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## II. Goals and Benefits

While the new mission statement and clarification of the public's expectations of the agency are fundamentally important, it is critical in any large institution to define specific goals needed to achieve the mission. In a practical sense, these goals represent what the agency is striving to achieve and how it judges its success. It is important to have both quantitative and qualitative indicators of how well the agency is progressing toward achieving its goals.

The IRS has formulated three strategic goals. If progress is made on all three of these goals, we can be confident that the IRS is moving forward to achieve its mission and to meet the public's expectations for the agency. Many operational goals for components of the agency can also be formulated in support of the achievement of these strategic goals.

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### 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.

The IRS has millions of interactions with taxpayers each year, from the very simple to the very complex. The IRS provides forms, information and filing procedures to taxpayers who must file a return. This process should be made ever easier and clearer, reducing the chances of error and the time and effort required by taxpayers. Millions of taxpayers require information about their tax accounts with the IRS, or need assistance to know how much or how to pay. Taxpayers should be able to obtain information and have appropriate adjustments made to their accounts accurately, quickly and conveniently. In other instances, the IRS may intervene, in the form of an audit or a collection action, and may inform the taxpayer that the agency believes more taxes are owed. In these cases, taxpayers should be informed promptly and treated professionally and with full consideration of their rights.

Whenever the IRS deals with a taxpayer, the taxpayer should receive first-quality service and treatment that is helpful based on the particular situation and need. Having a clear understanding of the facts and situation is critical to providing top quality service, since the proper application of the tax law is determined by the particular facts and circumstances of each taxpayer's case. This requires understanding both the taxpayer's situation and the law.

We will measure success in achieving this goal by the response of taxpayers to the service they receive from the IRS. As part of the new IRS performance management system, taxpayers who receive specific kinds of service will be surveyed and asked to rate the service. These transactional surveys can then be summarized to measure the overall trend in taxpayer satisfaction with IRS service. In addition, the overall ratings given to the IRS by taxpayers, as compared to other private and public sector institutions with which they deal, will be a key long-term strategic measure of success in achieving this goal. Finally, taxpayer dissatisfaction, as measured by taxpayer complaint and compliment trends, will be an important indicator.

The new balanced measures system began to be implemented in the operational components of the IRS in 1999. Work will begin on strategic measures in 2000.

While we do not yet have adequate strategic measures of performance in our *service to each taxpayer* goal, the indicators we do have of taxpayer views on IRS service show much room for improvement. A University of Michigan survey of people who had dealt recently with various public and private sector organizations ranked the IRS last for a number of years. In the most recent summary of this survey, known as the American Customer Satisfaction Index (ACSI), as the following chart shows, the IRS generally ranks below the private sector. However, our electronic filing program received higher marks.

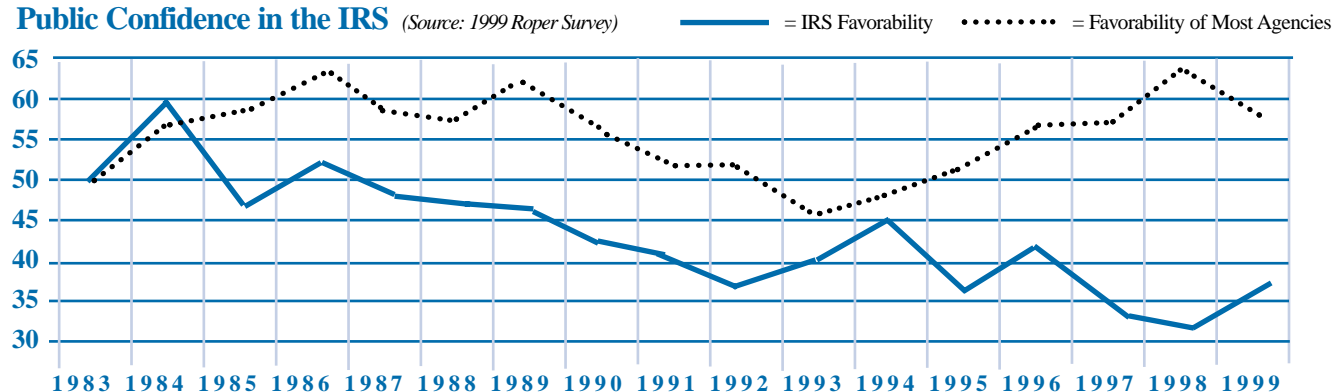
## ACSI Rating

Sector/Industry	1999
Manufacturing/Durables	77.3
Automobiles, vans & light trucks	78
Consumer electronics (TV & VCR)	83
Major household appliances (washer, dryer, stove, refrigerator, dishwasher)	82
Personal computers	72
Public Administration/Government	68.7
Solid waste disposal service (suburban)	76
Solid waste disposal service (city)	76
Police service (suburban)	68
Police service (city)	64
Social Security Administration	82
<b>Internal Revenue Service</b>	<b>51</b>
<b>Internal Revenue Service-Electronic Filer</b>	<b>74</b>

