasis on finding innovative solutions to customers' IS needs. This office will work with research organizations throughout the IRS to ensure IS is tied into evolving ideas.

### **Modernize the Tax System**

IS has established a program management and architecture area to manage business systems modernization. This office has been augmented by contractors from the Prime Alliance to ensure the IRS is managing technology modernization efforts on a "best practices" model.



## The New IS Operating Model

Over the next two to four years, the IS organization will move to a shared service operating model in which operating divisions determine their demand for IS services based on their overall operating strategy, and IS, through negotiation, supplies the necessary resources to meet this demand. This model requires centralized management of all IS resources.

At the beginning of FY 1999, IS began centralizing its resources. Prior to FY 1999, the CIO directed only 54% of IS staff and only 45% of the IS budget. Today, the CIO centrally manages 75% of IRS-wide IS staff and centrally directs 100% of the IS budget. IS will continue to centralize management of IS field operations and infrastructure management and standardize hardware and software. Over time, IS expects to significantly decrease its costs for operations and maintenance of older systems as they are retired or replaced and to redirect those resources to develop new systems.

One of the keys to achieving these results involves transitioning IS to a shared services structure. The shared services structure is built on a partnership between IS and the operating divisions. Below are highlights of a shared service structure and how it is different from current IS operations.

Today	Future/Shared Services
<ul style="list-style-type: none"><li>• “Free-goods” mentality, limited by available FTEs</li><li>• Limited, high-level channel for customer input</li><li>• Functional managers set strategy and direction</li><li>• Performance monitored against internal targets</li><li>• Services similar for all customers</li></ul>	<ul style="list-style-type: none"><li>• Market-based relationship between operating divisions and IS with client service agreements</li><li>• Operating processes include customer feedback, conflict resolution and prioritization of service delivery</li><li>• Shared Services Board prioritizes across operating divisions</li><li>• Performance monitored against internal targets and external benchmarks</li><li>• Services tailored to address unique operating division requirements where necessary</li></ul>

The shared service structure will also include several other characteristics designed to ensure that the quality, cost and timeliness of IS services are aligned with the needs of the operating divisions. These include:

- ◆ **Service Level Agreements** – Written agreements jointly developed by IS and business customers that include services provided, expectations and performance measures.
- ◆ **New Operating Processes** – New operating processes, including customer feedback, conflict resolution and prioritization of service delivery.

- ◆ **Benchmarks** – Internal and external benchmarks that measure cost, time and quality of IS services.
- ◆ **Measures and Rewards** – Quantitative and qualitative measures and incentives designed to ensure IS services meet the needs of customers.

## **Key Success Factors**

There are several key factors that must happen consistently for the IS organization to successfully transition to a shared service model:

- ◆ First, the shared service processes must be closely integrated with the day-to-day operations of the four operating divisions. IS must work closely with its customers to develop comprehensive service-level agreements so there are no misunderstandings on the information systems and services to be delivered. This includes a user-friendly, easy-to-understand chargeback system which allows each customer to be accountable for the IS services they use and a standard service-level agreement negotiation process used across the board.
- ◆ Second, transformation of the technology at the IRS is occurring in two dimensions – modernizing systems and adapting current systems to changing business needs. IS must identify clear divisions of responsibility and scope for these two tasks as well as identify interface points between the new and current systems.
- ◆ Third, IS must provide a wide knowledge base across the organization. This involves training software developers, testers, project managers and others in a standard set of systems integration, project management and implementation methodologies. It also involves providing IS managers with new management tools and IS associates with training on new and revised IS business processes.
- ◆ Fourth, in a shared services environment, IS must have consistent communication with its customers. IS executives must have specific communication responsibilities for communicating with customers and stakeholders, and all communications must be consistent and timely.

## **IS Role in the New Management Structure**

The CIO, along with a handful of other Chief Officers and the two Deputy Commissioners, is part of the Commissioner's top management team and advises the Commissioner on technology matters. In this capacity, the CIO manages all IRS technology resources and is responsible for delivering modernized technology systems throughout the IRS.

In addition, the CIO works closely with business operations executives to ensure delivery of quality information technology systems and services to each operating division. This balance between managing IS as a national resource and delivering specific services to unique taxpayer groups is at the heart of the new IS management role. The new IS organizational structure contains a mix of current and new offices with redesigned responsibilities to help manage this dual role.

### **Sample of New Offices Reporting to the CIO**

The Director, IS Strategic Planning and Client Services, develops IS strategic plans and links them to corporate strategies, ensures that IS performance measures are documented and consistently applied, and manages key milestones to track against high performance goals.

The Division Information Officers (DIO) mentioned earlier will be aligned and located with each of the new operating divisions. The DIOs will focus on service to the operating division heads to ensure they receive the technology services they need. In this role, the DIOs will act as technology brokers for their customers in attaining IS resources as well as help manage the demand for IS resources nationwide.

The Director, Field Operations, will manage IRS-wide, on-site desktop, telecommunications and network support. This office will ensure that IS help desks across the country are consolidated into a single, virtual help desk that provides a single point-of-contact for end-users. IS will also make additional investments in standard infrastructure to respond to customer requests and increase support. These actions, centralized under Field Operations, will ensure consistent, standard service across the agency.

The Director, IS Service Center Operations, supports the IS operations in service centers by providing consistent and reliable IS services to service center customers and providing strategic technical vision and leadership to service center operations management.

The Director, Telecom, will manage telecommunications services by planning, designing and deploying the technical network infrastructure. This work includes providing support to phone users, program administration for Internet service delivery, web-based applications for IRS operations, and design and deployment of a technical infrastructure to support expanded electronic interactions with taxpayers.

### **Sample of Existing Offices Reporting to the CIO**

The two Deputy Chief Information Officers will continue in their roles providing operational support, tools, methodology and systems software support, designing and developing IT applications and providing quality testing and systems integration services.

The Director of Security, Privacy and Evaluation will continue to guide and oversee security and privacy programs, manage systems security certifications, classify data to protect taxpayer information and ensure preparation of disaster recovery plans.

The Director, Program Management and Architecture, provides modernization program management discipline, manages contractors, including the Prime, participates in integrated project teams' and monitor teams' activities and oversees Core Business Systems modernization projects.

The Director, Information Resources Management, improves financial planning and budget execution, ensures technical training is available to IS customers, leads internal communication and marketing, and provides human resource services to the IS organization.

The Director, Product Assurance, works in partnership with current and future customers to provide quality testing and systems integration services. This office provides independent testing of both new developments and changes to current systems and identifies any deficiencies.

## **New Products and Business Processes to Support New IRS Organizational Structure**

The new products and business processes that will be implemented as a part of the new IS organizational structure are in direct response to issues and concerns raised by customers during interviews and group discussions. Some of the new products and processes are:

- ◆ **A single, virtual help desk** accessible through a single phone number will route calls through an IS customer service representative available 24 hours a day, seven days a week. Highly-skilled specialists will be able to resolve problems at any location through remote management tools. A target of 80% of all calls will be resolved on initial contact.
- ◆ **Standardized desktops** throughout the Service will make it easier for IRS employees to communicate with each other. IS associates will have specialized skills working with the standard software, rather than general knowledge of hundreds of software packages. More employees will have access to e-mail and will need only a single password to access everything they need to perform their day-to-day work.
- ◆ **Integrated Project Teams** will work on all business systems initiatives. These teams will be led and staffed by representatives from both IS and business operations. Each team must have a designated business owner and significant involvement from business staff. This will ensure that systems are built to deliver the right business results.

- ◆ **Executive-level IS customer contacts** (Division Information Officers) will be closely aligned with, and co-located with, operating division heads. Project requirements and schedules will be jointly developed by customers and IS and both customers and IS will assume the responsibility for delivering results.
- ◆ **A standard infrastructure** will establish more consistent service throughout the IRS and will lay the groundwork for secure electronic interactions with taxpayers, such as secure e-mail.
- ◆ **Improved call management** will give IRS the ability to transfer a caller to anyone or anyplace. This will result in better taxpayer access to IRS customer service representatives and a reduced number of taxpayer callbacks. Taxpayers will have self-service phone applications to request refund and fact-of-filing information.
- ◆ **Expanded electronic interaction** with taxpayers will include more options for taxpayers to file and pay electronically.
- ◆ **A modernized database management system** to streamline the entire tax processing systems, personnel management systems and financial systems.

One of the biggest challenges in modernizing IRS' technology will be to transform the systems that employees use in interacting with taxpayers. As referenced earlier, this includes transitioning our current tape-based Master File to a modern tax processing database – a task that will take many years. Some of the problems with the current system are:

1. IRS employees frequently have inconsistent and out-of-date data about a given taxpayer.
2. Many separate systems perform specialized work that creates great difficulty in changing the system as a whole.
3. The current system does not conform to accepted accounting standards.

The goal is to develop the same modern tools used by service representatives in large financial institutions. This includes computers that can convey full account information for taxpayers who call, update accounts on line, prompt users with questions to deal with specific situations and deliver instant reminders or updates to tax law on line. These are some of the best practices used by private sector companies that IRS can explore in the future.

# **New Business Scenario**

## **I/S Provides 24 Hour Help Desk Support**

Kendra, a manager in the Philadelphia Service Center, was working late one evening trying to install her new printer. She had connected the printer to her computer, but was not sure how to install the required printer drivers. While at lunch that day, she remembered hearing about a colleague's positive experience with the IRS I/S Help Desk. "Maybe the Help Desk can assist me with my problem," thought Kendra.

Kendra located the universal IRS I/S Help Desk telephone number and placed the call. Because she was calling around 8pm EST, several hours after the local branch of the Help Desk had closed, her call was automatically routed to the national Help Desk site—where Help Desk representatives are available twenty-four hours a day.

"Good evening. This is Tom at the IRS I/S Help Desk. How can I help you?" "I'm installing a new printer, but can't install the printer drivers," replied Kendra. "I can help you with that," Tom said, "if you don't mind, I'd like to verify your PC profile."

After verifying Kendra's user profile, Tom recorded information about her problem in the on-line Help Desk Log. He used the information that Kendra provided to look up solutions to her problem.

To ensure that Kendra correctly attached the printer to her computer, Tom asked her to fax the printer installation instructions to him. After verifying that the printer had been correctly attached, Tom used the new remote management system to help Kendra configure the new printer. Remote management software enables Help Desk employees to view the content of a user's screen and walk them through potential solutions—as the user watches. Kendra was able to follow Tom's cursor movements as he showed her how to install the correct printer driver, test the system and establish the printer as her default printer. Tom successfully answered a user question on first contact—something the Help Desk strives to achieve with at least 80% of all calls.

As Tom was navigating Kendra through the printer installation, he thought about the impact that technology standards have had on the IRS. Help Desk employees are able to diagnose and solve user problems more efficiently and effectively because they deal with standard hardware and software. Users benefit from standards because they receive improved Help Desk support and are assured that differences in technology won't prohibit information exchange.

"I'm glad I could be of assistance, Kendra. Please let me know if you have any problems with the printer. Is there anything else I can help you with?" asked Tom. "Well, with the installation of my new software there are some features in PowerPoint and Excel with which I am not familiar. Does I/S have an overview course?" Kendra asked. "Yes, we do! I will e-mail you the schedule," replied Tom. "Great! Thank you for your assistance--you've been very helpful."

**Key Points:**

**There will be one logical I/S Help Desk (geographically deployed) for the entire IRS, which users will be able to contact via a single telephone number**

**The Help Desk will route calls based on complexity. As calls are received, they will be screened so those callers with complex problems will be routed to areas within the help desk that specialize in solving complex, technical problems. This will ensure that callers with simpler requests are not delayed**

**Roughly 80% of all calls placed to the Help Desk will be resolved upon the initial contact**

**I/S has developed new courses geared to meet the needs of IRS employees operating in the standardized technology environment. Training will help users migrate from older technology to newer, standardized technology**

**The Help Desk is implementing new software tools that will enable them to support users more efficiently and effectively**

**Technology standards have been introduced to facilitate maintenance, improve user support and eliminate technology-based information exchange barriers**

*Note: All taxpayers, businesses, IRS staff members and tax situations contained in this scenario are imaginary.*

## **Geographic Footprint**

The IS organization will align geographically as necessary to support customer needs. At this time, we don't anticipate significant relocation of IS staff.

## **Implementation Timing**

In early 1999, Information Systems awarded a contract to modernize all IRS information systems.

During Fiscal Years 1999 and 2000, IS will establish a National Director of Deputy Information Officer of I/S Strategic Planning and Client Services, and 6 Division Information Officer (DIO) positions that will manage relationships with specific customer groups to increase its emphasis on customer service. A DIO will be assigned to each of the operating units, shared services and other areas of the IRS. IS will also negotiate initial service levels and begin the implementation of customer-focused

performance metrics designed to improve customer service. IRS will also establish the process by which IS and the operating divisions will govern the supply/demand for IS services and prioritize IS work.

