

December 8, 2014

MEMORANDUM

TO: Colleen Kelley  
President, National Treasury Employees Union

RE: IRS Oversight Board

This is my sixty eighth report as the IRS employee representative on the IRS Oversight Board. The Board met most recently on December 4 2014 for a regularly scheduled meeting.

Before I start with my report, I would like to acknowledge the incredible results achieved by IRS employees during FY 2014 as identified in "IRS FY 2014 Performance" (attachment). Notwithstanding the continuing budget challenges, the IRS employees delivered, and, as the attachment points out, there were significant missed opportunities because of the lack of funding. The Board has recognized the significant contributions of IRS employees to the success of the IRS, and the attachment only reemphasizes that point.

**2015 Budget**

The unfortunate reality is that the IRS will most likely see additional funding reductions in FY2015 but will have to deal with growing requirements associated with unfunded mandates, such as the Affordable Care Act, FATCA, and a pay raise.

All told, the IRS will have to absorb approximately \$250 million in additional costs producing serious implications for customer service, enforcement, refund fraud and the Information Technology infrastructure. The IRS is

currently operating under a continuing resolution through December 11, 2014.

It is important to point out that a flat budget in FY2015 is almost \$700 million less than required to meet even post-sequestration capacity. Since FY2013, the number of individual and business taxpayers has increased by 4.2 million and operating costs have grown by 3.3 percent.

The impact is stark:

- Declining taxpayer services and support and disparate impact on low-income taxpayers
- Eroding enforcement programs (voluntary compliance)
- Growing concerns over refund fraud
- Compromised IT infrastructure

The IRS' budget and taxpayer needs are moving in opposite directions. This trend is not sustainable in either the short- or long-term and the effects can be seen both in declines in customer service and enforcement, and also lost opportunities. For example, with an additional 951 Full Time Equivalents (FTE), the IRS could have increased Level of Service on its toll-free lines to 75% while serving an additional 4.4 million taxpayers and cutting wait times by 36%. Additionally, more resources in the FY2014 budget could have generated billions of dollars in additional revenue to help reduce the government-wide budget deficit.

### **2015 Filing Season**

The Board was briefed on the 2015 filing season which presents a number of challenges, including uncertainty regarding tax extender legislation and an anticipated higher volume of calls related to the Affordable Care Act (ACA). The IRS has projected that only half of taxpayers calling the IRS will get through to a customer service representative during the filing season. To help mitigate these problems and address taxpayer confusion, the IRS is conducting an aggressive ACA outreach and education campaign through multiple communication channels.

**Next Board Meeting**

The Board will hold its next meeting on February 23, 2015 in Washington, DC.

A handwritten signature in black ink, appearing to be 'R. Tobias', with a long horizontal stroke extending to the right.

Robert M. Tobias  
Member, IRS Oversight Board

# IRS FY 2014 Performance

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# FY2014 Overview, continued

## IRS continued to make progress on implementing ACA:

Successfully launched the Income and Family Size Verification (IFSV)

process in time for the Marketplace Open Enrollment in October 2013.

The process provided accurate information for over 27 million Exchange requests for IFSV information and 11 million Advanced Premium Tax Credit calculations

Implemented Insurance Provider Fee provision

Issued 33 items of published guidance on ACA provisions,

Preparing for tax provisions that will impact the 2015 Filing Season, including development of new forms and instructions for the premium tax credit, individual responsibility payment, and information returns for employers and insurance providers

IRS signed FATCA tax information exchange agreements with 44 jurisdictions and reached agreement in substance with 57 more; over 103,000 foreign financial institutions have registered via new web-based registration system

# FY 2014 Overview

IRS faced significant challenges in FY 2014:

- Only major agency still operating near sequestration level. Despite \$92 million increase designated for service, refund fraud, and international issues, IRS budget remained nearly \$900 million below the FY 2010 level. To manage resources, we:

- *Maintained tight hiring controls* - Since implementation of hiring freeze in December 2010, full-time permanent staffing declined by approximately 13,000 (15%).

- *Deferred infrastructure investments and new technology development, including pausing development of RRP and IRDM* - 43% of core infrastructure is severely outdated. While reducing short-term expenditures, deferring replacement increases future operating and maintenance costs and risks failure of critical systems and delivery of critical services.

- The 16-day shutdown in October 2013 resulted in a delayed filing season

- Legislative changes and other emerging challenges continued to increase demand on already constrained resources such as Patient Protection and Affordable Care Act (ACA), Foreign Account Tax Compliance Act (FATCA), Merchant card reporting, and Refund fraud, including identity theft.