Another survey, by the Roper opinion research organization, compared the trend in favorability ratings by the public of various government agencies. As can be seen from the following chart, the public's rating of the IRS was once comparable to that of other govern-

ment agencies. During the 1980s, the ratings of the IRS and other agencies declined substantially. In the 1990s, the ratings of other agencies improved while that of the IRS continued to decline, hitting an all time low point in 1998, before a slight improvement in 1999.

**Public Confidence in the IRS** (Source: 1999 Roper Survey)



On the other hand, more limited surveys of taxpayer satisfaction with particular IRS services, such as Problem Solving Days, show consistently high ratings despite many taxpayers not receiving the outcome they sought. In fact, taxpayers attending Problem Solving Days consistently rated the IRS

6.5 on a 7.0 scale, regardless of whether they received the answer they wanted. This is a clear indication that taxpayers, as a whole, distinguish between the tax result and the quality of service they receive.

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## Top quality service to all taxpayers

The second strategic goal is service to all taxpayers. We must apply the law with integrity and fairness to all, so taxpayers who do not comply are not allowed to place a burden on those who comply. This aspect of IRS service 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. Therefore, when taxpayers do not voluntarily meet their tax obligations, the IRS must use enforcement powers to collect the taxes that are due.

The overall measure of success in this goal is the total collection percentage. The collection percentage is the fraction of taxes that are actually paid as compared to those that would be paid if everyone paid what was due under the law. Another indicator of success for this goal is the uniformity of compliance, representing the relative degree of compliance among various economic sectors, different geographic areas and different demographic segments. This is important for actual and perceived fairness of the tax administration system.

While we do not have reliable, up-to-date measures of overall compliance, the best extrapolations of previous studies suggest that noncompliance of all kinds equated to about \$195 billion in FY 1997, which works out to about \$1,600 per individual tax return. This same data indicates compliance is also quite uneven. For example, taxpayers who have primary income reported by third parties are, on the whole, more compliant than those who rely mostly on self reporting of income. In 1999, collections from personal income taxes increased by almost 8 percent, while collections of corporate income taxes decreased by 2 percent. One of the reasons for the decrease in corporate income taxes was the proliferation of corporate tax shelters, complex transactions which have little or no business purpose other than generation of tax benefits. There is ample opportunity for improvement on this strategic goal.

Noncompliance is not necessarily deliberate, but can stem from a wide range of causes, including lack of knowledge, confusion, poor recordkeeping, differing

legal interpretations, unexpected personal emergencies and temporary cash flow problems. On the other hand, some noncompliance is willful, even to the point of criminal tax evasion. In the interest of fairness, it is vital that all parts of the noncompliance spectrum be addressed by the IRS.

### Enforcement activity must continue

The IRS takes enforcement actions, such as making assessments of additional tax due after an audit or levying the bank account of a taxpayer who does not pay tax debts, when the facts of the case show that such action is necessary to bring that taxpayer into compliance with the tax law. Enforcement actions will continue to be necessary in order to achieve the IRS' compliance goals.

Since the passage of the Restructuring and Reform Act, the number of enforcement actions has declined substantially. For example, the fraction of individual returns audited in face-to-face audits has declined about 40 percent, and the number of collection cases closed has declined a similar amount. Contrary to some published reports, these significant declines in enforcement activity have not been caused by reallocation of resources to customer service, which reallocations have amounted to less than 3 percent of compliance resources. Instead, the declines have resulted from continued declines in staff due to budget constraints, and from a substantial increase in the amount of time required per case due to provisions of the Restructuring and Reform Act.

It is important for the IRS to stabilize the level of enforcement activity so that the proper action can be taken in each case. This will require some additional staff resources as well as additional training and management attention to clear up confusion about how to administer provisions of the RRA '98.

### Enforcement revenue is not a measure of success

Although enforcement activity is essential, it is important to distinguish the goal of increasing overall compliance from the notion of "enforcement revenue." Enforcement revenue is any tax, penalty or interest gained from a specific taxpayer by an IRS enforcement action, usually an examination or a collection. This revenue represents about 2 percent of the revenue collected by the IRS.