From a staff perspective, Information Systems will continue its effort to centralize coordination of technical employees across the IRS. This initiative began in 1998 with the centralization of the Regional Directors of Information Systems and Service Center Information Systems employees. Additional groups of non-IS employees performing IS work will transition to IS before December 2000. The goal of this integration of employees is to create a cohesive group of IS staff that can deliver improved service to customers and eliminate the need for “shadow staff” without incurring moving expenses.

Between Fiscal Years 2000 and 2001, IS help desks across the IRS will be consolidated into a virtual help desk contacted through a single telephone number – providing a single point of contact for end-users. Other initiatives during this time include movement toward a standardized infrastructure, centralized management of computer desktops Servicewide and implementing service level agreements with the operating divisions.



# *National Headquarters*

## **Roles and Responsibilities**

The National Headquarters of the modernized IRS will be very different from the National Office of today. The future Headquarters will be one that is primarily focused on agency-wide strategic direction, capital allocation and external involvement. It will focus on activities that add value where the operating divisions and other business units cannot. Therefore National Headquarters will not be involved in day-to-day operations. The operating divisions are much closer to their customers and their needs. In order to promote end-to-end accountability, the operating divisions will now be responsible for designing, developing and implementing their own programs and procedures. By eliminating National Headquarters responsibility for these activities, the design and implementation of programs comes much closer together, management layers can be reduced and decision-making can occur faster. The end result will be the migration of operational activity, including National Office Operations, support services and Information Systems, out of the IRS Headquarters.

National Headquarters will therefore comprise Management and Finance (including Research, Statistics of Income, Evaluation and Risk Analysis, CFO, Complaint Processing and Strategic HR), Communications and Liaison (including FedState, Disclosure, External and Internal Communications, Public Liaison and Information Reporting Program Advisory Committee [IRPAC] and Legislative Affairs), EEO and Diversity. Most of these functions will have strong links to the operating divisions. For example, the CFO area will continue to consolidate the agency-wide budget and submit it externally, but the budgets will be developed from within each of the new operating divisions and organizational areas. Overall, given the agency-wide impact and/or links to key national external stakeholders, these functions can best be performed from outside of the operating divisions and within the National Headquarters. Figure 1 illustrates this high-level organization structure.

The IRS will continue to have many functions and activities that will not be performed in National Headquarters but which cross operating divisions. Where consistency or coordination is required to manage these activities, cross-unit linkages will be developed. The type of linkage will depend on the nature of the coordination but may include councils or professional networks.

## **Goals, Principles and Objectives**

Over the last year, a group of IRS managers and employees joined together to develop an organization structure for the National Headquarters that will best serve the needs of the agency and outside stakeholders. Numerous stakeholder groups and other IRS executives, managers and employees provided input that was critical to developing a structure which could better serve customer needs in light of the new operating division structure. The team also used criteria to analyze its recommendations for what work would be done in the new headquarters: Service to

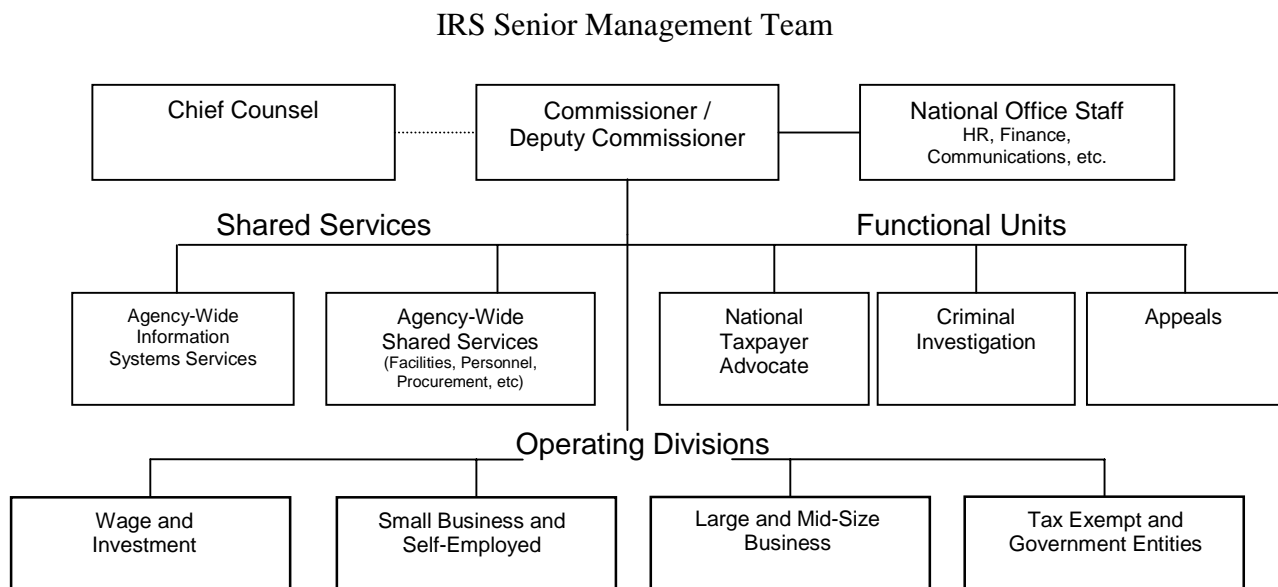
internal and external stakeholders, Accountability where operating divisions have the full suite of tools needed to serve their customer segment and other departments have complete ownership of their business processes, and Practicality in terms of minimizing impact on employees, ability to implement the changes, and minimizing costs.

In summary, the functions which will be performed in the National Headquarters are tied to five critical missions: strategic leadership, identity, capabilities, control and capital. Strategic leadership provides the vision and purpose for the IRS and builds partner relationships with key stakeholders. Identity helps to formulate a shared vision and set of values. Capabilities ensures IRS-wide access to high quality, low cost capabilities needed to run the agency. Control ensures that proper monitoring exists throughout the agency and ensures processes are in place to implement legislation. Capital maximizes the IRS's ability to acquire necessary capital by partnering with appropriate stakeholders.

## Senior Management Team

The coordinated strategic direction and decision making of the agency as a whole will occur through a series of linked senior management teams, starting with the Commissioner's team. The Commissioner's team will include the Commissioners of the operating divisions, Headquarters Chiefs, Chief Counsel, the Taxpayer Advocate and others as needed. Each operating division will, in turn, create its own senior management team that will link to lower level teams within the division. Figure 1 illustrates the various components of the Commissioner's senior management team.

**Figure 1**

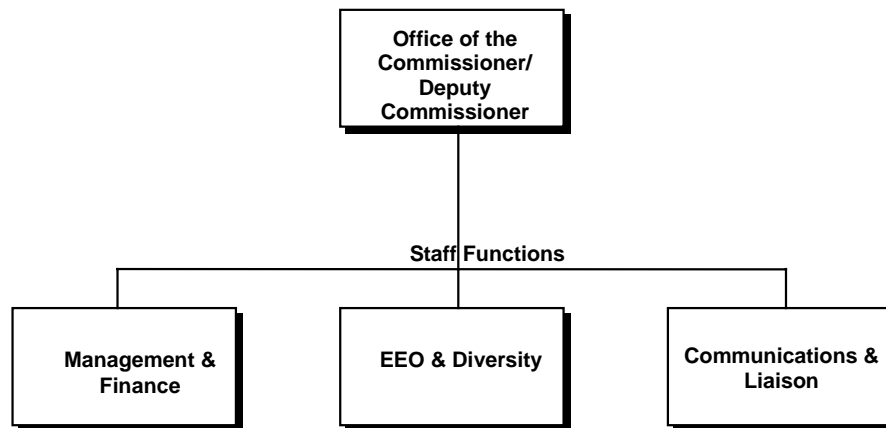


# Organization Structure

The National Headquarters will be headed by the IRS Commissioner and Deputy Chief Commissioners. Other senior executives in National Headquarters will include Management and Finance, Chief Communications and Liaison and Chief EEO and Diversity. Figure 2 provides a high-level illustration of the National Headquarters team that will be located in Washington, DC.

**Figure 2**

The National Headquarters Organization

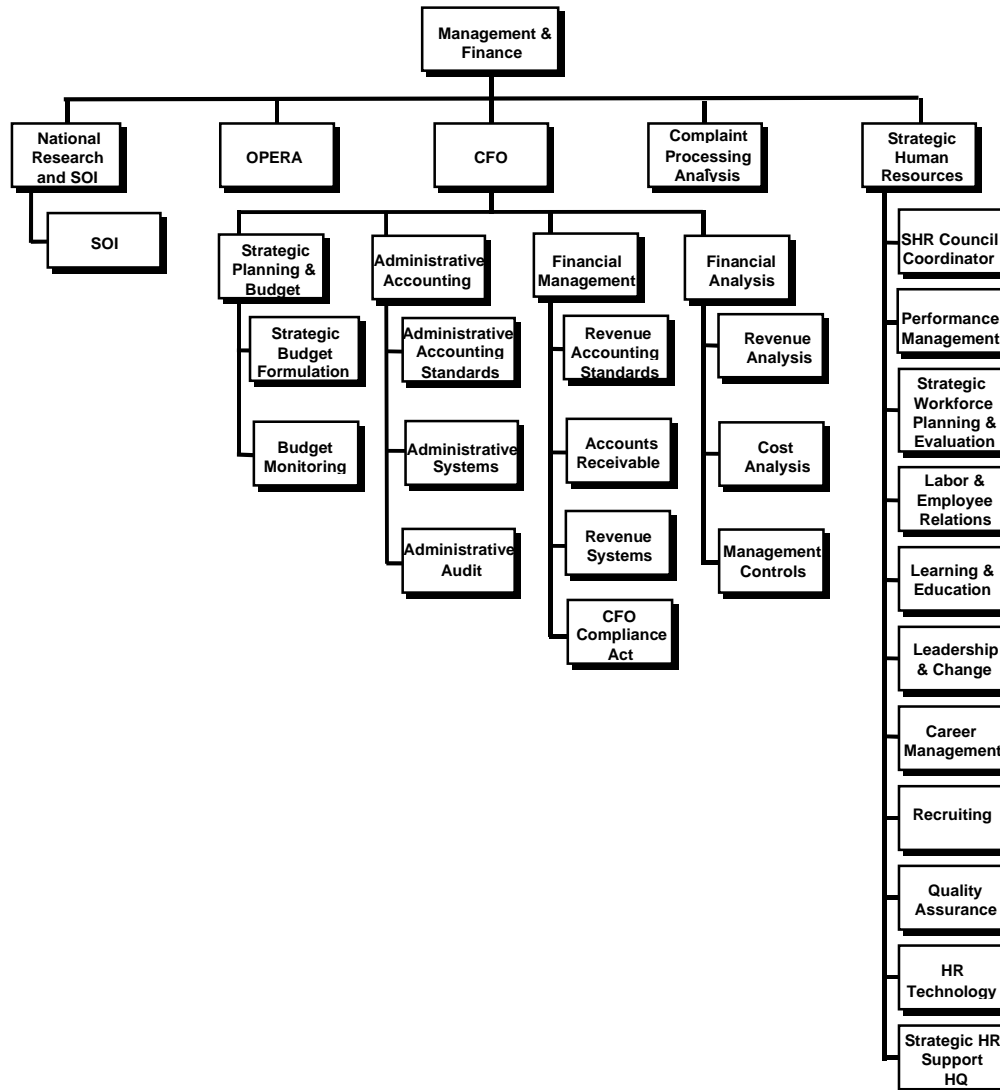


## Management and Finance

The Management and Finance organization will be structured around several key business functions: National Research and Statistics of Income, Office of Performance Evaluation and Risk Analysis, CFO organization, Complaint Processing and Analysis, and Strategic Human Resources. Figure 3 illustrates this new organization structure.

**Figure 3**

**Management and Finance Organization Structure**



**National Research and Statistics of Income (SOI)**

National Research and SOI will primarily support the senior management team's and Treasury's needs for research.

National Research will primarily perform two roles: research provider for the senior management team and key external stakeholders and research enabler. As a research provider, National Research will conduct research when the senior management team or key external stakeholders require information not specific to any one operating division, but critical to the stakeholders and the Service as whole; when stakeholders require a quick response to an urgent issue; when the risk for a research project is too high to bear by any one operating division but the potential agency-wide results still justify the investment; or, when the research directly

supports National Headquarters functions. Examples of research that would be conducted in National Research include developing a predictive tax gap model for Treasury or estimating the effect of certain legislative proposals on overall taxpayer revenue. In contrast to National Research, the operating divisions will conduct research primarily when the objective is the development or improvement of programs in order to better meet their customers' needs and assist their customers in meeting their tax obligations. As a research enabler, National Research will consolidate system requirements, enhance research knowledge and the coordination of research and establish minimum standards.

SOI will remain largely unchanged from today's organization due to its relationship with the Treasury Department's Office of Tax Analysis (OTA) and the nature of the activities performed. SOI will continue to provide taxpayer data to OTA and other agencies such as Bureau of the Census. Because of the similarity in work and to facilitate information sharing, SOI will continue to be co-located with National Research.

### **Office of Performance Evaluation and Risk Analysis (OPERA)**

OPERA will consist of a small group of high caliber staff who support the Strategic Management Team in the review and risk management process.

