Modernizing America's Tax Agency

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IRS

Department of the Treasury
Internal Revenue Service

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Quotes...

“As a guiding principle, the Commission believes that taxpayer satisfaction must become paramount at the new IRS . . . .”

“Customer satisfaction must be a goal in every interaction the IRS has with taxpayers, including enforcement actions. Taxpayers expect quality service in all interactions with the IRS, including taxpayer assistance, filing tax returns, paying taxes, and examination and collection actions.”

Report of the National Commission on Restructuring the Internal Revenue Service (June 25, 1997)

“For the vast majority of Americans who want to do the right thing, the IRS should do right by them, and that means treating them with respect and trust. And, it means recognizing that taxpayers are its customers.”

Vice President Gore, Reinventing Service at the IRS (NPR Report - 1998)

“Most of the IRS is organized around internally-defined functions, rather than the needs of customers. . . . The IRS should begin to refine customer segments and key events for each of those segments as they relate to those customers’ tax responsibilities.”

Reinventing Service at the IRS (NPR Report - 1998)

“For any particular kind of identified noncompliance, the choice between using the “service arm” and the “enforcement arm” or something else [is] a matter of crucial professional judgement on which the public image and credibility of the agency depend.”

Imposing Duties (Malcolm Sparrow)

“The Internal Revenue Service shall review and restate its mission to place a greater emphasis on serving the public and meeting taxpayers’ needs.”

“The Commissioner of Internal Revenue shall develop and implement a plan to reorganize the Internal Revenue Service. The plan shall establish organization units serving particular groups of taxpayers with similar needs.”

IRS Restructuring and Reform Act of 1998

"When the topic of the Internal Revenue Service arose (during a congressional delegation meeting), staff members were unanimous in their sincere expression of satisfaction with the quality of your agency's services. We appreciate the significant efforts made by the IRS employees in dealing with our staffs. Our delegation is pleased to express our gratitude for your hard work."

July 30, 1999, letter from Senator Richard Durbin and Speaker of the House J. Dennis Hastert signed by the entire Illinois Congressional Delegation

"Thanks to the IRS Restructuring and Reform Act of 1998, which mandates the rights and needs of taxpayers be made top priority, the IRS is on a new mission this tax season: to collect only those taxes that are owed and to do so fairly, respectfully and efficiently."

CNNfn, March 7, 1999

Foreword to Modernizing America's Tax Agency

In the last several years, the Internal Revenue Service (IRS) has been the subject of much study and criticism, including a Presidential commission, several congressional committees and the Vice President's National Partnership for Reinventing Government. Many problems were identified and many solutions proposed, dealing with virtually every dimension of the IRS – from electronic filing to employee discipline. This process culminated with the overwhelming passage of the IRS Restructuring and Reform Act in July 1998. Since then, many audit reports, press stories and congressional hearings have reviewed and commented on the changes taking place at the IRS.

In the mass of detail and complexity that this intense scrutiny of the IRS produced, it is easy to get lost in the trees and fail to see the forest. What the IRS was told in this process is that it is expected to do a far better job serving the public, based on a much better understanding of the taxpayer's point of view.

Responding to this mandate, the IRS embraces the opportunity to rise to a new and much higher level of performance. If we are successful, millions of American taxpayers and thousands of IRS employees will benefit for years to come: the taxpayers because they will have a tax agency serving them the way they expect to be served; the employees because they will work in an agency that people internally and externally trust.

Rising to the challenge is not a simple task. It requires fundamental change in almost all aspects of the IRS and affects the way almost all employees work with taxpayers and with each other. The required changes range from performance measures to technology, but they are all necessary for success and are very much interdependent.

The purpose of this paper is to provide 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.

Since this process of change at the IRS will be underway for a period of years, this overview document will also change reflecting progress, setbacks and learning that cause us to make adjustments. This second edition is updated to reflect the outlook as it appears early in the year 2000.

While recognizing the enormous challenge and the long road ahead, we are nevertheless convinced of the necessity and value to America's taxpayers of reaching the higher level of performance for the IRS. With the continued support of the Treasury, the Congress and the public, we are confident we can succeed.

Charles O. Rossotti

Charles O. Rossotti
Commissioner
Internal Revenue Service

I. Public Expectations and Mission

The Internal Revenue Service was established in its current form in 1952, in the wake of corruption scandals and a Presidential Commission. The objective was to create an agency that would collect federal taxes according to the law without political or corrupt influence. The IRS mission statement, written in the 1960s and in effect until 1998, reflected the way the agency saw itself and was seen by the public. Its operative words were "collect the proper amount of tax."

Over the last 47 years, the IRS succeeded remarkably in achieving the purpose established in 1952. The IRS today collects $1.7 trillion, more than the total GDP of the United Kingdom and 26 times its collections in 1952. Corruption cases are few and are vigorously investigated and prosecuted, and the agency is strongly insulated from political influence.

At the same time, the volume and complexity of IRS operations expanded tremendously. Since 1952, the number of returns filed has more than doubled, and the number of pages in the Tax Code has expanded from 812 to approximately 3,500. The rate of change in the tax system and the economy is also great. In 12 years, there were approximately 9,500 changes to the Tax Code. The IRS today deals directly with more Americans than any other institution, private or public. Even the tax-exempt sector with over $7 trillion in assets – including pension funds, charities and other non-governmental organizations – must comply with rules administered by the IRS.

For an agency that fulfilled its established purpose so well, the IRS has been the subject of a great deal of study and criticism in the last several years. The studies identified a wide range of problems: inadequate technology and failure of technology modernization programs, poor service to taxpayers, violations of taxpayer rights, failure to follow established procedures, lack of adequate training and resources for IRS employees, and inappropriate use of enforcement statistics, to name some of the most prominent. The public itself expressed its dissatisfaction by its response to surveys and ratings comparing the IRS to other public and private institutions. In such surveys, the IRS usually ranked last among public and private institutions.

What is noteworthy about the problems identified in all the recent studies is that they are not the same ones identified in 1952. Instead, they focus on a different but equally fundamental issue: how the IRS affects the people who pay the tax—America's taxpayers. What the public told the IRS, both directly and through various groups that studied the agency, is that it expects more from the IRS in the way it serves them. The public today has a legitimate expectation that the IRS will do its job in a manner that is no less effective than high-quality private and public sector organizations. After all, every taxpayer is also a customer of many other businesses and institutions, many of which provide consistently high-quality service to customers while also providing excellent results for shareholders and other stakeholders.

The IRS Restructuring and Reform Act of 1998 (RRA '98), which passed the House, 402-8, and the Senate, 96-2, incorporated many of the recommendations found in the studies that preceded it. The direction given to the IRS was clear: it must do a better job in meeting the needs of taxpayers. As required by the RRA '98, this direction is expressed in the new IRS mission statement:

> *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.*

This mission statement accurately describes the role of the IRS, as well as the public's expectations as to how the IRS should perform it. In the United States, the Congress passes tax laws and requires taxpayers to comply with them. It is the role of taxpayers to understand and meet their tax obligations, and most do since roughly 98 percent of the taxes collected are paid without active intervention by the IRS. It is the role of the IRS to help the large majority of taxpayers who are willing to comply with the tax law, while seeing to it that the minority who are not willing to comply are not allowed to burden their fellow taxpayers. The IRS must perform this role to a top quality standard, which means that all of its services should be seen by the people who receive them as comparable in quality to the best they get elsewhere.

Some observers have questioned whether the new mission statement underemphasizes the obvious need to collect taxes. On the contrary, the mission statement calls for the IRS to be more effective in all aspects of its mission, including application of the law to those who are unwilling to voluntarily comply.