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Historically, the IRS placed great emphasis on direct enforcement revenue, in part because it is precisely measurable and in part because it showed an indirect deterrent effect that increases compliance. However, there are many techniques other than direct enforcement that increased compliance at the IRS and elsewhere, such as better and more targeted taxpayer education, better reporting, voluntary agreements, improved regulations and earlier intervention through notices and phone calls. Since 98 percent of the revenue comes in without enforcement action, an increase of 1 percent in voluntary compliance would be roughly equivalent to a 50 percent increase in enforcement revenue. Also, enforcement actions are expensive because they are labor intensive and often lengthy, sometimes extending for years after the tax is due. Therefore, enforcement activity is a vital component of a strategy for achieving overall compliance, but it is not the only component and enforcement revenue is not a good measure of success in achieving the strategic goal of service to all taxpayers.

As part of the Service's new balanced performance measurement system, business results will be measured as a function of both quality and quantity of work.

### **Measuring compliance is essential**

The IRS does not have reliable, up-to-date measures of overall compliance, nor of compliance by major sectors. The last major study on the subject was performed in 1988, and it relied in part on a previous study done in the 1970s. In order to measure progress on this critical goal and to avoid reliance on the more easily measured but flawed concept of enforcement revenue as a strategic measure, it will be essential for the IRS to develop regular and up-to-date measures of overall compliance.

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## **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. The IRS must not only provide top quality service to taxpayers, but it must do so efficiently, using the fewest possible resources.

Many private sector organizations demonstrated that succeeding in this area requires providing employees at all levels with high-quality technology tools, adequate training, effective management and active engagement in the goals of the organization. This is especially true in service organizations in which most front-line employees interact directly with customers. 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 upward effectively about the problems and obstacles they perceive stand in the way of good service. A December 23, 1998, article in *The Wall Street Journal* summarized prevailing views on this subject, describing a leading company, Sun Microsystems, as follows:

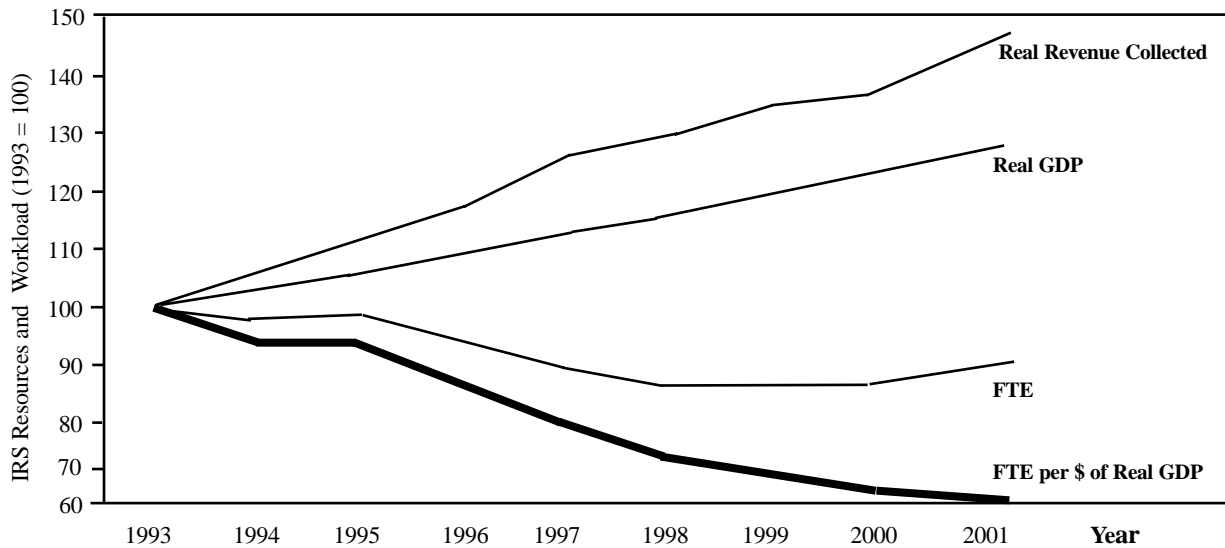
*Sun polls its workers as often as monthly via an e-mail questionnaire about 'performance inhibitors' that have gotten in their way in the past month. The result, which Sun calls an 'employee quality index,' is part of a broader quality initiative that also gauges customer loyalty. 'This isn't about an employee feel-good thing, but about the things Sun does that inhibit performance,' says Jim Lynch, Sun's director, corporate quality. Sun has found a strong link between the likelihood that employees will recommend Sun as a place to work and the likelihood that customers will recommend it as a place to do business.*

The right work environment will help unlock employee potential. Companies and organizations that excel in customer service invariably have employees who feel respected as individuals and valued by management for the contribution they make to the overall service effort. A positive work place is free of discrimination, does not tolerate artificial ceilings and barriers to advancement, affords equal opportunity and recognizes employee performance and potential. It is also a work place that is highly inclusive and seeks to make use of the diverse experience and talents of all employees.