Consistent with the new management philosophy that is embodied by the balanced measurement system, reviews will be a part of a holistic, ongoing process that will assess performance against a preset plan. In the modernized IRS, strategic reviews will take place at the Servicewide and operating division levels. In the Servicewide strategic review process, OPERA will support the senior management team in assessing high level issues such as the overall effectiveness of strategies on achieving the agency's goals. OPERA's role will only require support for a small number of high level issues and will not serve as a large centralized review body nor preclude the operating divisions from conducting and reporting self assessments in the Operating Division Strategic Review.

In the risk management process, OPERA will serve as a central coordination point for the management of Servicewide risks. OPERA will develop a Servicewide risk plan from risks identified in conjunction with the operating divisions and will surface these risks to the senior management team. On selected risks, OPERA will form a review team using personnel from the operating divisions who will have the needed expertise to analyze these risks. The operating divisions will maintain responsibility for managing and analyzing risks specific to their organization.

### **CFO Organization**

The CFO Organization will remain organized by key functions but will undergo three key changes: selected budgeting responsibilities will shift to the operating divisions, the Strategic Planning and Budget Division will provide support to the senior management team for the Strategic Plan submission process, and transactional financial services will shift to Shared Services.

To allow the operating divisions full accountability, budget responsibilities that currently reside in the National Office will shift to the operating divisions. The budget responsibilities that

currently reside under the Assistant Commissioners' offices will shift to the operating divisions. Instead of the Assistant Commissioners' budgeting for their respective programs, the operating divisions will budget for their organization.

Although the senior management team will be responsible for setting Servicewide goals and strategies, the Strategic Planning and Budget Division will provide support to the Senior Management Team as needed and will submit the five year Strategic Plan and Annual Performance Plan to Congress, OMB and Treasury. This change will facilitate the translation of senior management team strategic planning and investment decisions to budget categories.

Transactional financial services will shift to the Agency-Wide Shared Service (AWSS) Organization. These services include invoice processing and the administration of the travel and relocation programs, which are presently performed in part under the existing CFO. AWSS will perform these financial processing functions (which are established, monitored and enforced by the CFO organization) without jeopardizing the integrity of financial information. The timing of the transition will be carefully planned to ensure that a clean audit opinion is not jeopardized.

## **Complaints Processing and Analysis Group**

The Complaint Processing and Analysis Group was created to better identify, manage, track and analyze complaints from all sources. This group will not replicate existing complaint processing resolution systems, but rather it will provide a central point of coordination to track and monitor all complaint processing systems. In addition, the group will report twice yearly to employees and the public a summary of results of investigations and disciplinary actions that come out of those investigations. The Complaint Processing and Analysis Group will also be the focal point for misconduct cases involving executives, unauthorized access (UNAX) violations and section 1203 reports. The group will work with the Treasury Inspector General for Tax Administration to identify common issues, share research results and improve the consistency of our response to complaints.

## **Strategic HR**

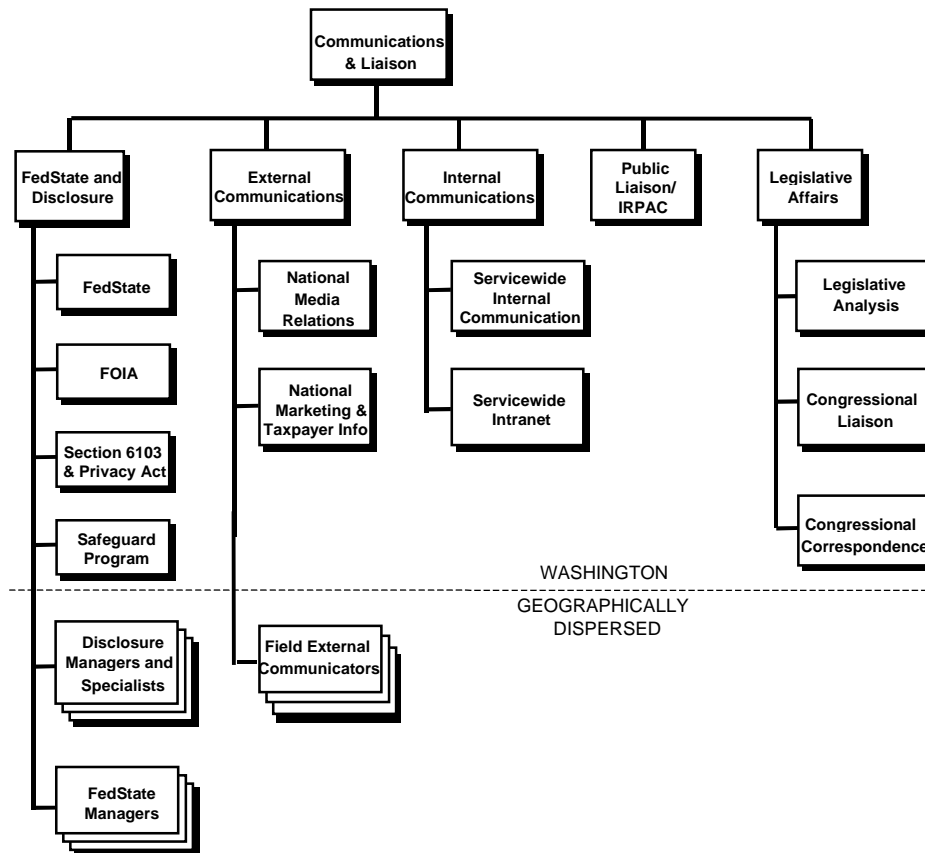
The Strategic HR component of Management and Finance is discussed in a separate section on Human Resources.

## **Communications and Liaison**

The Communications and Liaison organization will be structured around several key business functions: FedState and Disclosure, External Communications, Internal Communications, Public Liaison and IRPAC, and Legislative Affairs. Figure 4 illustrates this new structure.

**Figure 4**

**Communications and Liaison Organization Structure**



## FedState and Disclosure

FedState will have representation in National Headquarters in Washington, DC for strategy development as well as geographic representation to ensure local issues are addressed. FedState representation in the National Headquarters will ensure the coordination of a strategic approach to program development across the states while local representation will help states on a local level and help them navigate through the operating divisions for their customer segment specific issues. The operating divisions will develop a strategy specific to their business and will therefore also have FedState managers embedded in each operating division.

Disclosure will have representation in the National Headquarters in Washington, DC as well as geographically dispersed personnel. Disclosure activities that currently take place in the National Office will remain largely unchanged because of its close interactions with Chief Counsel, FedState and other federal government agencies. These activities include providing oversight and guidance for interpretation and application of disclosure laws to ensure that they

are interpreted consistently and applied uniformly, setting standards for safeguard and quality reviews, safeguarding federal agencies and maintaining the Service's Reading Room. Disclosure activities that presently take place in the field will continue; however, they will report centrally to National Headquarters instead of to the districts. This will ensure a more consistent interpretation and application of disclosure law and a more coordinated effort to process information requests nationwide.

## **External Communications**

The External Communications group will have representation in the National Headquarters in Washington, DC as well as geographically dispersed Field External Communicators. The National Headquarters will respond to national media inquiries, proactively contact national media to promote key messages and disseminate information on changes in tax laws or policy, and prepare news releases with assistance from appropriate operating divisions. The Field External Communicators will act as the experts to local media outlets and customize national news releases for their local area.

## **Internal Communications**

The primary mission of Internal Communications in the future IRS is to provide employees with the most current information and the tools they need to do their jobs well, to serve their customer segments and to foster a shared identity throughout the IRS. Most of the Internal Communications staff in the IRS will report to the operating divisions; however, an Internal Communications group in National Headquarters will primarily be responsible for the preparation and dissemination of Servicewide internal messages not specific to any one operating division. Operating division internal communicators will customize communications products and information so that they are most relevant and specific to the operating division and its customers, but also maintain one IRS identity. National Internal Communications will be closely linked to operating division communicators through shared communications plans, regular meetings and conferences, and through the establishment of a Communications Committee chaired by the Director of Internal Communications in National Headquarters.

## **Public Liaison and Information Reporting Program**

The Office of Public Liaison will proactively manage national practitioner and professional relationships. Additionally, this office will assume the responsibility for the policy-setting and relationship management component of IRP (Information Returns Program). Information Returns is a very critical program and affects many individual taxpayers and relies on payors' accurate and timely reporting. The Program has many components, is not unique to any one operating division and requires consistency in the guidelines for and the administration of the program. The IRS views IRP as a very important aid to compliance and requires coordination across all operating divisions at a high level. Therefore, an executive position will be placed in the National Headquarters with responsibility for policy level and liaison management issues.

The Office of Public Liaison will continue to perform the vital functions it performs today in maintaining daily contact and exchanging information with tax professionals, payroll, tax assistance, electronic tax and small business organizations, and others such as the Federal Tax Administration and the Tax Executive Institute. This ongoing relationship management helps



IRS maintain and expand valuable relationships, coordinate stakeholder contacts, trouble shoot issues and provide early warning of pending changes to forms and other IRS-related issues and communicate key corporate messages. This Office also manages the IRS Advisory Council Program and serves as a “one-stop” vehicle to exchange information and identify partnering opportunities.

## **Legislative Affairs**

Legislative Affairs will be responsible for supporting and maintaining programs related to IRS’ relationships with Congressional members and staffs, managing the IRS’s legislative proposal process, responding to requests from members and staff on behalf of constituents that are directed to the Commissioner, and coordinating the Congressional hearings process. In addition, Legislative Affairs will play a much broader role in the future in providing planning, oversight and coordination of the implementation of legislation. Legislative Affairs in National Headquarters will continue to be the primary point of contact for Congressional Oversight Committee Chairs, members and staffs. Local Congressional contacts regarding constituents’ issues or other requests from local Congressional members and delegations will be handled by the Taxpayer Advocate.

## **EEO and Diversity**

The EEO and Diversity staff will have the responsibility to help employees understand the importance of diversity, their EEO rights and responsibilities, and to ensure that the agency applies civil rights laws with integrity and fairness to all employees. Although the Chief, EEO and Diversity will report to the Commissioner, each operating division will have an EEO Officer to ensure the effectiveness of the EEO and Diversity program Servicewide.

## **New Business Scenario**

### **Strategic Research Council Coordinates Efforts**

Ken sat uncomfortably at the table of the Strategic Research Council meeting. As he looked at the members (heads of research from the four new IRS operating divisions, a representative from the Treasury Office of Tax Analysis and the Director of National Research), he recalled his conversation with the director. Ken’s expertise as a leading economist in the IRS was needed because of a request from Congress concerning an emerging non-compliance issue.

Although Ken was excited about lending his expertise, he found himself nervous. He was a member of the research group in Large and Mid-Size Business (L&MSB), but knew that all four operating divisions must coordinate efforts.

The director opened the meeting by describing the request and asking Ken’s opinion on how to best address the issue. Ken walked to the head of the table, turned on the overhead projector and placed a slide of his proposed project. He described how he had discussed this issue with others in the operating divisions, how it would require support from all operating divisions to provide the best answer to Congress. Then, he recommended that all operating divisions dedicate staff

time to support the project and coordinate using e-mail and voicemail to avoid costly travel. Unsure how his proposal was received, Ken asked the group if they had any comments.

The director and the other Council members agreed to the project. Each research head then discussed appropriate staffing. Ken, knowing that all Council members were willing to coordinate efforts, was confident that the project would be successful.

**Key Points:**

**Strategic Research Council facilitates the coordination of issues, best practices and expertise across operating divisions**

**Operating divisions, National Research, the Treasury Office of Tax Analysis, Office of Program Evaluation and Risk Analysis and SOI are represented**

**E-mail and voicemail also facilitate the coordination of research efforts across operating divisions**

*Note: All taxpayers, businesses, IRS staff members and tax situations contained in this scenario are imaginary.*

## **Geographic Footprint**

The vast majority of the National Headquarters workforce will reside in Washington, DC. This allows for physical proximity to key outside stakeholders. The only part of the National Headquarters workforce which will be geographically dispersed will be some of the Disclosure managers and specialists, FedState managers and field external communicators. The exact footprint for these individuals will be determined in conjunction with the agency-wide staffing footprint and based on where they can best serve their constituents.

## **Implementation Timing**

A high level implementation plan is being developed for the transition of today's National Office to the National Headquarters structure of the future. Most of the functions that will remain in the National Headquarters have existing executive leaders. While there will be process changes and linkages that will need to be implemented when operating divisions are established, the reporting relationships for National Headquarters functions will be substantially in place in 1999.

However the timing for migrating the operational functions in today's National Office to the operating divisions is much more complex. This timing is inherently linked to the implementation timing of each of the operating divisions and will therefore vary with those schedules.