Just as the best companies produce excellent shareholder returns by providing high-quality products and services to customers, it will also be expected that successful execution of this new IRS mission will produce tax revenues for the Treasury in accordance with the tax law without political or corrupt influence.

This new mission statement does not, in any sense, negate the intent of the previous one; rather it builds on it and sets a broader and higher performance standard. Only an institution that has been successful at one level can aspire to a higher level of performance.

Establishing a new mission for the IRS and clarifying the public's expectations are essential and meaningful steps in meeting those expectations. However, 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. Since the IRS will strive to perform at a level of quality achieved elsewhere in the economy, a major part of this change is guided by proven private and public sector best practices.

We refer to this whole process of change as "modernization," because it involves building on the essential components that made the IRS successful in the past while bringing them up to date in a way designed to achieve the new mission. This entire process is summarized on the following page.

Internal Revenue Service

MISSION STATEMENT

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.

GUIDING PRINCIPLES

- Understand and solve problems from taxpayer's point of view
- Enable managers to be accountable - knowledge, responsibility, authority, action
- Align measures of performance at all organizational levels
- Foster open, honest communication
- Insist on total integrity

GOALS

Service to Each Taxpayer:

- Make filing easier
- Provide first quality service to each taxpayer needing help with his or her return or account
- Provide prompt, professional, helpful treatment to taxpayers in cases where additional taxes may be due

Service to All Taxpayers:

- Increase fairness of compliance
- Increase overall compliance

Productivity Through a Quality Work Environment:

- Increase employee job satisfaction
- Hold agency employment stable while economy grows and service improves

Revamped Business Practices

Customer-Focused Operating Divisions

Management Roles with Clear Responsibility

Balanced Measurement of Performance

New Technology

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.

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.

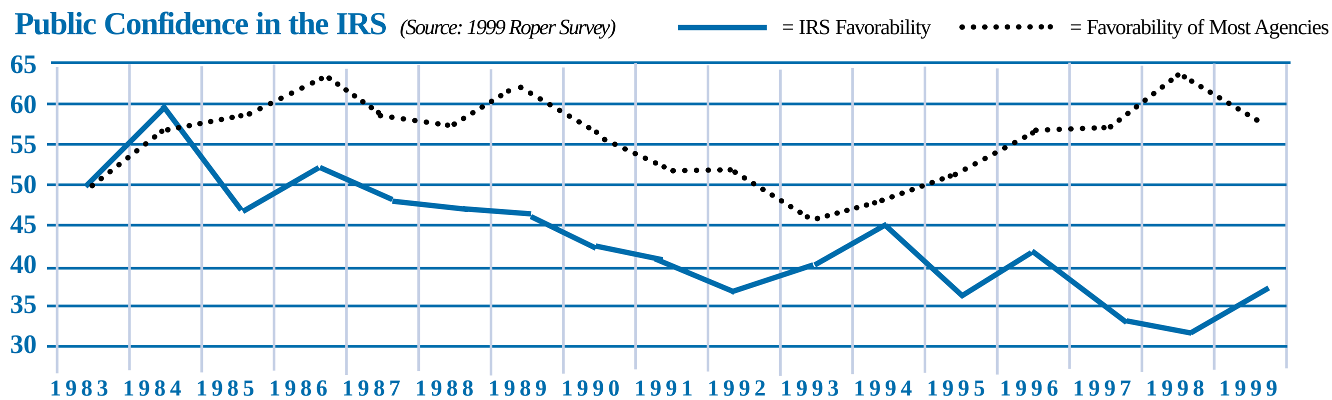
While we do not yet have adequate strategic measures of performance in our *service to each taxpayer* goal, the indicators we do have of taxpayer views on IRS service show much room for improvement. A University of Michigan survey of people who had dealt recently with various public and private sector 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
Internal Revenue Service	**51**
Internal Revenue Service-Electronic Filer	**74**

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 government 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.

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.

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.

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:

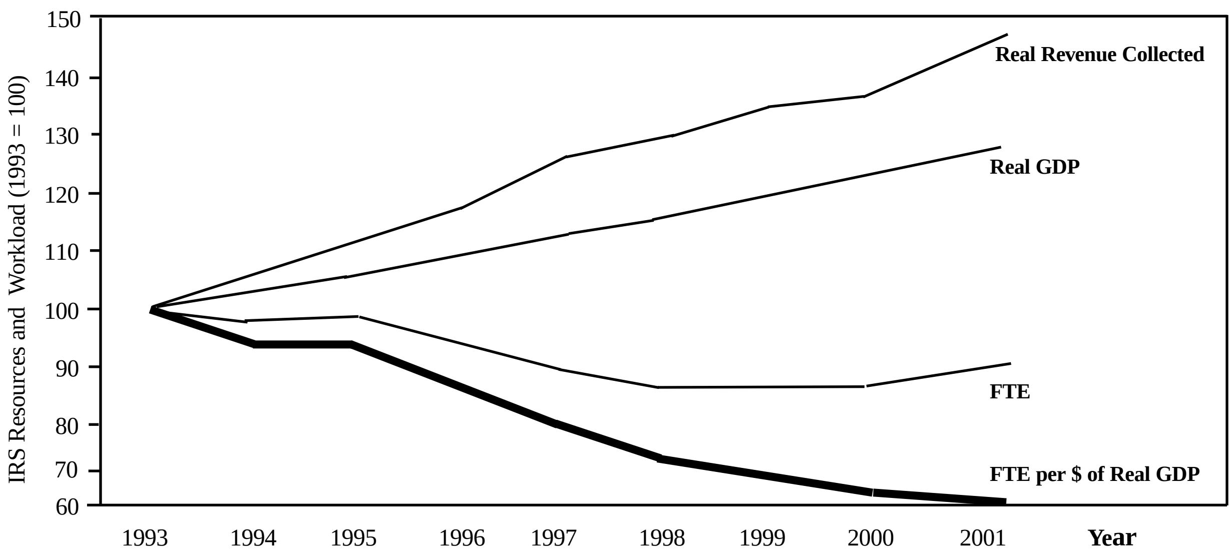
Sun polls its workers as often as monthly via an e-mail questionnaire about 'performance inhibitors' that have gotten in their way in the past month. The result, which Sun calls an 'employee quality index,' is part of a broader quality initiative that also gauges customer loyalty. 'This isn't about an 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

III. Guiding Principles

In order to achieve the IRS' strategic goals, many changes and actions over many years will be required. Actions will be taken at all levels, from front-line employees to top managers. While each change and each action that moves the IRS toward its goals is valuable, it is useful in the midst of such great change to articulate some principles that guide as well as link our efforts. Articulating a list of principles does not imply that there were no principles guiding the IRS in the past or that this list is all inclusive. Instead, it serves to ensure the importance of the principles that are especially useful in the IRS today to guide our actions toward our strategic goals. These principles are a link between our strategic goals and the tangible changes we make and actions we take 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 is especially important at this point in IRS history, as it represents a significant shift in emphasis. This shift, from an internal focus to a customer focus, is one that many organizations undertook in the last 15 years and has powerful and pervasive implications. As the IRS began to adopt this focus in recent years, practical examples of this principle have already had important effects.

For example, the IRS phone service improved a great deal, with level of service rising substantially in one year, without actually answering significantly more calls. How? By recognizing that taxpayers typically call at certain times of the day or week and by adjusting the schedules of customer service representatives to be available at those peak times. Previously, call schedules were arranged mainly on internal convenience.