### **The IRS budget is a small part of tax administration**

Looking solely at gross numbers, one might assume that the IRS was succeeding in recent years in achieving higher productivity. From 1993 through 1999, the number of IRS employees decreased from 115,000 to 98,000 while the economy grew in real terms by 23

## IRS Shrinks as a Fraction of the Economy



percent and the number of tax returns grew by 8.7 percent. However, this reduction in the size of the IRS was achieved only in part by the increased real productivity. A greater part of the reduction was achieved by the failure to meet the public's service expectations as to how they should be served, which in part accounts for the concerted criticism leveled at the IRS in recent years, and by layer reductions in compliance activity. When considering the resources used in tax administration, it is important to consider all resources, recognizing that most of the costs, both direct financial costs and indirect costs of inconvenience, are incurred by taxpayers in complying with the tax laws. While measures are not precise, most estimate that the IRS internal budget represents perhaps 5 percent of total costs of tax administration in the economy. Thus, a very small increase in the costs borne by taxpayers can easily offset any reduction in the on-budget costs of the IRS if service declines or noncompliance increases.

### The IRS is shrinking compared to the economy

One measure of productivity success will be to increase the IRS workforce only slightly, while handling the increased workload from a growing economy and improving performance on the other two service goals. Should the IRS be able to accomplish this ambitious goal, it will increase productivity at a rate greater than the private financial

sector, and it will continue to shrink the size of the agency significantly in relation to the size of the economy, as shown above.

The agency will require investments over the next several years in order to implement its modernization program. The greatest part of this investment will be for replacement of technology, but some will also be required for redesign of the organization and business practices, training and facilities replacement.

As a part of the third strategic goal, measurement of employee satisfaction with the quality of the work environment should increase. Since 1993, the IRS has used employee surveys to measure these attitudes, but they need to be refined and included directly in our measures of performance.

### Taxpayers and employees will benefit if the IRS achieves its three goals

One of the most important challenges the IRS faces is that the agency cannot succeed unless it achieves a high level of performance on all three goals. It cannot be successful if it collects taxes but does not provide top quality service to each taxpayer or neglects to respect taxpayer rights. Equally, the agency cannot be successful if it provides good service but allows compliance to decline and thereby fails to collect taxes. And, since resources are severely limited, it can only achieve these service goals by increasing productivity and utilizing effectively the skills of the workforce.

While this need to achieve multiple goals is a challenging one, it is not unique to the IRS. Almost every business in the private sector must make a profit in order to stay in business. In order to do this, it must charge adequate prices to customers and collect its receivables, and yet must do this while keeping its customers satisfied so they will continue to do business with the firm. And the firm must retain and motivate employees in order to achieve quality and productivity.

If the IRS is able to achieve these three strategic goals, the benefits to taxpayers and employees should be concrete and noticeable, although they will take time to become apparent. The following three pages list some of the benefits that should be visible to individual taxpayers, small business and self-employed taxpayers and employees as the IRS succeeds in meeting its three strategic goals.