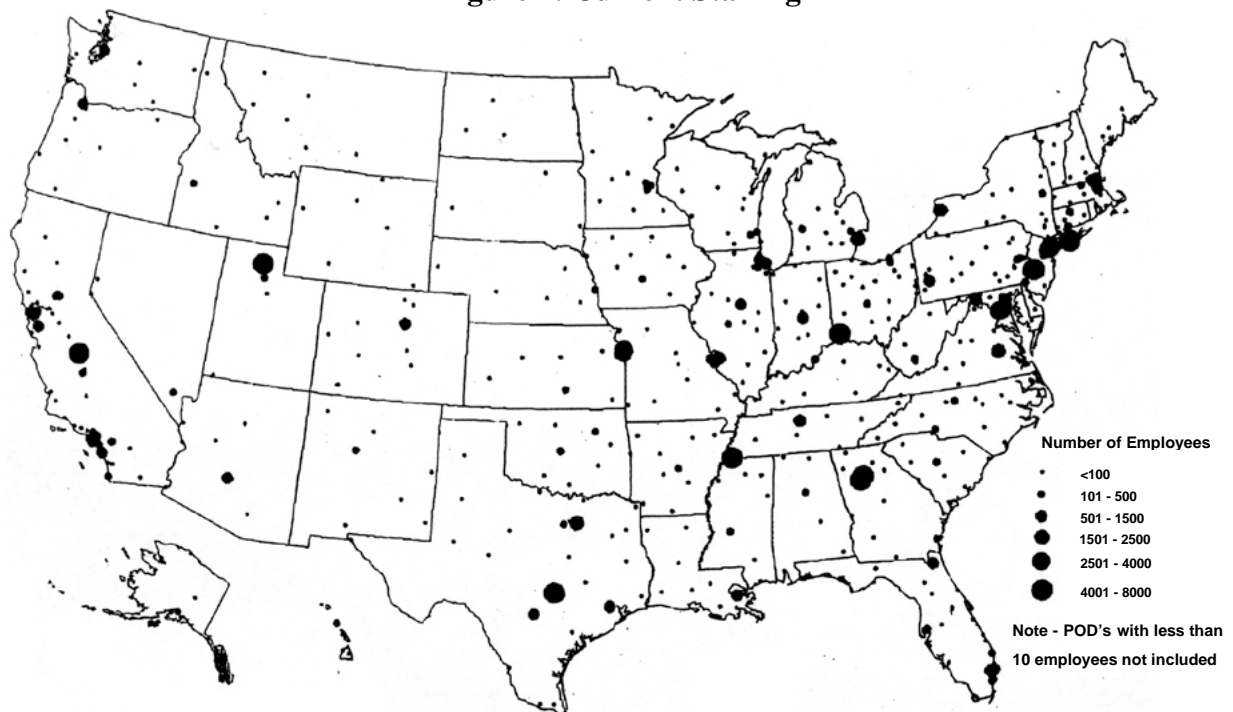
# *Future Geographic Footprint*

## **Current Structure and Geographic Footprint**

The organization structure is the vehicle through which decisions are made and actions carried out. The *current* IRS structure is built around districts and service centers, the basic organizational units established many years ago and evolved over decades. Each of these 43 units is charged with administering the entire tax law for every kind of taxpayer, large and small, in a defined geographical area. Consequently, every taxpayer is serviced by both a service center and a district, sometimes more than one, with responsibility shifting depending on whether the work is done by phone, mail or in person. For example, in the Collection area there are three separate kinds of organizations that use four separate computer systems to collect taxes. Each of these three units and four systems collect from every kind of taxpayer, from individuals to large businesses.

Currently, IRS staff are predominantly distributed around major population centers with little or no structural distinction of the types of taxpayers served (see Figure 1 – Current Staffing). The historical rationale for this geographic dispersion was for IRS staff to be located close to large concentrations of taxpayers -- from individuals to large corporations.

**Figure 1: Current Staffing**

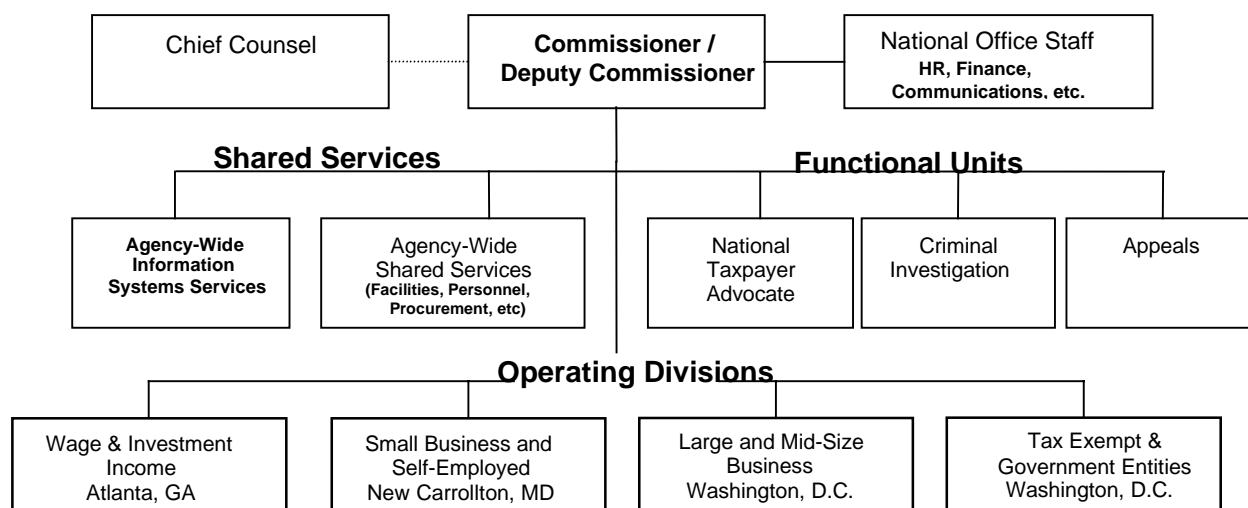


This structure no longer enables the IRS to achieve its strategic goals. The cumbersome structure, matched by an inadequate technology base, represents the principal obstacles to modernizing IRS business practices and strategies and to delivering dramatic improvements in service and productivity. The importance of an effective organization structure is critical to the success of any large organization because it is the vehicle *through which decisions are made and actions carried*.

## New Organization Structure

The modernized IRS will be built around organizational units with end-to-end responsibility. Four operating divisions will be responsible for serving specific groups of taxpayers. Four functional organizations will be responsible for specific issues and cases. Two support organizations will be responsible for providing common services across the entire agency. Finally, a much smaller National Office will provide high-level strategy and policy setting. Previous sections provide greater detail about each organizational unit. Figure 2 illustrates this new organization structure.

**Figure 2: New IRS Organization Structure**



The redesigned geographic structure will realign management and employees to focus on serving *specific groups* of taxpayers within a geographic area rather than serving *all* taxpayers in that area. The major changes in the organization structure will be management reporting relationships. IRS staff are currently distributed around major population centers and the majority of employees will remain in the same geographic area. While employment levels in each geographic area will remain relatively constant, the management structure and the ways of providing service to taxpayers will change significantly.

Locations have been recommended for the operating division and area headquarters which cover most of the current IRS facilities. There are many other activities still to be located (such as Appeals) that will fully utilize the current IRS facilities.

# Guiding Principles and Concepts

## Guiding Principles

To date, each modernization design team has established a footprint suited to their customer's needs. In arriving at these recommendations, a set of guiding principles (shown in Table 1) were followed:

**TABLE 1: GUIDING PRINCIPLES**

GUIDING PRINCIPLES	
<b>Provide taxpayers the greatest access to IRS staff with enough knowledge and decision-making authority to deal with their issues. Subject to...</b>	
1)	Minimizing employee relocation and disruption risk
2)	Maximizing proximity to outside stakeholders
3)	Best utilizing existing IRS facilities
4)	Considering consistency with other parts of the IRS
5)	Optimizing proximity to transportation hubs
6)	Including consideration of future trends, not just current situation

## Concepts

Achieving the new organization based on these guiding principles will lead to a set of outcomes.

- ◆ Very little need for staff redeployment.
- ◆ Operating councils and professional networks will be established to integrate operations.
- ◆ A base set of geographic areas is being established from which each operating division can select combinations to meet its needs.
- ◆ These areas will be divided into territories and groups.
- ◆ In fast growing areas, territory sizes are being made smaller to accommodate future growth.

To fulfill the guiding principles, a set of new or modified geographic concepts need to be employed.

- **Separation of Service Locations from the National Headquarters.** In the new geographic footprint, direct links will be broken between locations providing service to taxpayers and the current National Office. Instead, the new National Headquarters staff will provide strategic direction on matters that relate to Servicewide policy. Any and all matters related to serving taxpayers will be handled by each of the operating division headquarters. For three operating divisions (Wage and Investment, Small Business/Self-Employed, and Tax-Exempt and Government Entities), field staff will report through local territory offices to area headquarters which in turn report to the operating division headquarters.
- While the exact number and boundaries of the geographic areas vary by customer group, they are all built around the 14 "building blocks" shown in Table 2. These building blocks cover the needs of complex operating divisions, such as Small Business/Self-Employed, and can be combined to meet the needs of smaller operating divisions. As stated in an earlier section, the Large and Mid-Size Business Operating Division will be geographically aligned to industry groups instead of territory and area offices.

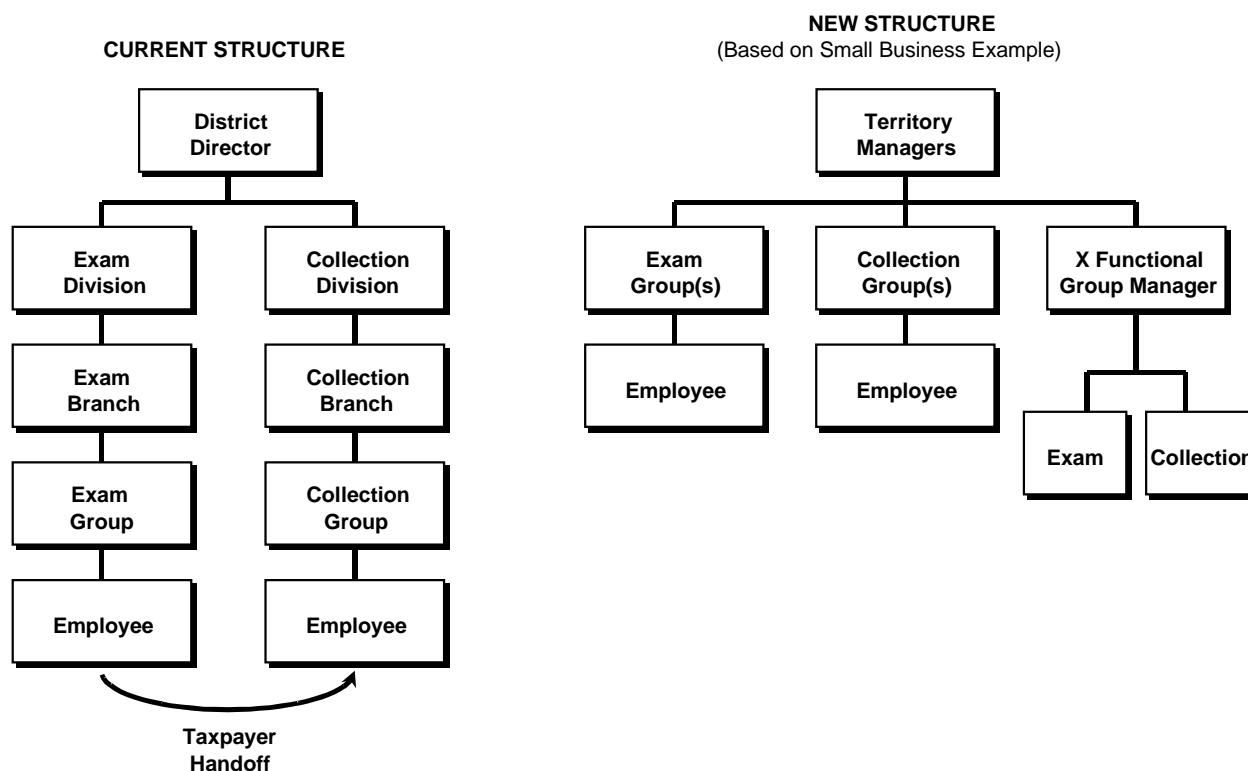
**TABLE 2: Area "Building Blocks" Mapped to Each Operating Division**

"Building Block"	SB/SE	W&I	TPA	TE/GE	L&MSB	Shared Services
I	Area 1	Area 1	Area 1	Area 1	N o t	N o t
II	Area 2					
III	Area 3	Area 2	Area 2	Area 2		
IV	Area 4					
V	Area 5	Area 3	Area 3	Area 4	A p p l i c a b l e	A p p l i c a b l e
VI	Area 6	Area 4	Area 4	Area 3		
VII	Area 7					
VIII	Area 8	Area 3	Area 3	Area 4		
IX	Area 9	Area 5	Area 5	Area 5		
X	Area 10			Area 4		
XI	Area 11	Area 6	Area 6	Area 5		
XII	Area 12					
XIII	Area 13	Area 7	Area 7	Area 6		
XIV	Area 14					

- **Taxpayer Assistance Centers.** Face-to-face customer contacts will be provided by new Taxpayer Assistance Centers, which will evolve from the current walk-in sites. The primary structural change will be that many of these centers will be located at sites convenient for taxpayers, such as shopping malls or small business advisory centers as well as at IRS posts of duty. In addition, there will be even greater use of temporary sites for places and times where taxpayer advice needs are highest. Employees at all of these locations will possess the cross-functional skills and knowledge needed to resolve the vast majority of tax law and compliance issues.