IRS Problem Solving Days are another example of this principle. They have been very highly rated by taxpayers and have cleared up many long-standing problem cases by understanding the customer's point of view. Some taxpayers needed to meet face to face with an IRS representative and needed convenient times to do this and oftentimes the taxpayers' issues crossed IRS functional boundaries. By providing all the necessary expertise in one place at one convenient time, these taxpayers' needs were met.

Even the IRS quality measures for answering calls are changing to better reflect the taxpayers' points of view. Instead of rating the quality of answers against a test list of IRS-developed tax law questions, quality of actual taxpayer calls is rated.

Nearly every IRS activity and every employee's way of doing his or her job will be affected by adopting this principle. It should guide internal IRS activities as well. For example, those within the IRS organization who provide information systems services, facilities services or accounting services have internal customers, and it is vital to understand their needs to solve their problems.

While this principle has much potential to improve service to each particular taxpayer, it can also improve overall compliance. Since the IRS intervenes directly with only a very small percentage of taxpayers, gaining a clear understanding of what causes compliance problems in particular circumstances and situations is essential to address those problems effectively.

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

This principle, while almost universally accepted as essential in any well-managed organization, is important to stress at the IRS at this time.

As the IRS has grown and become 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 which 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, then, expect them to 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 an 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 they understand the basis for the decisions that guide their operations, front-line employees charged with executing policy decisions through daily operations will be able to perform their duties more effectively and make more reasonable decisions.

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. Every employee is also evaluated against some standard of performance, which in turn is the basis for awards and promotions. It is vital that the standards used to measure and evaluate performance at all levels be aligned so as to encourage and reward performance that advances the IRS' strategic goals. It is equally important to avoid measures or standards that reward inappropriate actions or are subject to manipulation.

The lack of alignment of performance measures between managers and employees in recent years has been one of the sources of IRS problems in service to taxpayers and has undermined trust between employees and managers.

Because of the complexity and diversity of IRS operations, it is essential to have performance measures that are meaningful for each type and size of organizational unit. The operational measures for a call site answering tax law questions are different from those for a large-case exam group. The performance standards of an individual employee in these units must also be tailored to what is appropriate and measurable at each level. It is vital that whatever measures are used, they should, in the behavior that they encourage and discourage, be aligned at all levels, as well as with the three strategic goals of the IRS.

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 come to grips with it as soon as possible. Open, honest communication at all levels is one of the most powerful principles of management for a large organization like the IRS. Problems should be identified, acknowledged, addressed and used as a learning tool for the future.

While this principle seems obvious and is well proven, it is often hard to live by, especially in a large organization. The well-known tendency to "shoot the messenger bringing bad news" undermines this principle. The often desirable managerial trait to "present solutions, not just problems" can produce situations where major problems are not raised until too late. The natural tendency of preferring good news to bad works against this principle. And, the fear of negative public reaction can also suppress or delay acknowledgement of problems.

Notwithstanding the difficulties of following the principle of open, honest communication, this is an essential principle for the IRS, especially at this time. The massive degree of change being undertaken and the commitment to address fundamental problems mean that progress will be slowed and risk will be elevated to unacceptable levels unless this principle is embraced at all levels.

To foster open and honest communication, it is essential for top managers at the IRS to demonstrate their receptiveness to hearing real problems and to avoid any hint of adverse consequences for those who raise legitimate issues.

Insist on total integrity

The modern IRS was formed with the fundamental objective of collecting taxes according to the law without corruption or political influence. As an agency that succeeded admirably in this purpose, the principle of integrity is not new to the IRS.

What is important at this time is to stress the breadth of this concept of integrity, hence the term "total integrity." Total integrity means each employee should perform all of his or her duties in accord with the public interest and not with regard to any personal interest. This concept includes, but is broader than, avoiding traditional offenses of corruption or political influence. It 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.

While many matters relating to IRS integrity are codified in rules and regulations, adherence to the principle of total integrity means that each employee should not only observe the rules but also embrace the spirit of acting in the public interest. When there is doubt as to the right thing to do, there is a failsafe technique: ask for help from a qualified source and do not act alone.

IV. Business Practices and Strategies

The way the IRS interacts with taxpayers is defined by its business practices, such as how filing is done, what notices are sent under what circumstances, the way phones are answered, the way collections of balances due are carried out and the way examinations are conducted. These business practices have historically been carried out by the IRS' functional disciplines, principally Examination, Appeals, Collection, Criminal Investigation, Submissions Processing and Customer Service (the latter being an amalgam of functions, including examination and collection, which have in common that they deal with the taxpayer by phone or mail).

Closely related to business practices 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. Strategies are ways of deciding how best to use limited resources to achieve defined goals.

Many IRS practices are codified in the Internal Revenue Manual and in various rulings and regulations. Both strategies and practices are also constrained by, and to a considerable degree determined by, the established organization structure and the installed technology base, the two principal instruments through which the IRS executes its business practices and strategies. These interacting factors - business practices, strategies, organization and technology - are so tightly joined and interdependent that it is not possible to make fundamental improvements in any of them without addressing all of them in an integrated fashion. This is a key reason why past efforts to adopt very promising improvements in compliance and customer service practices have not been fully implemented, despite important successes on a limited basis. Conversely, programs to improve technology, while accomplishing important incremental improvements, have not succeeded in replacing the old and inadequate base of technology on which the IRS depends.

By revamping its business practices and strategy in ways that were successful in the private and public sectors (and often on a limited basis at the IRS), the IRS can make major strides toward all three strategic goals. These changes are discussed below in summary, but full implementation of these changes is a major undertaking and will take place over a period of years, depending heavily on requisite changes in organization and technology.

Prevent taxpayer problems or address them as early as possible

One of the overriding themes in improving IRS business practices is to shift from addressing taxpayer problems well after returns are filed to addressing them as early in the process as possible, and in fact prevent problems wherever possible.

Malcolm Sparrow of Harvard's Kennedy School of Government, and one of the world's leading analysts of government compliance programs, said it simply:

> *Speed of reaction after the fact is considered second best; prevention is considered better, but is harder to quantify.*

This approach follows the well-established quality principle that it is far better for the customer and far less expensive to eliminate defects than to fix them. In making cars, for instance, it is very expensive to issue a recall because of a defect; it is less expensive to fix a defect before the car leaves the factory; and it is best of all to improve the design and manufacturing process so no defect occurs. So it goes with tax returns. As a rule, if a taxpayer files a correct return, no further costs are incurred by the taxpayer or the IRS. If the taxpayer makes an error, it is highly beneficial for both the IRS and the taxpayer to find and fix the error as soon as possible. If the taxpayer fails to pay the correct amount due, the sooner the issue is addressed, the lighter the burden on the taxpayer and the greater the likelihood that the IRS will receive payment. Interacting with taxpayers is a three-part process:

1. **Pre-filing:** services provided to a taxpayer before the return is filed to assist in filing a correct return.
2. **Filing:** services provided to a taxpayer in the process of filing returns and paying taxes.
3. **Post-filing:** services provided to a taxpayer after a return is filed, to identify and correct possible errors or underpayment.

Some of the services provided by the IRS in each of these categories, and the approximate distribution of IRS resources in each category, are shown below.

The IRS activities chart shows that the balance of IRS resources is heavily weighted to intervention after problems occur while relatively little is devoted to preventing problems, with 73 percent of the budget allocated to post-filing activities. In fact, nine times as much is spent addressing problems after the fact than is spent in preventing them.

Experience at the IRS and elsewhere shows that there are many opportunities to improve service and compliance and increase productivity by pursuing more aggressive use of techniques to prevent errors and address recurring and systematic compliance problems. (See Appendix 1.)