# FY 2014 Overview, continued

- Despite these challenges, IRS delivered another successful filing season:
  - Processed nearly 150 million individual returns, more than 84% of which were e-filed
  - Issued over 107 million refunds totaling more than \$290 billion
  - Maintained filing season Level of Service of more than 70%, providing telephone or walk-in assistance to more than 28 million taxpayers for the year
- Collected \$57.1 billion in enforcement revenue
- Continue to make significant progress to prevent refund fraud and assist victims of ID theft:
  - Issued 1.2 million Identity Protection PINs to former victims of IDT and launched web application allowing taxpayers to retrieve their PIN online.
  - Suspended or rejected 5 million suspicious returns, preventing nearly \$10 billion in fraudulent refunds for the calendar year to date
  - Resolved more than 700,000 ID theft cases, driving Servicewide inventory below 70,000 cases, 60% less than the inventory level at the beginning of FY 2014
  - CI initiated 1,063 ID theft investigations and secured 896 indictments and 748 sentences, and established reciprocal information sharing agreements and cooperative compliance efforts with 26 states

## Strategic Goal: Deliver high-quality and timely service to reduce taxpayer burden and encourage voluntary compliance

IRS adopted a **Taxpayer Bill of Rights** to provide taxpayers with a better understanding of their rights. The ten rights were incorporated into Publication 1, which is provided to millions of taxpayers annually.

To preserve live assistance for those who need it most, the IRS introduced new tools and increased awareness and use of online and partner services:

**eAuthentication** provides taxpayers secure access to IRS online tools and has successfully handled over 13 million taxpayer requests since its January launch.

**Get Transcript** provides authenticated taxpayers online access to their tax records. Since the January launch, over 79% of transcript requests (18.6 million transcripts) have been generated through this application, relieving toll-free demand.

A new VITA Locator tool within **IRS2Go** helps eligible taxpayers find free tax assistance. Over 3.6 million returns were prepared in volunteer sites this filing season.

**Where's My Refund?** allowed taxpayer to check their refund status almost 190 million times. **Facilitated Self Assistance** in the TACs was used to prepare over 169,000 returns, up 106% over last filing season.

IRS also provided taxpayers new options to pay their tax obligations, including:

The first payment application (**Direct Pay**) to provide enable an individual taxpayer to make an electronic payment without a fee. Since its November 2013 launch, the IRS has collected \$2.7 billion through this application.

Enhancements to the **Online Payment Agreement (OPA)** system to permit more taxpayers to enter into installment agreements through the OPA webpage.



## Strategic Goal: Deliver high-quality and timely service to reduce taxpayer burden and encourage voluntary compliance, cont.

### IRS continues to address **identity theft** by:

- Refining and developing new ID theft filters, including enhanced filters that identify multiple tax returns filed using the same address and/or bank account
- Shifting the IDT inventory to facilitate more expeditious resolution for ID Theft victims filing valid returns
- Providing taxpayers from high-risk areas for identity theft (Florida, Georgia, and DC) an opportunity to opt in to the IP PIN program
- Masking SSNs on four types of installment agreement notices affecting 33 million notices annually, and requiring payors to mask SSNs on Forms 1099 provided to payees
- To encourage accurate reporting by Form 1099-K recipients, IRS developed the **Payment Mix Comparison Tool** which enables preparers to compare the ratio of gross receipts to card receipts for similar businesses.
- Completed a lean six sigma review of the **EO determination** process and introduced a streamlined, electronic **Form 1023-EZ** application for certain smaller tax-exempt organizations. Improvements resulted in more than 117,000 closures, reducing inventories 65%.

## Strategic Goal: Effectively enforce the law to ensure compliance with tax responsibilities and combat fraud

- Completed 4,606 **criminal investigations** and achieved 93.4% conviction rate
- Achieved 0.9% individual **exam coverage** rate and 4.3% coverage rate for large businesses
- Implemented improvements to **offshore voluntary disclosure** programs to streamline procedures and accommodate a wider group of U.S. taxpayers with previously unreported foreign financial accounts. OVDP has resulted in collection so far of \$6.5 billion in back taxes, interest, and penalties from more than 45,000 participants.
- Expanded **Uncertain Tax Position** reporting requirements. 2,333 taxpayers representing 57% of public companies filed Schedule UTP for TY 2012, disclosing 5,807 positions
- Delivered training, workshops and job aids to strengthen employee knowledge of **partnership** tax law and TEFRA procedures to address this fast-growing segment
- Received over 9.5 million **Forms 1099-K** totaling over \$5.3 trillion, and continue to develop methods to use these information returns to identify and correct business underreporting