- Cross-Functional Management Closer to Taxpayers.** In the new structure, cross-functional managers will be employed deeper in the organization and closer to taxpayers. Territory managers and, in some cases, group managers will have responsibility for both exam and collections. This is markedly different from the current situation where one must go above the division chief level to find cross-functional responsibility. Taxpayers will benefit from the accessibility of these new cross-functional managers, as it will allow a greater number of issues to be resolved locally. (See Figure 3 – Structure of a SB/SE Compliance Territory)

**Figure 3: Structure of SB/SE Compliance Territory**



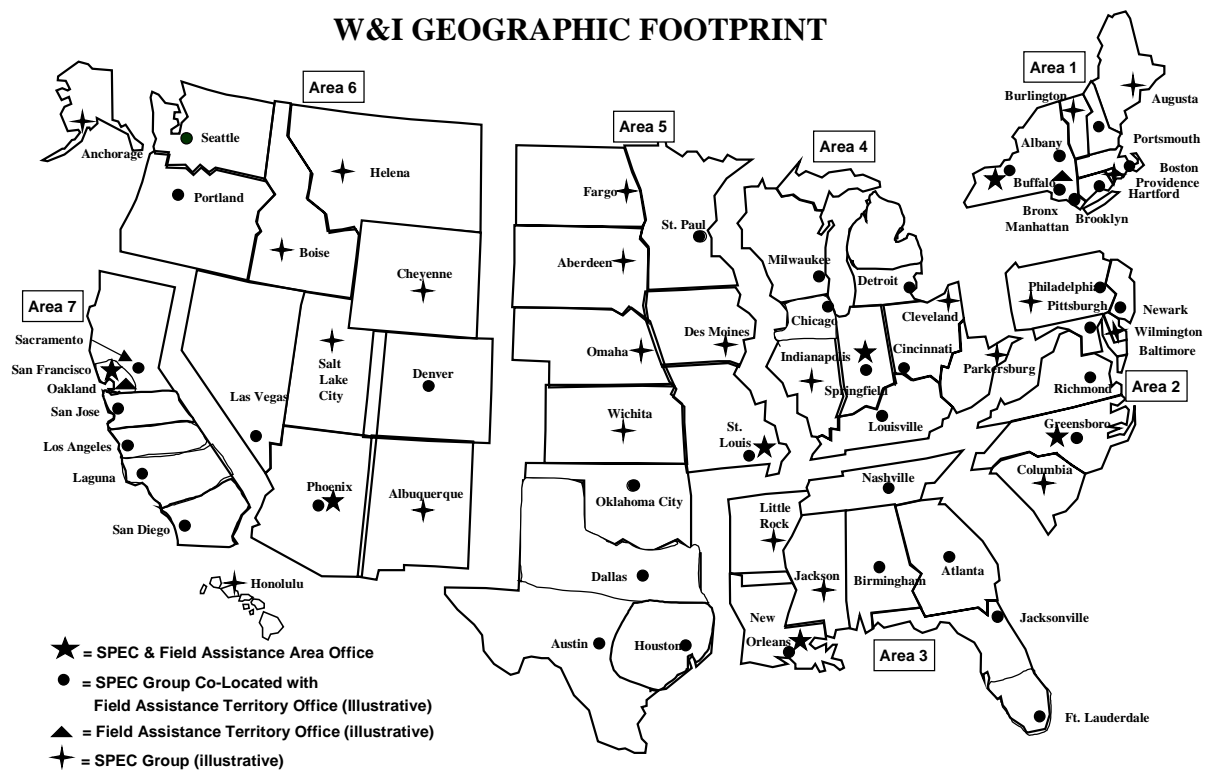
- Provision for Rural Areas.** The overall deployment of broader responsibility lower in the organization will greatly benefit rural areas, because more issues will be resolved locally. In addition, each geographic council in metro and non-metro areas will maintain external relationships via a dedicated Commissioner’s representative.
- Councils and Networks.** The new organization requires “integrative mechanisms” to ensure that the various elements of the organization work together on a range of matters. These mechanisms are needed in any organization structure because a “structure” is one-dimensional, while many problems and issues have more than one dimension. Various cross-unit councils and networks of individuals with special expertise will be created to ensure consistency of policy and interchange of best practices.

# Operating Division Footprints

## Wage & Investment

The footprint of the Wage and Investment Operating Division will consist of a headquarters, located in Atlanta, Georgia, and a national geographic footprint composed of areas, territories and groups. The seven areas are shown on the map below (see Figure 4 – W&I Footprint) with headquarters located in Buffalo, Greensboro, Indianapolis, New Orleans, Phoenix, St. Louis and San Francisco.

**Figure 4:**





**TABLE 3:**  
**W&I Locations**

<b>NATIONAL HEADQUARTERS: ATLANTA, GA</b>					
<b>AREA</b>	<b>SPEC &amp; FIELD ASSISTANCE AREA OFFICE</b>	<b>FIELD ASSISTANCE TERRITORY OFFICE</b>		<b>SPEC GROUP</b>	
Area 1	Buffalo	Albany Brooklyn Hartford Portsmouth	Boston Bronx Manhattan	Albany Boston Buffalo Hartford Portsmouth	Augusta Brooklyn Burlington Manhattan Providence
Area 2	Greensboro	Baltimore Newark Richmond	Greensboro Philadelphia	Baltimore Greensboro Philadelphia Richmond	Columbia Newark Pittsburgh Wilmington
Area 3	New Orleans	Atlanta Ft. Lauderdale Nashville	Birmingham Jacksonville New Orleans	Atlanta Ft. Lauderdale Jacksonville Nashville	Birmingham Jackson Little Rock New Orleans
Area 4	Indianapolis	Chicago Detroit Louisville	Cincinnati Indianapolis Milwaukee	Aberdeen Cincinnati Detroit Fargo Louisville Omaha Springfield	Chicago Cleveland Des Moines Indianapolis Milwaukee Parkersburg
Area 5	St. Louis	Austin Houston St. Louis	Dallas Oklahoma City St. Paul	Austin Houston St. Louis Wichita	Dallas Oklahoma City St. Paul
Area 6	Phoenix	Denver Phoenix Seattle	Las Vegas Portland	Albuquerque Boise Denver Honolulu Phoenix Seattle	Anchorage Cheyenne Helena Las Vegas Portland Salt Lake City
Area 7	San Francisco	Laguna Niguel Oakland San Diego Santa Ana	Los Angeles Sacramento San Jose	Laguna Niguel Sacramento San Jose	Los Angeles San Francisco

The W&I Operating Division will manage interactions with taxpayers through three major organizational units:

- ◆ **Pre-filing** activities will be managed by Communications, Assistance, Research and Education (CARE) through a geographically dispersed field structure. The Field Assistance Unit and Stakeholder Partnership, Education and Communication (SPEC) Unit of CARE will manage this field structure.

- ◆ **Filing** activities will be managed centrally through Customer Account Services (CAS) at five service centers (Andover, Atlanta, Austin, Fresno and Kansas City) and at six dedicated call sites (Baltimore, Boston, Dallas, Jacksonville, Seattle and St. Louis).
- ◆ **Post-filing** activities will also be managed in three ways: (1) remotely through Compliance at the five service centers, (2) through Field Assistance offices and (3) by subcontracting complex cases to SB/SE.

**Field Assistance** will manage seven areas and approximately 35-40 territories, and provide comprehensive face-to-face assistance to taxpayers. Tax Resolution Representatives (TRRs), will provide assistance, education and compliance support to taxpayers, fulfilling both pre-filing and post-filing needs. TRRs and Customer Service Representatives (CSRs) will report to W&I CARE and constitute 100% of W&I field compliance staffing, approximately 3,000 employees. Cases including complex examination issues or requiring enforcement action will be subcontracted to the SB/SE Operating Division. TRRs will assist taxpayers in a range of new ways:

- ◆ First, Taxpayer Assistance Centers, which will be full-service sites, will replace the walk-in services offered at approximately 400 IRS locations. Taxpayers will be able to receive pre-filing assistance as well as address routine compliance issues such as responding to a notice or establishing an installment agreement. Simple exams will also be conducted at these sites. Some Taxpayer Assistance Centers will be established in new locations that are convenient for taxpayers, such as shopping malls, community group locations, etc. Small business taxpayers will also be supported by specially-trained TAC staff and managers, a hotline to handle more complex SB/SE inquiries and, if required, temporarily or permanently assigned SB/SE staff.
- ◆ Second, kiosks will be established at various convenient locations (such as banks, grocery stores and shopping malls) where taxpayers can retrieve account information or research a tax law question.
- ◆ Third, TRRs will provide mobile services by traveling to rural areas.

**Stakeholder Partnership, Education and Communication (SPEC)** will manage seven areas and 63-70 groups that will assist W&I taxpayers by building and maintaining leveraged partnerships with key stakeholders. SPEC employees will be responsible for developing educational materials, developing marketing products, and working with local and national media. Whenever possible, SPEC offices will be co-located with Field Assistance territory offices.

**Customer Account Services (CAS)**, located at five service centers and six dedicated call sites, will be responsible for all filing activities of W&I taxpayers.

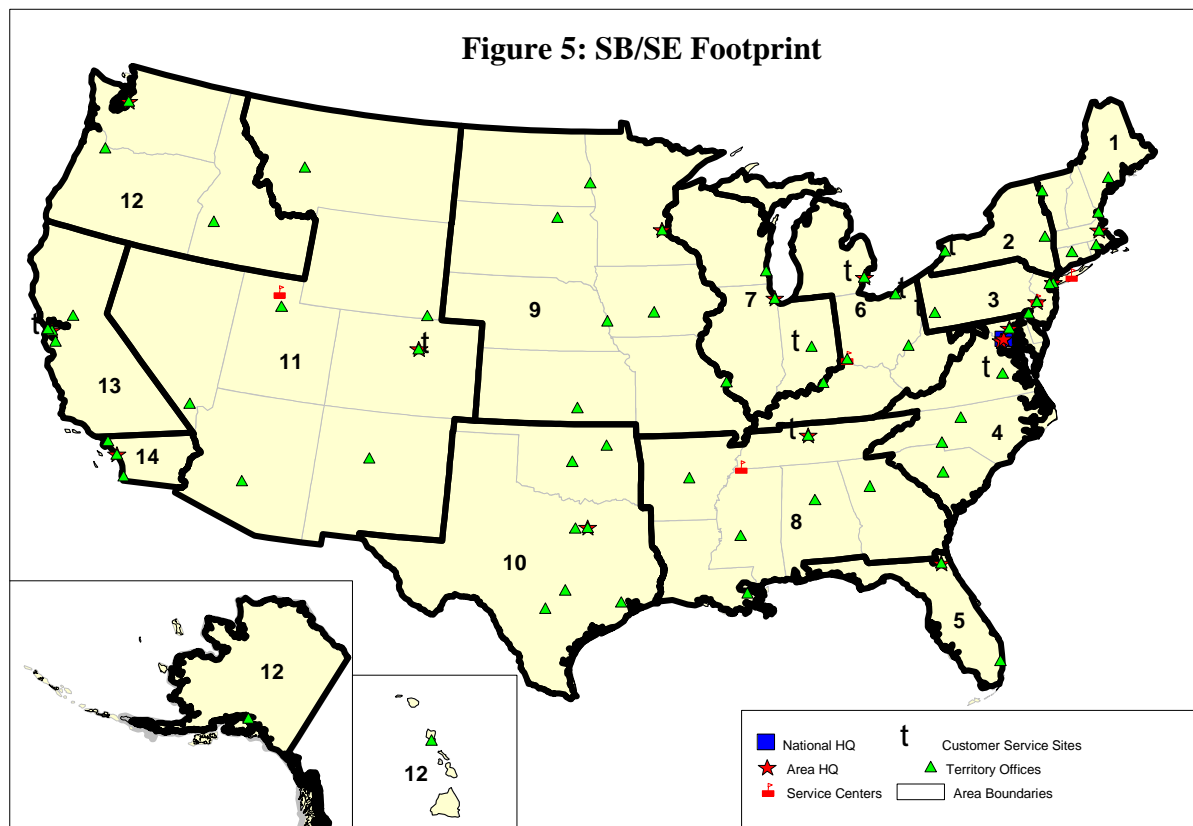
- ◆ Processing activities include processing paper and electronic returns, tax payments and refunds. Taxpayers and employees should notice little difference in these interactions, except that the service center they mail their return to may change for some taxpayers.

- ◆ Accounts Management activities include responding to customer technical account inquiries; resolving customer account issues; providing account settlement (payment) options; and working related issues across paper, phones, and electronic media. Dedicated call sites in Baltimore, Boston, Jacksonville, Dallas, Seattle, and St. Louis will be an integral part of the Accounts Management process.