IRS Activities

PRE-FILING
Customer Education and Assistance

- Forms
- Publications
- Toll-free tax law assistance
- Web site
- Taxpayer education programs
- Public service announcements
- Volunteer tax assistance sites
- Advanced pricing agreements
- Published tax law guidance
- Private letter rulings
- Determination letters
- Tip rate determination and education
- Letters advising taxpayers of potential problems:
  - Duplicate SSNs
  - Self-employment tax
  - Cash vs. accrual accounting methods

11%

FILING
Customer Account Services

- Processing paper returns
- Processing electronic returns
- Crediting payments
- Advising taxpayers of errors and balances due
- Arranging installment agreements
- Answering taxpayer inquiries about their accounts
- Making corrections and adjustments to taxpayer accounts
- Abating penalties on taxpayer accounts when appropriate
- Paying refunds

17%

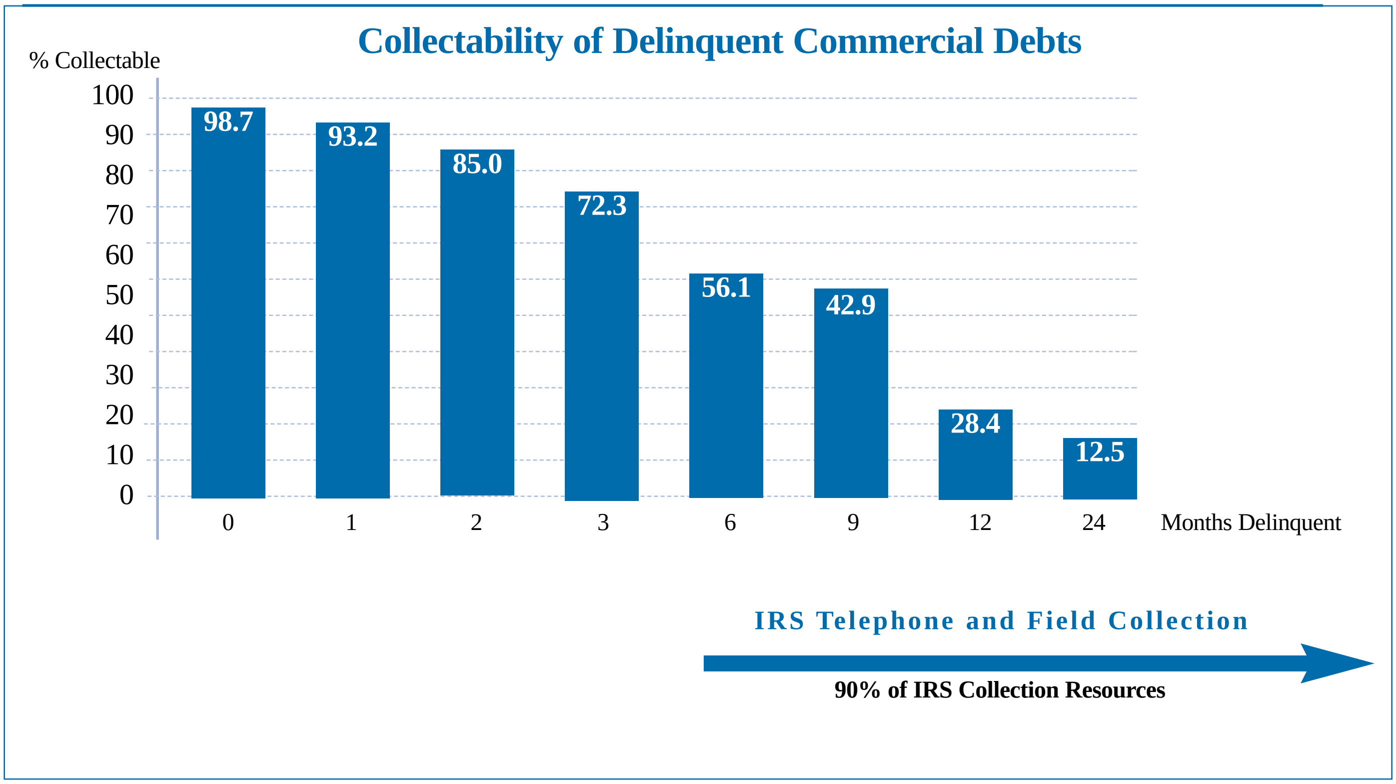
POST-FILING
Compliance

- Auditing returns
- Recommending assessments if additional tax is due
- Arranging methods of paying off balances due
- Evaluating offers in compromise
- Taking collection actions, such as liens, levies and seizures
- Handling taxpayer appeals on assessments and collection actions
- Litigating disputes
- Detecting and investigating possible fraud
- Resolving complex taxpayer account and collection situations
- Evaluating and addressing "hardship" situations

72%

Percent of IRS Budget

NOTE: Budget figures exclude Counsel and support programs such as IS and facilities.



In addition, when taxpayer problems occur, it is important to intervene as quickly as possible, particularly in the case of underpayment or nonpayment. The key to effective collection anywhere is to identify as quickly as possible the potential risks of nonpayment and obtain an agreement to settle the debt.

The table shown above depicts commercial experience in collecting debts. As is evident from the table, the chances of successful collection decline rapidly with time, dropping to 56 percent after six months. By contrast, because of IRS practices, 90 percent of the working cases of IRS telephone and field collection personnel are more than six months old, and most are several years old.

Examination of returns also usually occurs well after returns are filed. Examination of individual and small business returns often occurs six months to one year after filing, and completion of the examination requires an additional five to 12 months. Audits of returns of large corporate taxpayers often do not begin until 2 1/2 years after returns are filed. Resolution of assessments, which go into accounts receivable, often does not occur for an additional two to four years.

In effect, the majority of IRS resources today are being applied to address taxpayer errors or issues that arose three to seven years ago. One of the implications is that 64 percent of the amounts shown as owed by taxpayers in the GAO report on IRS financial statements are for interest and penalties, and only 36 percent are the original tax due.

While great gains in both service and compliance can be anticipated by preventing taxpayer problems and errors and addressing those that occur much faster, changing established practices is dependent upon changes in organization and technology that will require significant investments of time and money.

Improve communications with taxpayers

The IRS communicates with millions of taxpayers each year through multiple channels: mail, telephone, Internet and in-person. The communications have a wide subject range, from tax forms and publications describing how to file, to phone calls setting up installment agreements, to in-person meetings to resolve longstanding issues and disputes.

Communications can be initiated by either the taxpayer or the IRS, and it is common for the same issue or subject to be addressed through multiple channels, e.g., when the taxpayer calls in response to a notice sent by mail.

IRS communications with taxpayers are not only diverse, they are extremely voluminous and complex in subject matter. The IRS currently provides 484 different tax forms, including 7 new forms, 177 modified forms and 105 publications. In 1999, the IRS mailed over 100 million tax packages to taxpayers and distributed an additional 650 million forms and publications, including over 57 million downloaded from its web site. In 1999, the IRS sent taxpayers 105 million notices, received between 20 to 30 million incoming pieces of correspondence and 168 million incoming phone calls on toll-free numbers, and served over ten million taxpayers at walk-in sites. Over 20,000 employees are dedicated solely to these tasks and, in total, over 70,000 employees regularly communicate with taxpayers.

The issues communicated through correspondence and phone calls are often more complex than those handled by typical commercial call centers. The average length of a call with a customer service representative on the IRS 800-number to respond to notices is eight to ten minutes, while the average talk time at a typical commercial credit corporation is 3.5 minutes.