## Strategic Goal: Effectively enforce the law to ensure compliance with tax responsibilities and combat fraud, cont.

### To promote preparer compliance:

Scheme Development Centers identified and suspended or revoked 140 Electronic Filing Identification Numbers used to transmit false-identity returns

Agents visited over 3,000 return preparers nationwide, focusing on EITC due diligence and PTIN requirements, Schedule C preparation, and the consequences of preparing inaccurate returns

IRS sent 20,000 EITC compliance and educational letters to preparers before and during filing season

IRS secured 53 injunctions against questionable preparers, initiated 305 criminal investigations and secured 193 convictions

The **Federal Agency Delinquency** program reduced the debt owed by Federal agencies by 55%

To improve the exempt sector's understanding of its responsibilities, IRS created interactive guide for applicants, **i1023**, that provides applicants with educational resources and guidance to ensure more accurate and complete applications

## Strategic Foundation: Invest in our workforce and the foundational capabilities necessary to achieve our mission and deliver high performance for taxpayers and stakeholders

- **IRS.gov** successfully handled 437 million page visits
- **CADE 2** posted over 140 million returns and issued over 113 million refunds totaling \$301 billion
- Partially deployed **Return Review Program (RRP)** to ensure the infrastructure and application were able to meet filing season demands; 149 million returns were loaded
- Established **Enterprise Risk Management (ERM)** program and completed its first enterprise-wide risk assessment
  - Over 400 senior employees received training
  - ERM liaisons were established in each business operating division
- Transitioned over 92,000 IRS workstations from Microsoft Windows XP to **Windows 7**
- Approximately 26,900 IRS employees participated in **Leadership Succession Review**
  - Recognized by The Training Officers' Consortium with the 2014 Leadership Development Award for its Leadership Succession Review Process
- Increased the **telework** participation rate from 26% in FY 2013 to 31% in FY 2014
- Exceeded **hiring** goals for veterans and people with disabilities
- Realized **operational efficiencies** and reduced costs
  - 54 rent reduction projects resulted in release of 582,877 sq. feet for annualized savings of \$16 million
  - IRS realized \$49.2 million in negotiated contract savings.

# Missed Opportunities

Additional resources would enable IRS to provide better service to more taxpayers:

With an additional 951 FTE, IRS could have increased LOS to 75% and served an additional 4.4 million taxpayers while cutting wait times 36%.

With an additional 200 FTE, IRS could close 300,000 correspondence cases to reduce paper inventories to a more sustainable level

Additional staff would shorten TAC lines and enable more taxpayers to get services

Additional resources would enable delivery of new technology to improve service, protect revenue and reduce government costs:

Electronic filing and processing of Form 1040X, *Amended U.S. Individual Income Tax Return*, would reduce taxpayer burden, speed processing, and yield savings to the government of \$17.1 million.

Further development of Return Review Program was delayed, undercutting IRS efforts to proactively identify false tax refund claims, prevent issuance of false refunds, detect refund schemes, and refer questionable returns for audit

Programming to acquire data more quickly from Social Security Administration Forms W-2, *Wage and Tax Statement*, and Form W-3, *Transmittal of Wage and Tax Statement*, would speed processing of legitimate refunds and verification of wages and withholding on suspicious returns

Inability to replace the retired Disclosure Authorization application resulted in reversion to a paper process that increased burden for practitioners and cost more than \$1.2 million to manually process these requests

# Missed Opportunities, cont.

- Additional resources requested in FY 2014 budget could have expanded IRS enforcement presence and added more than \$2 billion in revenue collected by:
  - Expanding correspondence examinations of refundable credits and providing greater field exam coverage across high-risk segments of the taxpayer population
  - Expanding collection programs to better address taxpayers with balance due accounts
  - Providing staffing and systems investments needed to take full advantage of the new compliance treatments made possible through merchant card and securities basis reporting
- Lack of resources precluded progress in other areas, as well:
  - Due to \$10-15 million shortfall, IRS was the only Treasury agency unable to satisfy an OMB mandate to convert approximately 84,000 Official Personnel Folders from paper files to an electronic online version by December 31, 2013
  - IRS did not receive requested funding of \$38 million to eliminate 311,813 square feet, which would have yielded rent savings of \$10 million annually
  - IRS has been unable to continue planned replacement of outdated physical security systems as required by the Federal Information Security Management Act of 2002 and Homeland Security Presidential Directive – 12