**Compliance** activities for W&I taxpayers will also be centrally managed at five service centers (Andover, Atlanta, Austin, Fresno and Kansas City). Compliance will manage the relationship with taxpayers that have a high risk of not paying, or whose return has a high risk of non-compliance. Most W&I taxpayers will be able to resolve compliance issues remotely through telephone, fax or correspondence. Cases including complex examination issues or requiring enforcement action will be handled at Taxpayer Assistance Centers managed by CARE or subcontracted to SB/SE.

## Small Business/Self-Employed

The footprint of the SB/SE Operating Division will consist of a headquarters, located in New Carrollton, Maryland, and a national geographic footprint composed of areas, territories and groups. SB/SE will have 14 areas with headquarters located in Baltimore, Boston, Chicago, Dallas, Denver, Detroit, Jacksonville, Laguna Niguel, Nashville, New York, Oakland, Philadelphia, St. Paul and Seattle (see Figure 5 – SB/SE Footprint). Map 3 does not represent all of the territory offices because these locations are currently under consideration. In addition, the SB/SE section earlier in this document provides a better illustration of the CAS geographic footprint.



**TABLE 4:**  
**SB/SE Locations**

<b>NATIONAL HEADQUARTERS: NEW CARROLLTON, MD</b>						
<b>AREA</b>	<b>AREA HQ OFFICES (COMPLIANCE AND TEC)</b>	<b>COMPLIANCE TERRITORY HQ OFFICES (NOT FINAL)</b>				
1	Boston	Augusta Norwalk	Boston Portsmouth	Hartford Providence	Montpelier Springfield	New Haven Stoneham
2	Manhattan	Albany Syracuse	Brooklyn	Buffalo	Hauppauge	Manhattan
3	Philadelphia	Cherry Hill Pittsburgh	Fairfield Springfield	Mountainside	Ocean	Philadelphia
4	Baltimore	Baltimore Greensboro Wheaton	Bailey's Crossroads Norfolk Wilmington	Raleigh	Charlotte Richmond	Columbia Washington, DC
5	Jacksonville	Fort Lauderdale	Jacksonville	Miami	Orlando	Tampa
6	Detroit	Charleston Detroit	Cincinnati Grand Rapids	Cleveland/Independence Lexington	Louisville	Columbus
7	Chicago	Chicago Springfield	Downers Grove South Bend	Indianapolis	Milwaukee	Morton Grove
8	Nashville	Alexandria Little Rock New Orleans	Atlanta Macon	Birmingham Memphis	Jackson Montgomery	Knoxville Nashville
9	St. Paul/Minneapolis	Aberdeen St. Louis	Des Moines St. Paul/Minneapolis	Fargo	Kansas City Wichita	Omaha
10	Dallas	Austin Oklahoma City	Dallas San Antonio	Ft. Worth Tulsa	Houston	Midland
11	Denver	Albuquerque Phoenix	Cheyenne Salt Lake City	Denver	Helena	Las Vegas
12	Seattle	Anchorage	Boise	Honolulu	Portland	Seattle
13	Oakland	Fresno San Jose	Oakland	Oxnard	Sacramento	San Francisco
14	Laguna Niguel	El Monte Los Angeles	El Segundo Riverside	Glendale San Diego	Laguna Niguel Santa Ana	Long Beach

The SB/SE Operating Division will manage interactions with taxpayers via three major organizational units:

- ◆ **Pre-filing** activities will be managed by Taxpayer Education and Communications (TEC) through a geographically dispersed field structure. Newly-created Taxpayer Assistance Centers, which will be managed by W&I, will also provide on-site assistance for SB/SE taxpayers.
- ◆ **Filing** activities will be managed centrally through Customer Account Services (CAS) at five service centers (Brookhaven, Cincinnati, Memphis, Ogden and Philadelphia) and at eight dedicated call sites (Buffalo, Pittsburgh, Richmond, Oakland, Denver, Cleveland, Indianapolis and Nashville).

- ◆ **Post-filing** activities will be managed primarily through a geographically-dispersed field force. This field force will also provide limited compliance services for complex W&I cases as well as collection activities for the TE/GE and L&MSB Operating Divisions.

**Field Force.** Taxpayer Education and Communications (TEC) and Compliance will be geographically dispersed in 14 areas, 179 territories and 1,394 groups. Approximately 22,000 IRS employees will be dispersed in this geographic structure. TEC and Compliance must have a close relationship in order to understand and address SB/SE taxpayer compliance issues.

- ◆ TEC will provide customer-focused products, services and assistance to educate taxpayers at the local level. TEC will work with partnership groups to provide tax law and filing information, training and education services, and SB/SE Compliance to educate taxpayers as part of the daily work routine.
- ◆ Compliance will handle exam and collection activities requiring significant face-to-face interaction with taxpayers. This significant field presence will ensure that taxpayers are afforded the opportunity to meet face-to-face with IRS compliance staff when needed. In addition, this staff will also assist taxpayers during the filing season by helping interpret the tax law, prepare returns and meet other taxpayer requirements. SB/SE Compliance will also handle complex cases from W&I.
- ◆ Taxpayer Assistance Centers, managed by W&I, will also provide assistance to SB/SE taxpayers. Some TAC employees will be specially trained to address issues pertaining to SB/SE taxpayers. A hotline also will be available to answer more complex questions, and, in some cases, SB/SE employees will staff specific TACs.

**Customer Account Services (CAS)**, located at the five service centers (Brookhaven, Cincinnati, Memphis, Ogden, and Philadelphia), will be responsible for all filing activities of SB/SE taxpayers.

- ◆ Processing activities include processing paper and electronic returns, tax payments and refunds. Taxpayers and employees should notice little difference in these interactions.
- ◆ Accounts Management activities include responding to customer technical account inquiries; resolving customer account issues; providing account settlement (payment) options; and working related issues across paper, phones and electronic media. Dedicated phone sites in Buffalo, Pittsburgh, Richmond, Oakland, Denver, Cleveland, Indianapolis and Nashville will be an integral part of Accounts Management.

**Compliance** activities for SB/SE taxpayers will be managed primarily as discussed above through a geographically-dispersed field force. The following ACS call sites will also be dedicated to SB/SE and will report through the Compliance organization: Denver, Oakland, Indianapolis, Cleveland, Nashville, Brookhaven, Jacksonville, Philadelphia, Buffalo, Seattle and St. Louis.

## **Large & Mid-Size Business**

The L&MSB structure will be aligned by industry versus the current geographic alignment. This industry staff will focus on taxpayer needs, have deep technical/industry expertise and will respond proactively to industry trends. In addition to improving compliance strategies, the IRS will also increase efforts to educate taxpayers prior to filing their tax returns. This increased focus on pre-filing activities will help reduce the issues arising in a post-filing/compliance situation.

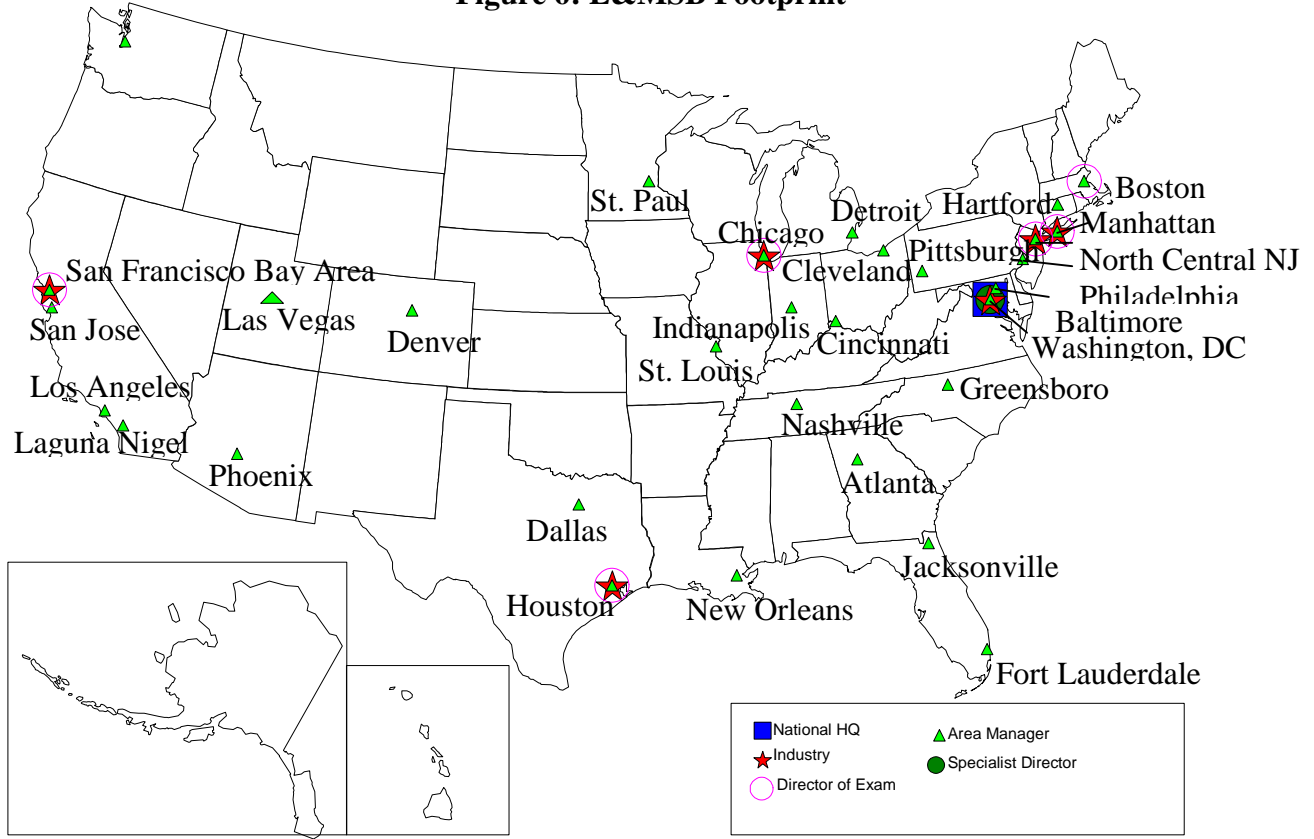
The division will be aligned by industry groupings and will continue to have field offices throughout the nation, allowing the IRS to meet on-site with its customers. The largest component of the approximately 8,600 staff will be located in field offices. However, roughly 200 will be located at the division headquarters.

Clearly, having IRS staff specialized in industry groups provides the greatest ability to retain an expert workforce, ensure end-to-end managerial accountability and provide one point of contact for taxpayers. Analysis on the taxpayer population as well as the types and frequency of interactions indicated a clear method of dividing the 183,000 L&MSB taxpayers into five industry segments.

The L&MSB national headquarters will be located in Washington DC. The industry groups will be primarily located where there is the highest concentration of aligned taxpayers, caseload and employees. (See Figure 6 - L&MSB Footprint and Table 5 – L&MSB Industry Headquarters)

The move to an industry-aligned organization will change the role of the L&MSB manager. Industry Exam Directors and area managers will be located throughout the country and be expected to maintain higher levels of technical expertise due to increased roles and responsibilities for the technical aspects of a case. There will also be additional travel requirements for some managers, as they may be responsible for remotely managing employees located in up to three posts-of-duty. While some employees located in non-metro areas may also have additional travel opportunities, the level of travel will remain about the same for the majority of L&MSB employees.