From the taxpayer's point of view, the quality of service the IRS provides through these various forms of communication has been well below expectations. Since almost every taxpayer also deals with leading commercial companies in credit, direct mail and other similar operations, a comparison is readily available. Typically, such operations have a level of service whereby a customer has a 90 to 95 percent chance of getting through on a given telephone call. In 1999, the chances of getting through to an IRS toll-free assistor was 53 percent.

IRS written communications, such as notices, are widely criticized as hard to understand. Furthermore, the topics on which taxpayers are calling are often of great importance to them, creating high anxiety if the matter cannot be resolved quickly. For example, a taxpayer who calls in response to a balance due notice is subject to accumulating interest and penalties and even levy of property if the matter is not resolved.

Improving convenience and quality of communications with taxpayers is one of the most important areas of improvement in business practices in a modernized IRS.

Some significant progress was made in 1999. This includes expansion of hours of phone service to 24 hours a day, seven days a week, Saturday hours at 250 walk-in sites throughout the country, and rewriting of some notices to make them easy to understand. Also, the IRS web site has been very successful, providing immediate access to all forms and publications and answers to many tax questions. In 1999, the IRS web site had over 767 million "hits" during which taxpayers downloaded more than 57 million forms and publications. In the longer term, the concept of a modernized IRS is to organize communications so that taxpayers can get accurate and prompt information and correct resolution of issues in a time and manner most convenient for them, whether by letter, phone, Internet or in person.

Given IRS operations' scale and complexity, this is a long-term task requiring fundamental change in all aspects of IRS operations, including organization and management, training of front-line personnel, internal and external distribution of information, information technology and performance measurements. Following are some examples of impediments to improving communications with our taxpayers that require fundamental change:

- Improving the level of phone access and providing 24-hour service requires managing calls and schedules on a nationwide basis, yet until October 1, 1999, IRS' 24 call sites reported to local service centers or district directors who were responsible for a geographic area and who often had differing technology and management practices.

- Improving the quality of call responses requires having front-line people who are properly trained and equipped to handle the subject matter. The complexity and diversity of the subject matter of the calls requires constant management of the way agents are organized and trained and the way calls are routed. This in turn depends on having management that is highly knowledgeable of the specific needs of the taxpayers being served as well as the ability to make constant improvements in the communications process. Yet because of their historically geographic focus, most call sites attempted to manage communications for every taxpayer type on a wide range of subject matters.

- Improving the quality of all communications critically depends on providing the front-line employees access to accurate, up-to-date information about taxpayers' accounts and the ability to adjust accounts immediately when needed. IRS computer systems generally do not have this capacity.

- Improving the quality of communications requires an accurate system for measuring quality, from both a technical point of view and the taxpayer's point of view. In 1999, such a system of measures was first introduced.

- Improving the quality of written communications (including forms, publications and notices) requires incorporating user-friendly, educational, helpful, easy-to-understand language and complete data that helps taxpayers comply with their tax obligations. This requires a complete rewrite of most notices and often depends on displaying taxpayer account data that IRS systems cannot provide.

The modernization program is designed to address all of these impediments in order to improve dramatically the convenience and quality of communications with taxpayers.

Expansion of taxpayer rights

Taxpayer rights include a wide range of protections and procedural safeguards designed to ensure that taxpayers get a fair hearing on their cases before the IRS takes any adverse action against them. In certain cases, the law requires that the taxpayer's personal circumstances must also be considered so that the taxpayer will not suffer undue hardship from an IRS action.

Taxpayer rights were considerably expanded in the IRS Restructuring and Reform Act of 1998, which included over 70 provisions concerning taxpayer rights. For example, some of the provisions in the bill are:

- "Due process in collections" provisions, which provide taxpayers facing collection action the right to have their case heard by the IRS Appeals office, and potentially a court, prior to levies being made.

- Expanded "innocent spouse" provisions that under certain circumstances provide increased authority for the IRS to relieve spouses of liabilities incurred on joint returns.

- Expanded authority for the IRS to "compromise" on taxes owed under certain circumstances.

- Change in "burden of proof" in certain court cases.

- Extension of privileged communications between taxpayers and attorneys to certain other advisors.

While the taxpayer rights provisions are now law and being implemented by the IRS, they are also consistent with and reinforce the direction of the overall modernization effort. Many of the modernization changes will increase the quality and effectiveness of the IRS in administering these rights. Of particular importance are the organizational changes that establish the National Taxpayer Advocate's office as an independent structure within the IRS, and the revamping of performance measures to include taxpayer rights.

Although most of the changes required by RRA '98 have now been implemented, many more changes will be required over the next five years to learn how to administer these provisions effectively and efficiently.

Broaden use of electronic tax administration

Electronically-filed returns improve service for taxpayers and boost productivity by reducing errors, speeding refunds and reducing labor costs. While electronic filing has been increasing rapidly, 77 percent of returns are still filed on paper. Reaching the congressionally-mandated goal of 80 percent electronically-filed returns will require many improvements within the organization, such as enhanced IRS technology to allow filing of a full range of returns, resolution of security issues to eliminate requirements for separate signature documents, tailoring of marketing and education programs to attract taxpayers and practitioners with varying needs, and broadening the number of effective payment options in conjunction with filing.

The opportunities to improve business practices through electronic communications with customers and practitioners go far beyond filing of returns. Customer education and assistance programs through the IRS web site, such as distribution of forms and publications and answers to tax law questions, are growing rapidly. Eventually, secure communication over the Internet with practitioners and taxpayers will be used more effectively to resolve taxpayer account issues, facilitating resolution of examinations, providing taxpayers authorized transcripts of their accounts and generally improving the timeliness and quality of the full range of IRS interactions with taxpayers.

In 1999, using highly secure technology, the IRS began the first pilot project to communicate taxpayer account data over the Internet with a small group of practitioners. Although this pilot program involved only 100 practioners, it is the first step in a major change in the use of electronic channels by the IRS.

To date, IRS electronic tax administration programs were developed as specialized "add-on" programs. To realize the potential, they must be integrated into the basic ways of doing business throughout the organization, as well as into new technology programs.

Leverage IRS resources through effective partnerships

There are many organizations and groups that are actively involved in tax administration and deal regularly with taxpayers. Among the most notable are State revenue agencies, tax practitioners of many kinds, industry associations, small business associations, federal agencies such as the Small Business Administration, hundreds of community and volunteer groups, services for low income and disadvantaged taxpayer services, and large businesses and institutions offering tax filing assistance to their employees.

Historically, the IRS worked with many of these organizations to share information about IRS programs and taxpayer concerns and, in the case of States, to exchange information for compliance purposes. The IRS also has some joint electronic filing programs with States.

In the future, the IRS must place far greater emphasis on working in partnership with all of these groups to reach solutions on taxpayer issues, and especially to improve taxpayer education and assistance. Many of these groups established communications channels to millions of taxpayers and are enthusiastic about working with the IRS to help their members avoid tax problems. Many taxpayers are also more likely to listen to and trust information that comes to them from organizations with which they regularly deal and depend on rather than from the IRS directly.

Examples of partnership programs that provide information to taxpayers include the following:

- The ABA and IRS produced an interactive education module for teens for use in high schools called "TAXi" and made it available on the Internet through the IRS Digital Daily website.
- The Banks, Post Office and Library (BPOL) program facilitates distribution of publications and forms through participating banks, post offices and libraries.
- The FY 2000 Small Business Resource Guide CD-ROM, designed as a reference guide for the entrepreneur, was produced and distributed free to the public in FY 99 as a pilot product.
- Through its Corporate Partnership Program, the IRS made forms and publications available to 14.8 million employees through the Intranet sites of over 2,200 companies.
- The Copy Center Program encourages copy centers to distribute free tax forms. Over 2,900 copy centers participate nationwide with support from large chains such as Office Depot, Office Max and Sir Speedy.
- Other partnership programs focus on outreach to taxpayers in under-served communities such as the Newspaper Supplement Program that distributes tax information through local newspapers and a pilot program in the Austin area that provides laminated tax forms for copying by grocery store customers.