## MODERNIZING AMERICA'S TAX AGENCY

### Benefits for Individual Taxpayers

- More useful help in understanding and filing your taxes
  - Special programs for retired people, students, homeowners, parents, low-income people and other groups with special needs
  - Easier access to help through many more store-front locations; faster, easier access to telephone service, Internet access and e-mail
  - Expansion of easy filing programs like TeleFile
  - Expansion of cooperative programs with State revenue agencies to make joint filing easier
- Fast, accurate service if you have a question about taxes you owe or your refund
  - Service quality equivalent to the best private sector companies
  - Reliable, prompt access over the phone or in person with assurance of prompt follow-through on actions promised
  - Trained representatives who understand your problem and are committed to solving it
  - Clear acknowledgment of the resolution of your problem
- Professional, courteous help if you fall behind in paying your taxes
  - Representatives trained to help you find the best way to meet your obligations and stay current in the future
  - Prompt attention to your account so you do not fall too far behind
  - Clear explanations of your obligations and rights
  - Prompt access to independent channels if you disagree about the amount you owe or how it should be paid
  - Well-defined, rigorous process for applying and relieving liens and levies when these actions are required to protect the public interest
- Professional, courteous treatment if your return is selected for examination
  - Representatives trained to help you understand any issues identified in your return and how to report accurately
  - Earlier attention to your return so you do not fall too far behind
  - Help in finding the best way of paying any additional obligations you may have
  - Prompt access to independent channels if you disagree about the amount you owe or how it should be paid
- Greater confidence that your fellow citizens are paying their taxes as required by the tax law in the same way you are, regardless of their occupation, location, type of business or income level
- Clear, effective means of identifying problems of law or regulation that cause unfairness or disproportionate administrative burdens on particular groups of taxpayers and communicating these to the right level of authority to fix the problem
  - To IRS headquarters if regulations need change
  - To Treasury and Congress if tax law needs change

## MODERNIZING AMERICA'S TAX AGENCY

### Benefits for Small Business and Self-Employed

- More useful help in understanding and filing your income, employment and excise taxes
  - Special programs for occupations like farmers, taxi and truck drivers, doctors, artists and independent software programmers
  - Special programs for each industry, like garment manufacturers, franchise retailers, start-up technology companies and many others
  - Easier access to help through many more store-front locations, faster and easier access to telephone service, Internet access and e-mail
  - Expansion of easy filing programs like TeleFile for 941s
  - Expansion of cooperative programs with State revenue agencies to make joint filing easier
  - Expansion of cooperative programs with your industry association to help you understand your taxes and simplify how you file and pay
- Fast, accurate service if you have a question about taxes you owe
  - Service quality equivalent to the best private sector companies
  - Reliable, prompt access over the phone or in person with assurance of prompt follow-through on actions promised
  - Trained representatives who understand your problem and are committed to solving it
  - Clear acknowledgment of the resolution of your problem
- Professional, courteous help if you fall behind in paying your taxes
  - Representatives trained to help you find the best way of meeting your obligations and staying current in the future
  - Prompt attention to your account so you do not fall too far behind
  - Special service for start-up companies
  - Clear explanations of your obligations and rights
  - Prompt access to independent channels if you disagree about the amount you owe or how it should be paid
  - Well-defined, rigorous process for applying and relieving liens and levies when these actions are required to protect the public interest
- Professional, courteous treatment if your return is selected for examination
  - Representatives trained to help you understand any issues identified in your return and how to report accurately
  - Earlier attention to your return so you do not fall too far behind
  - Help in finding the best way of paying any additional obligations you may have
  - Prompt access to independent channels if you disagree about the amount you owe or how it should be paid
- Greater confidence that your competitors are paying their taxes as required by the tax law in the same way you are, regardless of their occupation, location, type of business or income level
  - Close working relationships with your preparers and industry associations to identify problems and confusion and to clear them up in a cooperative way so as to ensure everyone is reporting and interpreting the law in the same way
  - Prompt identification and communication of compliance problems that affect an industry or group so that people do not fall behind and end up owing taxes they did not expect
- Clear, effective means of identifying problems of law or regulation that cause unfairness or disproportionate administrative burdens on small business and communicating these to the right level of authority to fix the problem
  - To IRS headquarters if regulations need change
  - To Treasury and Congress if tax law needs change

# MODERNIZING AMERICA'S TAX AGENCY

## Benefits for IRS Employees

- Greater respect from the public
  - More cooperative, less adversarial relationship, similar to Problem Solving Day
  - Respect for an agency committed to change and improvement
  - Respect for quality of service provided
  - Public who believes you are a competent professional
- Balanced measurements comprising three categories
  - Customer satisfaction: customer view of service provided
  - Employee satisfaction: your view of service and satisfaction with your job
  - Business results: accomplishment of business goals
  - Emphasis on compliance, not only enforcement
  - Emphasis on quality as well as quantity
- Flatter organization structure will connect you better
  - Better communication of what and why things are happening
  - Better opportunity for you to be heard and influence the way things are done
  - Less time for "micro-management"
  - Managers are better able to provide you help and support
- Stabilization of work force
  - Reduce anxiety over downsizing
  - Provide some new opportunities
- Increased emphasis on training and quality
  - Clearer definition of jobs for service reps
  - More tailored training
  - Better tools (e.g., voice mail, e-mail, tax law access)
  - Exam and collection workforce with renewed and clarified mission: not only what you do but why you do it
  - Training and tools comparable to private sector