**Figure 6: L&MSB Footprint**



**TABLE 5: L&MSB Industry Headquarters**

INDUSTRY	HEADQUARTERS
Financial Services & Healthcare	Manhattan
Communication, Technology & Media	San Francisco Bay Area
Energy & Chemical	Houston
Food, Retail & Pharmaceutical	Chicago
Manufacturing, Construction & Transportation	New Jersey

## Tax Exempt and Government Entities

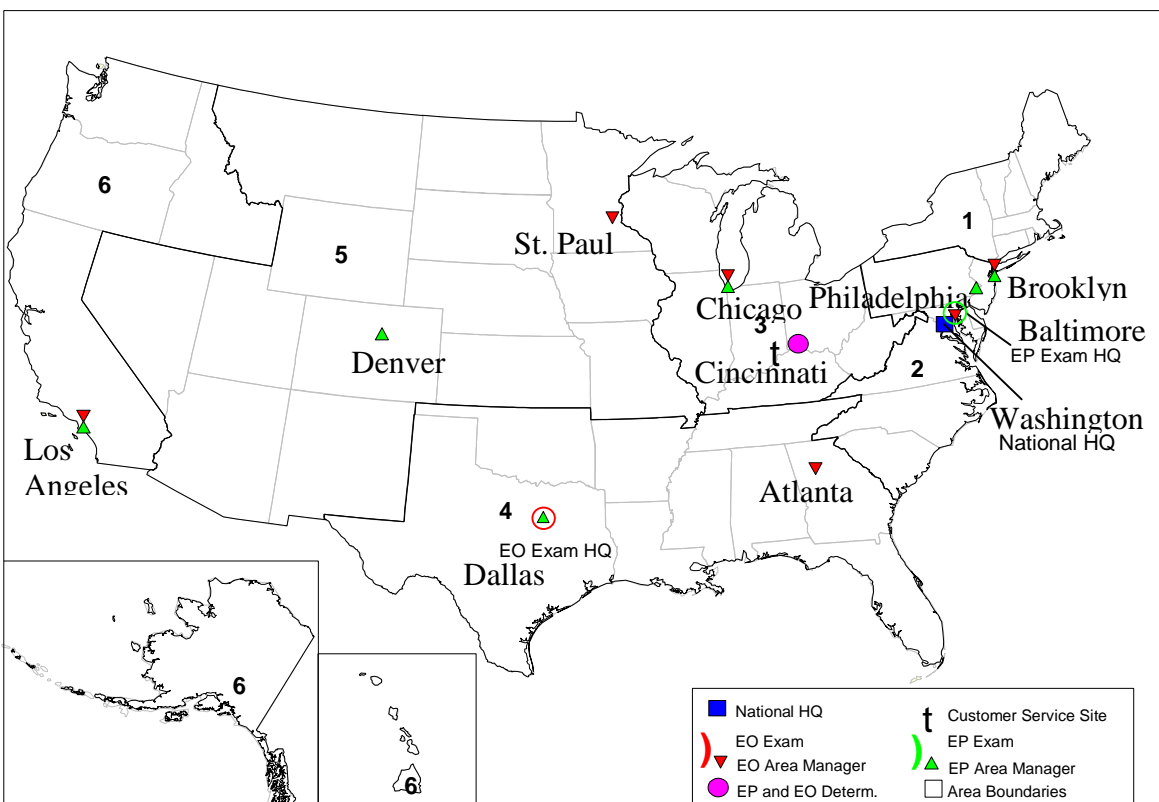
TE/GE customers fall into three very different groups with distinct characteristics: Employee Plans, Exempt Organizations and Government Entities. These three customer groups have minimal overlap in governing law, different annual filing requirements and widely varying

needs. As a consequence, the Division will be divided into three functional units based on these three customer segments.

The headquarters of the Tax-Exempt and Government Entities Operating Division will be located in Washington, DC. The Division consists of five unique customer segments: Employee Plans (EP), Exempt Organizations (EO), Indian Tribal Governments, Federal/State/Local Governments and Tax Exempt Bonds. Three customer segments are administered nationally through the national headquarters. Two segments, EP and EO, will have footprints based on six examination areas. Six EP and six EO area managers, located in nine cities (See Figure 7 – TE/GE Footprint), will administer these areas.

IRS employees in the Employee Plans and the Exempt Organizations segments will largely be located in their current facilities. However, due to the small number of resources and the newness of the Government Entities segment, these programs will be run as National Programs in various posts-of-duty. These locations will be chosen based on the current locations of employees working in the Tax Exempt Bond program and employees moving into the GE programs for Indian Tribal Governments and Federal, State and Local Governments. This flexibility will enhance the application of resources to customer locations and unique procedures and projects. As these programs grow, there may be a need for a more complex geographic footprint, similar to the one for EP and EO.

**Figure 7: TE/GE Footprint**





**TABLE 6:**  
**TE/GE Geographic Footprint**

NATIONAL EXAM HEADQUARTERS EP: BALTIMORE, MD NATIONAL EXAM HEADQUARTERS EO: DALLAS, TX		
AREA MANAGER OFFICES		
AREA	EP	EO
1 North East	Brooklyn	Brooklyn
2 Mid Atlantic	Philadelphia	Baltimore
3 Great Lakes	Chicago	Chicago
4 Gulf Coast	Dallas	Atlanta
5 Central Mountain	Denver	St. Paul
6 Western	Los Angeles	Los Angeles

*Note: The Government Entities customer segment will be administered from Washington through nationwide programs*

## **Taxpayer Advocate**

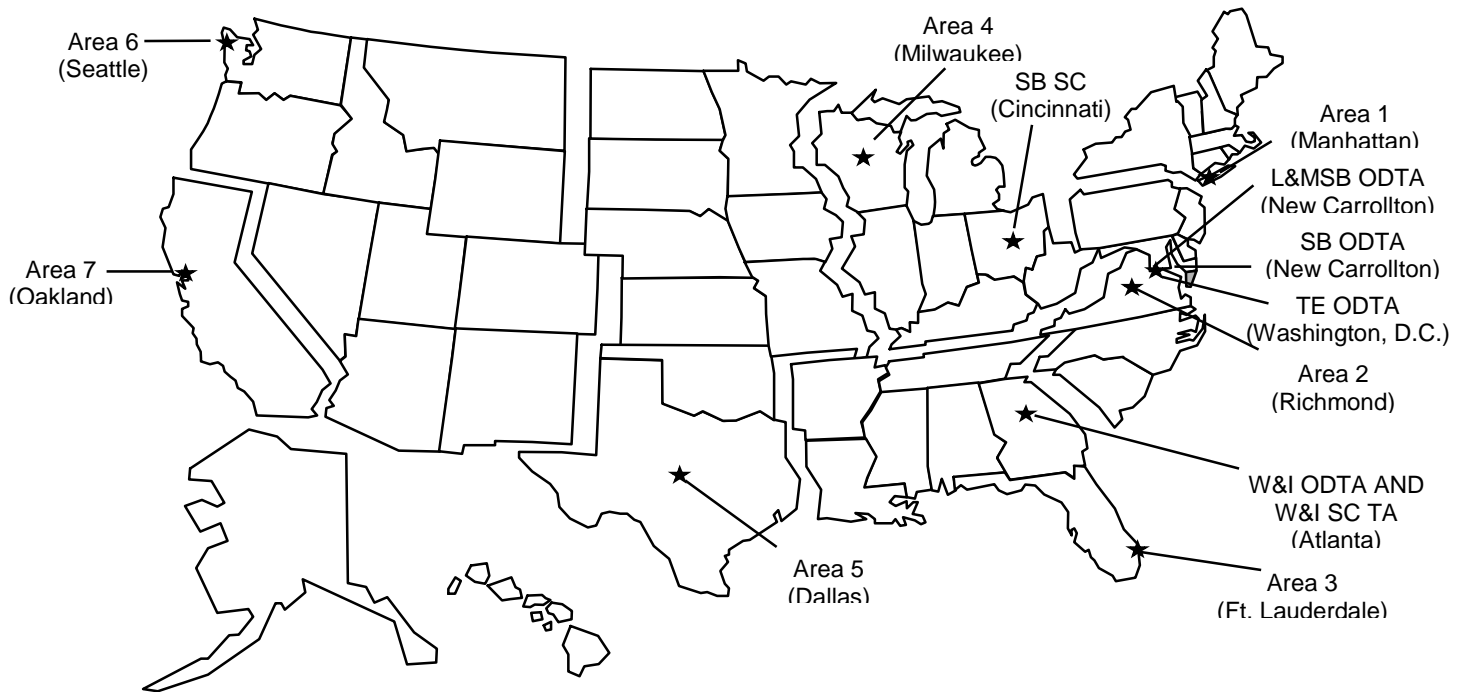
The Taxpayer Advocate will be organized around two major functions: casework and systemic analysis/advocacy. Approximately 2,100 of the 2,400 total staff will be assigned to the Casework Unit; the remaining 300 employees will work in the Systemic Analysis and Advocacy Unit at the headquarters, located in Washington, DC.

**Casework.** The Casework Unit will be responsible for resolving all individual taxpayer problems that meet Taxpayer Advocate criteria. The footprint of the Casework Unit includes local Taxpayer Advocates in every state and every service center, a W&I Service Center Advocate located in Atlanta, a SB/SE Service Center Advocate located in Cincinnati and seven Area Advocates located in Washington, Hartford, Richmond, Fort Lauderdale, Milwaukee, Dallas, Seattle and Oakland. (Note: These seven areas match the W&I areas.)

**Systemic Analysis.** The Systemic Analysis and Advocacy Unit will be responsible for working with the operating divisions to identify systemic problems, analyze root causes, implement solutions and proactively identify potential problems with new systems and procedures. Two operating division advocates will be aligned to the operating divisions: The Taxpayer Advocate for W&I and TE/GE will be located in Atlanta, and the Taxpayer Advocate for L&MSB and

SB/SE will be located in New Carrollton. Each of these operating division taxpayer advocates will have a small, dedicated staff who will work closely with the operating division management staff.

**Figure 8:**  
**Taxpayer Advocate Areas**



**TABLE 7:****Taxpayer Advocate Geographic Footprint**

<b>NATIONAL HEADQUARTERS: WASHINGTON, DC</b>				
<b>AREA</b>	<b>CITY</b>	<b>LOCAL ADVOCATE OFFICE</b>		
Area 1	Manhattan	Albany Brooklyn Hartford Providence	Augusta Buffalo Manhattan	Boston Burlington Portsmouth
Area 2	Richmond	Baltimore Pittsburgh Springfield Wilmington	Columbia Philadelphia Washington, DC	Greensboro Richmond
Area 3	Ft. Lauderdale	Atlanta Jackson New Orleans	Birmingham Jacksonville Nashville	Ft. Lauderdale Little Rock
Area 4	Milwaukee	Chicago Covington Milwaukee	Cincinnati Detroit Parkersburg	Cleveland Indianapolis Springfield
Area 5	Dallas	Aberdeen Des Moines Oklahoma City St. Paul	Austin Fargo Omaha Wichita	Dallas Houston St. Louis
Area 6	Seattle	Albuquerque Cheyenne Honolulu Portland	Anchorage Denver Las Vegas Salt Lake City	Boise Helena Phoenix Seattle
Area 7	Oakland	Laguna Niguel Sacramento	Los Angeles San Jose	Oakland
SB/SE Service Centers	Cincinnati	Brookhaven Ogden	Cincinnati Philadelphia	Memphis
W&I Service Centers	Atlanta	Andover Fresno	Atlanta Kansas City	Austin

**Counsel**

To develop an active, working partnership with the new IRS operating divisions, Counsel will establish four new SES-level Operating Division Counsel (ODC) positions that will be co-located with the Operating Division Commissioners. Most of the Counsel field attorneys – who are located in the 49 posts-of-duty – will remain in their current locations and will be assigned to one of the ODC units. The field attorneys will report through a geographic-based Area Counsel, the final locations of which remain to be determined. Counsel’s national office technical experts will remain in Washington, DC.

**TABLE 8:**  
**Operating Division Counsel Locations**

<b>NATIONAL HEADQUARTERS: WASHINGTON, DC</b>	
<b>COUNSEL ORGANIZATION</b>	<b>CITY</b>
W&I ODC	Atlanta
SB/SE ODC	New Carrollton, MD
L&MSB ODC	Washington, DC
TE/GE ODC	Washington, DC

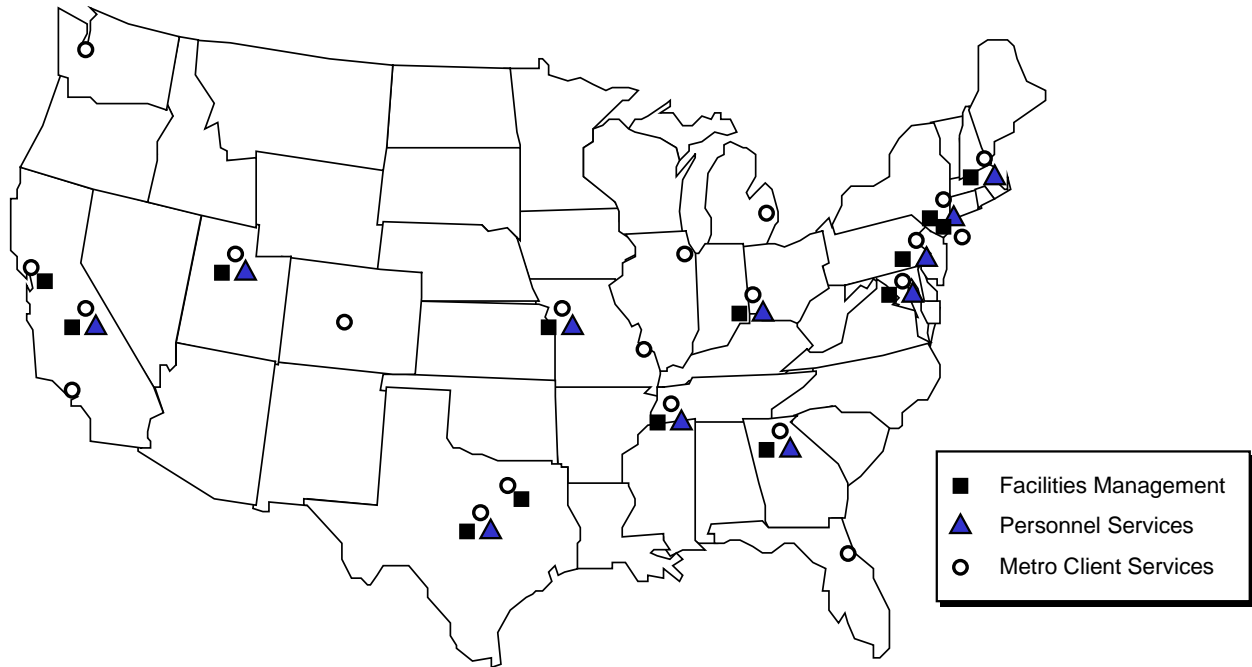
**TABLE 9:**  
**Counsel Area Locations**

<b>AREA</b>	<b>W&amp;I AND SB/SE</b>		<b>L&amp;MSB</b>		<b>TE/GE</b>
1	Chicago Cleveland Indianapolis Milwaukee	Cincinnati Detroit Louisville	Baltimore Brooklyn Manhattan Philadelphia Washington, DC	Boston Hartford Newark Pittsburgh	
2	Boston Buffalo Manhattan	Brooklyn Hartford	Atlanta Cincinnati Dallas Detroit Jacksonville Oklahoma City St. Paul	Chicago Cleveland Denver Houston Nashville Phoenix	
3	Baltimore Newark Pittsburgh Washington, DC	Greensboro Philadelphia Richmond	Laguna Niguel Portland San Francisco Seattle	Los Angeles San Diego San Jose	
4	Atlanta Ft. Lauderdale Miami New Orleans	Birmingham Jacksonville Nashville			
5	Austin Houston Oklahoma City St. Louis	Dallas Kansas City Omaha St. Paul			
6	Laguna Niguel San Diego	Los Angeles Thousand Oaks			
7	Anchorage Portland San Francisco Seattle	Honolulu Sacramento San Jose			
8	Denver Phoenix	Las Vegas Salt Lake City			
Area N/A					Baltimore Brooklyn Chicago Los Angeles

## Shared Services

Due to the cross-operating division nature of Shared Services, Shared Services will be structured around geography rather than aligned to operating divisions (See Figure 9 – Shared Services Footprint).