The IRS has much to learn about specific taxpayer problems and concerns from the groups that are intimately knowledgeable about the taxpayer's point of view. Such an approach is very much in keeping with our guiding principle of "understanding and solving problems from the taxpayer's point of view." It is also a way of improving productivity, since a small investment of time and money in supporting a partnership with an organization of thousands of members is much more efficient than attempting to communicate directly to individual taxpayers.

The states offer special opportunities for using resources and improving service to taxpayers. Since most taxpayers deal with at least one state as well as the IRS, there is a great deal of overlapping information providing significant opportunities for reducing the burden on taxpayers.

The IRS and the Montana Department of Revenue are testing a Simplified Tax and Wage Reporting System (STAWRS). Upon successful completion of the test, Montana employers will be able to take advantage of combined federal and state filing. STAWRS reduces taxpayer burden on small businesses by combining into one tax return the information now contained in the IRS employment tax return (Form 941), the Montana withholding return and the Montana unemployment insurance return. State government partnership programs will enable us to meet our joint mission as tax administrators to reduce employer burden while improving the efficiency and effectiveness of government operations.

In order to implement improvements in business practices, the principle of effective partnership must be integrated into the basic structure of the organization and be given sufficient management attention and support.

Tailor practices and strategies based on specific taxpayer needs and problems

Just as companies develop particular products and marketing programs to reach customers with differing needs, most IRS business practices offer the opportunity for dramatic improvement by tailoring them to address particular taxpayer needs and problems. These needs and problems vary enormously, as just a few examples illustrate:

- Individual taxpayers with income reported predominantly by third parties have a much more limited set of reporting and payment problems than those with business income, but prompt payment of refunds is very critical to them.

- College students, whose returns can often be filed by telephone, have different service needs and preferences than senior citizens with retirement income.

- Large businesses, with extensive international activities, have a different set of tax problems that require much different service than small, start-up businesses.

An IRS working group recently studied taxpayers with only wage and investment income and identified groups of individual taxpayers with particular circumstances and needs (Exhibit A). To serve these taxpayers effectively, it is essential to understand their particular needs and circumstances and to meet them with appropriate services and programs.

Tailoring IRS services to particular groups of taxpayers is a cornerstone of how we can dramatically improve our service to taxpayers as well as increase productivity within the organization. Virtually all IRS services can be improved using this principle. Pre-filing assistance programs, such as customer education, telephone and Internet assistance and publications and forms design, all represent obvious opportunities for more clear and effective communications. Filing-related programs, such as electronic filing, telephone account assistance and notices also need to be tailored to suit the needs of individual, small business and large business taxpayers. In addition, post-filing compliance programs offer major opportunities to allocate resources more effectively based on knowledge of specific issues affecting taxpayers in particular industries or business situations. In turn, the post-filing knowledge gained from working with taxpayers in examination and collection can be used to develop improved guidance and education programs to prevent future problems, thus reinforcing the problem prevention strategy.

Understanding taxpayer problems and needs and tailoring and improving programs to meet these needs is so fundamental to meeting IRS strategic goals that it must be a key organizing principle for the way the IRS is managed.

W&I TAXPAYER CHARACTERISTICS
Examples of Special Needs of Individual Taxpayer Market Segments

SEGMENT	PROFILE	KEY NEEDS	PROPOSED STRATEGY TO ADDRESS NEEDS
Segment I	• Simple returns; low income (<$30K); low tax understanding; language assistance; urban; possible dependents; possible compliance issues	• Face-to-face contact required; tax education; needs hand-holding; language assistance	• Focus on education about taxes; reach through walk-in centers; bi-lingual assistance
Segment II	• Simple returns; low to middle income; educated and computer proficient; understands taxes; prepare own returns; compliant	• Need for accurate and fast access to IRS (through Internet); answers to specific questions	• Aggressive marketing of e-commerce products; education on forms to file and taxation issues pertaining to them; greater access to electronic sites (e.g., through schools and universities)
Segment III	• Middle income families; average return complexity; familiar with taxation; typically paper filers; prepare own returns; compliant	• Reliable information on tax law changes, new forms and procedures; prompt and accurate response to queries	• Provide information on tax laws through direct mail; marketing of e-commerce products--migrating them toward e-commerce; provide more accessibility through new channels
Segment IV	• Complex returns, investment and schedules; high income; professionals and wealthy retirees; paid preparers; compliant	• Customized assistance through preparers; need help with complex problems; easy access to tax information through preparers	• No direct assistance required from IRS; focus on providing high-quality assistance to practitioners; leverage partnerships with practitioners to provide better service
Segment V	• Divorced/separated individuals; simple/average complexity of returns; low/middle income; low understanding of taxation; possible compliance problems	• Increased understanding of tax system; recognition of their circumstances--possible hardship assistance; accessibility to someone who will solve their problems; clear explanation of child support test	• Basic tax education (e.g., seminars on return preparation); hardship programs; outreach through divorce courts, single parent associations
Segment VI	• Balance due and non-filers; some understanding of taxes; possible fear of the tax system; low understanding of collection options; financial problems; withholding (W-4) problems; frequently ignoring notices, contact attempts; prepare own returns	• Understanding of the collection process, options and implications; understanding of withholding; accessibility to tax help; reduction of penalties for honest mistakes	• Aggressive marketing/clinics on collection options (installment agreements, offers in compromise and credit card settlement); information on reasonable cause incentives; providing specific help on the phone; quicker response to non-filing situations
Segment VII	• Elderly/retired; low to middle income; Social Security/pension-based incomes; simple/middle complexity returns; prepare own returns; not computer literate; value face-to-face contact; easy to reach through retirement communities	• Face-to-face assistance/education; information on Social Security/pension changes; desire to volunteer; increased awareness of investment tax law changes; assistance on return preparation	• Increased coordination with AARP and other relevant stakeholders; seminars and assistance on filing through community organizations; reach through VITA and TCE; joint ventures with Social Security, investment firms, banks, etc.

Apply risk-based compliance intervention techniques

Regardless of how successful the IRS is in preventing taxpayer errors, it will always be necessary to intervene through examinations, collection actions and investigations when noncompliance or nonpayment is found or suspected to be occurring. Since the IRS has limited resources, it is essential to apply resources where they will be of most value in reducing noncompliance, both in specific cases and in patterns of noncompliance. Strategies that target resources effectively benefit individual taxpayers by reducing the need to burden those taxpayers who comply. For example, the IRS was a pioneer in using statistical techniques in selecting tax returns for audits that were likely to contain an understatement of tax.

With the advent of many new best private sector practices, the IRS has an important opportunity to use the information it has to deploy compliance resources more efficiently. This is especially the case with respect to collections, where great progress in developing more effective collection techniques and practices has been made in both private and public agencies. The proven keys to effective collections are: (1) to identify as promptly as possible, using all available information, customers who may present a risk of nonpayment; and (2) to intervene in the most effective way, whether through mail, phone calls or in-person visits, to work out a payment program that addresses that particular customer's payment problem. This helps the customers as well as the collecting agencies, and limits the need for enforcement actions.

Although risk-based compliance techniques offer great opportunities for progress on all three of IRS' strategic goals, they are dependent upon clear, centralized management of compliance resources for relatively homogeneous sets of taxpayers. In addition, accurate, up-to-date data about taxpayers' returns and accounts, and modern technology such as constantly updated decision models, telephone dialing equipment that assists the operator in making calls and collection support systems are essential. Long-established business practices must be modified and updated.

Address willful noncompliance

As the agency tasked with administering and enforcing the tax laws, the Internal Revenue Service is required to determine who is not in compliance with their tax-paying responsibilities, and bring them into compliance. The IRS has the authority to impose civil fines and penalties for delinquent payments and filings and generally pursues civil remedies through its Examination and Collection functions. Civil actions are usually sufficient for bringing most noncompliant taxpayers into compliance. However, there are a small number of taxpayers who willfully violate the tax code with criminal intent. A Roper survey commissioned by the IRS in June 1999 found that 87 percent of Americans feel that it is not at all acceptable to cheat on your taxes. Only eight percent say it is okay to cheat a little, but three percent thought it acceptable to cheat on taxes "as much as you can get away with."

IRS Criminal Investigation (CI) is responsible for investigating criminal tax violations and related financial crimes in support of the administration of the Internal Revenue Code. CI is the only federal law enforcement agency with the authority to investigate income, excise and employment tax criminal violations. CI conducts a comprehensive financial investigation and determines whether sufficient evidence exists to recommend prosecution to the Department of Justice for willful attempts to violate the federal tax laws. Criminal penalties are sought only in appropriate matters involving willful violations of the tax code.

CI is an essential component of effective tax administration. Over the past decade, the number of cases referred to CI from within the IRS decreased significantly. The IRS is no longer the largest source of referrals and now supplies less than 12 percent of all criminal cases requiring investigation. In April 1999, Judge William Webster issued several recommendations following a year-long study of the IRS' Criminal Investigations. Judge Webster identified in his report that "Examination, collection and CI must reinvigorate the fraud referral program...making clear CI's commitment to tax enforcement." In 2000, the IRS will begin to focus its investigative resources on those cases having the biggest impact on noncompliance with the tax law.

Integrate compliance strategies

The greatest payoff in progress on all three of IRS' strategic goals will come when all of the improved business practices can be implemented through effective and integrated compliance strategies. An integrated strategy is one in which the needs and problems of a set of taxpayers are clearly understood and all the techniques and resources from all the disciplines of the IRS are applied appropriately to solve those problems over a period of time.

Again, to quote Malcolm Sparrow:

> *In both Australia and California, renewed attention was paid to service functions, to public education programs and provision of timely and well-targeted information. But attention never wavered from the central mission of making sure taxpayers paid up, in full and on time. For any particular kind of identified noncompliance, the choice between using the 'service arm,' and the 'enforcement arm,' or something else became a matter of crucial professional judgment on which the public image and credibility of the agency depended.*

An example of such an approach is the IRS Earned Income Tax Credit (EITC) Program. The EITC is helping millions of lower-income workers, both with and without children, make ends meet. In 1997, over 19 million workers received credits worth almost $30 billion. The IRS' goal is to encourage every eligible taxpayer to claim the credit. But, the IRS must also work to ensure that claims for the credit are accurate while preventing those who are ineligible from receiving it.

Professional tax practitioners prepare over 60 percent of the returns filed with a claim for EITC. To increase the effectiveness of the preparer community in servicing their clients, legislation was enacted which provided that penalties be applied to preparers who fail to diligently determine the accuracy of the taxpayer information used to claim EITC.

In order to assist the practitioner community in meeting its obligations with respect to due diligence in the area of EITC, the IRS developed the EITC Preparer Outreach Program, a strategy of combined outreach and compliance checks. Between November 1999 and January 2000, Service employees are visiting over 10,000 preparers. The employees are discussing the eligibility requirements for a taxpayer to claim an EITC benefit as well as the recordkeeping requirements for preparers. During these visits, preparers are also receiving an EITC Professional Kit which contains an overview of the EITC; information on valid identification numbers, eligibility and due diligence requirements and other helpful information.

In addition, the IRS has partnered with the two largest national preparers, H&R Block and Jackson Hewitt, which have agreed to provide the necessary education to their own employees and franchisees. They also agreed to change their software to eliminate all default answers on the due diligence forms.

While we have yet to determine the compliance benefits in tax dollars protected, we feel confident that the improved customer service will lead to an improved partnership between the IRS and the professional practitioner community.

Near-Term Improvement Priorities

The development and implementation of integrated strategies on a large scale depend on having a clear understanding of taxpayer problems, an organization structure that permits comprehensive addressing of these problems, and appropriate performance measures to encourage and quantify progress.

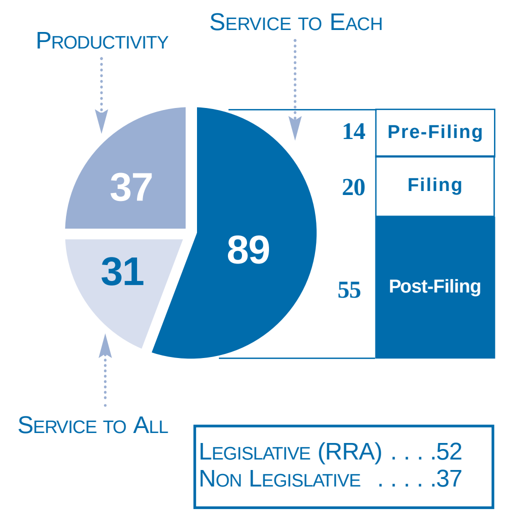
As is evident from the above examples, there are major opportunities for progress on all three of the IRS' strategic goals by revamping business practices and strategies, and there are hundreds of specific actions that are required to implement these improvements.

The National Performance Review study titled *Reinventing Service at the IRS* made 295 specific recommendations and many more have been identified from other sources. While some of these actions can and are being implemented quickly, the most important changes are dependent upon other fundamental changes in the organization, management and technology.

Through a rigorous prioritization process, 157 near-term initiatives to improve business practices were identified in 1999; of these, about half are mandates. Many of the higher profile initiatives were implemented or partially implemented in 1999, 12 initiatives were added and six expanded for 2000, as shown on the following pages.