**Figure 9: Shared Services Footprint**



The Shared Services footprint will build upon the existing structure with modifications to deploy the Client Services organization, eliminate the existing national, regional and host site structures and build in span-of-control improvements at the branch chief level. The footprint of the Facilities Management Organization includes the current service center sites (Atlanta, Philadelphia, Ogden, Covington, Memphis, Fresno, Austin, Kansas City, Brookhaven and Andover) plus Washington, DC, New Carrollton, Dallas, Oakland/San Francisco and Manhattan.

The footprint of the Personnel Services Organization includes the current service center sites (Atlanta, Philadelphia, Ogden, Covington, Memphis, Fresno, Austin, Kansas City, Brookhaven and Andover) plus Atlanta, Oakland/San Francisco, Washington, DC, and New Carrollton.

**TABLE 10:**

**Client Services Metropolitan Area Locations  
(Headquarters: Washington, DC)**

	<b>GEOGRAPHICAL DIVISION</b>	<b>OPERATING DIVISION CSM</b>	<b>METRO AREA CSM</b>	<b>OPERATIONS MANAGER</b>	<b>BRANCH CHIEFS (FACILITIES / PERSONNEL)</b>
1	WA, OR, AK, HI		Seattle		
2	Central/Northern CA		Fresno, San Francisco	San Francisco	Fresno, San Francisco
3	Southern CA		Los Angeles		
4	AZ, NV, ID, UT		Ogden		Ogden
5	CO, NM, ND, SD, MN, WY, MT		Denver		
6	North TX/Houston		Dallas	Dallas	Dallas
7	South TX, LA		Austin		Austin
8	AR, OK, MO, KS		Kansas City, St Louis		Kansas City
9	IL, WI		Chicago		
10	MI		Detroit		
11	TN, AL, MS		Memphis		Memphis
12	OH, KY, IN		Cincinnati		Cincinnati
13	GA, NC, SC, FL	Atlanta	Atlanta, Jacksonville	Atlanta	Atlanta
14	New Carrollton, Bethesda, Oxon Hill	New Carrollton	New Carrollton		New Carrollton
15	DE, MD, WVA, VA		Baltimore		
16	Washington D.C.	Washington, D.C.	Washington, D.C.	Washington, D.C.	Washington, D.C.
17	Long Island		Brookhaven		Brookhaven
18	PA		Philadelphia	Philadelphia	Philadelphia
19	RI, CT, MA, ME, NH, VT, upstate NY		Boston		Boston
20	NJ, Southern NY	Springfield	Manhattan		Manhattan

In addition, Client Services Teams will be located at each of the large operating division headquarters as well as in Washington, DC, to support the group of smaller operating divisions (Counsel, Appeals, Tax Exempt and Government Entities, Taxpayer Advocate and Core). Each service center will have a co-located Client Services team, and each metropolitan area will also have a team working with all of the operating divisions located in that area. (See Table 10)

## Headquarters Locations

Table 11 provides a composite picture of the operating division headquarters and major office locations.

**TABLE 11:**

### Recommended Headquarters and Area Locations for the New Footprint

	SB/SE	W&I	TPA	TE/GE	L&MSB *
National HQ	New Carrollton	Atlanta	Washington DC	Washington DC	Washington DC
Area 1	Boston	Buffalo	Manhattan	Brooklyn (Northeast EP,EO)	Chicago (Food & Retail HQ) Central New Jersey (Mfg HQ) Houston (Energy HQ) New York (Financial HQ) San Francisco Bay Area (Com & Tech HQ)
Area 2	New York	Greensboro	Richmond [+ New Carr. for L&MSB & B/SE ODTA]	Philadelphia (Mid-Atlantic EP) Baltimore (EP Exam HQ, Mid-Atlantic EO)	
Area 3	Philadelphia	New Orleans	Fort Lauderdale [+ Atlanta for W&I & TE/GETA & C TA]	Chicago (Great Lakes EP,EO)	
Area 4	Baltimore	Indianapolis	Milwaukee [+ Cincinnati for SB/SE SC TA]	Atlanta (Gulf Coast EO) Dallas (EO Exam HQ, Gulf Coast EP)	
Area 5	Jacksonville	St. Louis	Dallas	Denver (Central Mountain EP) St. Paul (Central Mountain EO)	
Area 6	Detroit	Phoenix	Seattle	Los Angeles (West Coast EP,EO)	
Area 7	Chicago	San Francisco	Oakland		
Area 8	Nashville	<div>Shared Services</div> <div>Andover/Boston, MA Atlanta, GA Austin, TX Baltimore, MD Chicago, IL Cincinnati, OH/Covington, KY Dallas, TX Denver, CO Detroit, MI Fresno, CA Brookhaven, NY Jacksonville, FL Kansas City, MO Los Angeles, CA Manhattan, NY Memphis, TN New Carrollton, MD Ogden, UT Philadelphia, PA San Francisco/Oakland, CA Seattle, WA St. Louis, MO Washington, DC</div>			
Area 9	St. Paul				
Area 10	Dallas				
Area 11	Denver				
Area 12	Seattle				
Area 13	Oakland				
Area 14	Laguna Niguel				
					<div>Counsel</div> <div>Washington,DC (National HQ) ODC (TE/GE) ODC (SB/SE) ODC (L&amp;MSB) Atlanta (ODC W&amp;I) Area Counsel Locations yet to be determined, but to be keyed to Operating Divisions</div>

\* L&MSB is deployed nationally by industry and does not correspond to the Areas listed

## Integrated Operations

### Integrative Mechanisms – Councils and Networks

The current IRS structure already takes into account the need to coordinate issues on different dimensions. Probably the most visible is the large functional structure (exam, collections, etc.) represented in staff functions at the national and regional offices, even though the line organization is managed through geographically defined line units (districts and service centers).

The modernized IRS must institute coordination mechanisms to address a range of situations. The following are examples of specific councils and networks that illustrate the exchange and coordination of information across the organizational units.

- **Management Policy Councils.** Because the operating units will have the maximum possible line management authority and responsibility, it is important to ensure agency-wide coordination of certain important management policies and to facilitate the use of best practices throughout the organization. At least three policy areas require this type of coordination: Human Resources, Finance and EEO. The purpose of these councils should be to develop and recommend common policies, facilitate the exchange of best practices and give direction for any activities managed in common (e.g., mandatory agency-wide UNAX training). Recently, Commissioner Rossotti established the Human Resources Council, chaired by the Chief Human Resources Officer, to eventually include a top executive from each of the operating divisions, functional units and service units.
- **Tax Administration Councils.** Just as there are important management policies that must be coordinated among the operating units, there are certain tax administration activities that must have coordinated policies and procedures. These are logical successors to today's "functions." Their purpose is to see that essential tax administration policies and procedures that affect taxpayers in more than one unit are appropriately consistent and in accord with the law. These councils will also ensure that tax law changes are implemented. Examples include councils for Collections, Exam, International and Electronic Tax Administration.

In each of these policy areas, the lead person will usually be the executive for that policy area in the operating division with the most activity. Membership in each council should depend on which units need to be involved; there is no need to have every unit represented on each council. Counsel should be included in all tax administration councils, and the Taxpayer Advocate should decide which councils require participation. For example, the International Council will most likely be led by the international executive in L&MSB and include representatives from SB/SE, Counsel and Appeals.

- **Location-Based Coordination Councils.** Establishing the right kind of structure for coordination of activities at the local level is particularly important because of the major change in past practice in the IRS where management was geographically defined. In some cases, the current IRS structure already provides local coordination for employees working for different organizational units in the same general vicinity. In some service centers, for example, people working for Information Systems, Taxpayer Advocate, Shared Services, Submissions Processing and Customer Service all work in the same location but report to different organizational units. Issues that need to be coordinated across these different organization units include personnel practices, facilities issues, community relations and partnership with NTEU. A special team was created in April 1999 to focus specifically on the issue of local coordination at the service centers.

A similar type of location-based structure may be necessary in large metropolitan areas where there are significant concentrations of IRS personnel reporting to various organizational units. Membership will consist of the senior managers for each IRS element operating in the area (e.g., an industry executive from L&MSB, an area or territory manager from SB/SE, an area manager from W&I, a Taxpayer Advocate, an Information Systems manager, a Counsel manager and a Shared Services manager).



- **Customer Councils.** This council would include representatives of the users of different kinds of internal services and would be charged with providing feedback and direction to the management of various units that provide service to a group of internal users. Customer councils will likely exist at the national and local levels. At the national level, a Shared Services Customer Council and Information Systems Customer Council would consist of executives representing the major operating units that are customers for these services. In certain geographical areas, a customer council for Shared Services and Information Systems could also exist, but this might be combined with a more general location-based council as discussed above.
- **Best Practices and Information Networks.** Beyond the areas in which it is essential to have explicit coordination of policies or practices, there are many areas in which it is valuable, and in some cases, essential, to have regular exchanges of information and programs to adopt best practices across the organization. Unlike the areas mentioned above, these areas do not require authority to achieve coordination or standardization. Rather, they exist to assist their members to improve their own performance. These areas may be defined and redefined constantly, as the importance of the subject matter waxes and wanes. Many of these networks will develop from the bottom up with groups of people deciding to form them.

Networks of this kind can form around any topic of common interest, i.e., a technology (people using a particular product), a management discipline (organizational development specialists), a functional area (press relations) or issues (as in the current ISPs). One of the key networks of this kind already exists through the research community of the NORA and DORA offices sharing a common research database and infrastructure. This research network will continue in the modernized IRS through a network of research organizations in the new national office and the operating divisions.

- **Commissioner's Representatives.** In some locations where several organizational units are represented – whether it be a large metropolitan area, a more geographically dispersed area or a service center site – it may be necessary to designate one individual as the “Commissioner's Representative.” This is analogous to the current practice in posts-of-duty of designating someone as the “Director's Representative.” An individual designated as the Commissioner's Representative will be responsible for addressing both internal administrative issues (such as partnership with NTEU and Combined Federal Campaign) and external representation issues to practitioners and the local community. This also serves as an important management development assignment for the people who are given this responsibility. The Commissioner's representatives could form a best practices network to exchange information and experience over time.

## **Future Business Scenario**

### **Portrait of the new IRS**

I'm Francine, a Customer Service Representative at the Cincinnati Service Center. I took a call the other day from an area tax practitioner who had some questions about the IRS modernization. He had heard rumors about the formation of the four operating divisions and was concerned that many of his contacts would change.

I told him that while there would be some changes in the way he interacted with the IRS, many things would not change. For instance, the actual phone number of the practitioner hot-line will remain the same. Practitioners will be directed to the appropriate resources based on responses to options provided by the system. (Taxpayers calling the IRS will face a similar situation in that the phone numbers will not change, but the menu prompts directing the calls may change.) In addition, practitioners and taxpayers can continue to use the customer assistance locations they currently use.

As a result of modernization, some things will change. For example, to better meet the needs of the taxpayers, five service centers each have been dedicated to SB/SE and W&I. As a consequence, many returns will have to be mailed to new locations. In addition, I explained that we are replacing the present "district office" structure with new "area" and "territory" offices aligned to taxpayer segments. Practitioners who now contact a district director will contact a local Commissioner's representative in the future.

As our discussion ended, we talked about how most changes would be transparent to practitioners and taxpayers, but would enable IRS to serve their customers better.