Exhibit B-1: Near Term Improvement Priorities

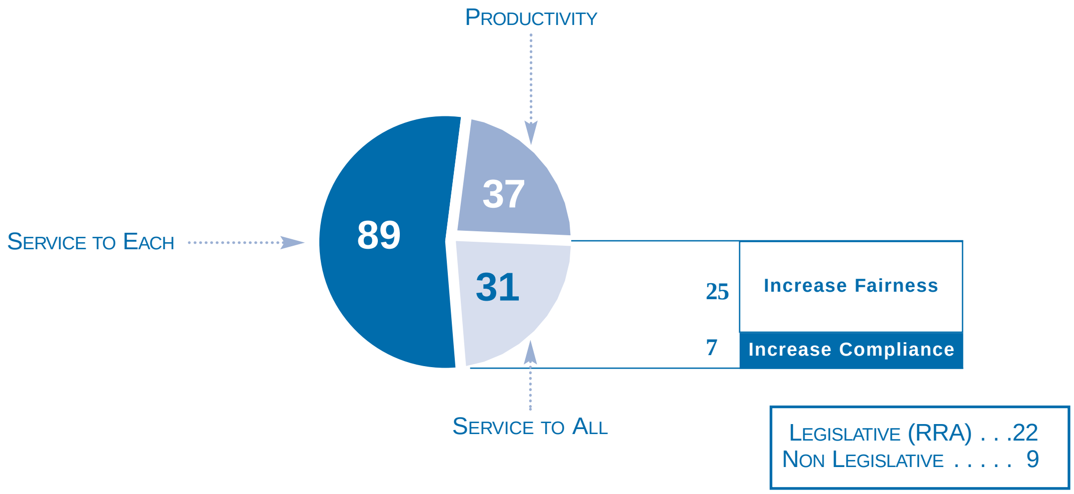
Service to Each Taxpayer

Making Filing Easier (Pre-Filing)	Improve taxpayer assistance by meeting demand and increasing accuracy. **1. Expand telephone service to 24 hours a day, 7 days a week.** **2. Use call-routing technology to ensure better management of phone traffic.** **3. Provide bi-lingual service on the telephone.** **4. Provide nationwide access to the SERP, Service-wide Electronic Research Project.**	Increase use of, and offer easy-to-use alternatives to, paper filing. 1. Implement actions to mandate electronic filing of Form 1065. 2. Accept alternative methods of payment. 3. Increase marketing of all e-file products. 4. Increase electronic options for businesses.	 	
Providing First-Quality Service to Each Taxpayer Needing Help with a Return or Account (Filing)	Meet customer demand for fast responsive account assistance by telephone. 1. Arrange for each local District Office to publish addresses and phone numbers in local telephone directories. **2. Complete Automated Collection System (ACS) redesign study.** **3. Monitor and assess the Atlanta Consolidated Call Site Pilot (ACCSP) to determine if concepts merit Service-wide implementation.**	Simplify notices and correspondence. 1. Improve written communications by rewriting notices in plain language. 2. Reduce volume of undelivered mail. 3. Flatten the notice issuance pattern throughout each year. 4. Include the name, telephone number and unique identifying number of an IRS employee on any manual correspondence.	Meet demand for walk-in assistance. 1. Expand and standardize hours of operation. 2. Improve availability of forms and publications. 3. Install Q-Matic at 15 additional sites.	Provide specialized products and services for small businesses. **1. Make technical correction to clarify the small business exemptions from the corporate alternative minimum tax.** **2. Provide relevant information to new employers when they apply for a federal employer identification number (EIN).** **3. Encourage the use of the EFTPS and STAWRS.** **4. Mentor and monitor New Employers prototype.**
Providing Prompt, Professional, Helpful Treatment to Taxpayers in Cases Where Additional Taxes May Be Due (Post-Filing)	Protect taxpayer rights. **1. Place burden of proof on IRS in certain cases.** 2. Expand innocent spouse relief, separate liability election and equitable relief. **3. Limit circumstances in which a taxpayer's residence or business assets may be seized.** 4. Hold employees responsible for identifying any improper conduct affecting taxpayers. 5. Notify the taxpayer when a notice of federal tax lien has been filed. **6. Maintain records of taxpayer complaints of misconduct by individual employees.**	Improve access to problem solving help. 1. Expand the circumstances under which the Taxpayer Advocate may consider issuing a Taxpayer Assistance Order. **2. Create Citizen's Advocacy Panels.** **3. Inform public about the Taxpayer Advocate and publicize the Taxpayer Advocate's toll-free number.** 4. Hold local Problem Solving Days (PSDs) at least through April 1999. Institutionalize PSDs into daily operations.	Broaden taxpayer payment options whenever appropriate. 1. Allow taxes paid by check or money order to be made payable to the United States Treasury. **2. Offer credit card payment for balances due. Seek credit industry partners to pilot test credit cards for taxpayers who file electronically in 1999.** 3. Test Direct Debit Installment Agreement improvements (option to exclude "user fee" with direct debit of payments). **4. Change offer in compromise procedures to reduce taxpayer burden.**	Identify systemic causes of account problems and develop solutions. 1. Address systemic causes of Audit Reconsideration issues by: A) Revising statutory notice processing. B) Reducing processing delays. **2. Obtain access to Financial Management Service's Check Information.** **3. Implement Non-Master File (NMF) action plan.** 4. After December 31, 1999, authority is given to extend 10-year collection period in certain circumstances.

■ = Completed ■ = Partially Completed

Exhibit B-2: Near Term Improvement Priorities

SERVICE TO ALL TAXPAYERS



Increase Fairness of Compliance

Pursue penalty reform.	Ensure appropriate, fair and consistent use of compliance resources.
1. Reduce the FTP penalty by 50% for individuals who timely file returns and pay by installment agreements. 2. Redesign all penalty notices and train Exam, Collection and Customer Service employees on who is authorized to approve initial assessments. 3. Investigate the appropriate level for penalty abatement via telephone. **4. Send a letter to business customers who have made first-time deposit errors to tell them the penalty has been waived and how to avoid mistakes in making their next deposit.**	**1. Develop and implement an approval process under which any lien, levy or seizure is approved by a supervisor.** **2. Determine a minimum bid price below which the seized property must not be sold.** **3. Establish a sunset date of 180 days for notices of intent to levy.** **4. Revenue officers shall determine there will be sufficient net proceeds from the sale to apply to unpaid tax liabilities.**

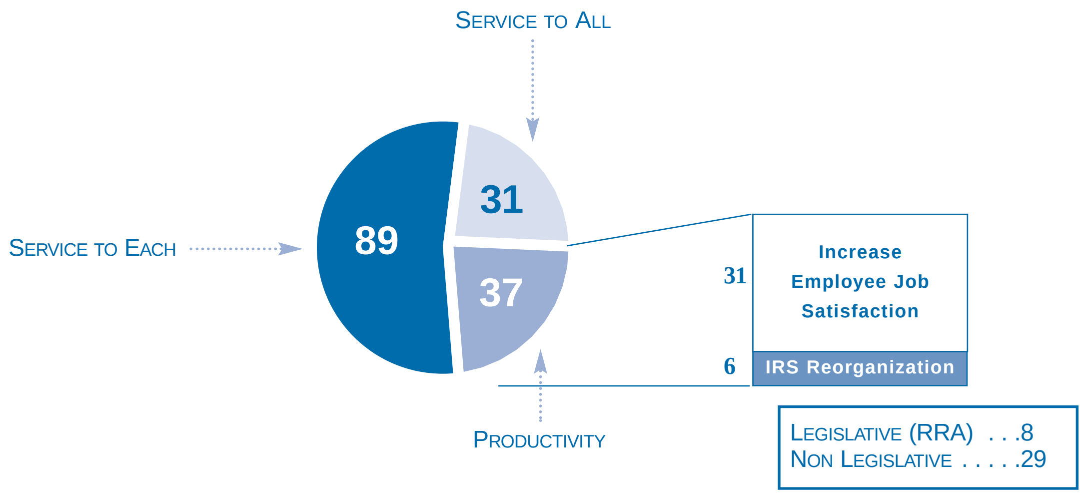
Increase Overall Compliance

Improve and increase use of "upstream" education and delinquency prevention techniques.	Use research to identify potential areas of noncompliance and develop effective treatments.
1. Award matching grants up to $100,000 per year to develop, expand or continue qualifying low-income taxpayer clinics. 2. Provide proactive education to taxpayers to inform them of potential issues that could create delinquent tax situations. 3. Improve the EITC program by implementing the EITC action plan, which includes: education, communication and assistance, prevention and identification, research and math error programming for secondary TIN, age-related checks, etc.	1. Each year, conduct an analysis of the sources of complexity in administration of the federal tax laws. 2. Design a national compliance survey as an effective alternative to TCMP. 3. Continue to develop and refine alternative treatment revenue (ATR) methodologies to measure the effectiveness of non-enforcement compliance initiatives.

■ = Completed ■ = Partially Completed

Exhibit B-3: Near Term Improvement Priorities

Productivity Through a Quality Work Environment



Increase Employee Job Satisfaction

Provide a quality work environment.

1. Establish a new workforce performance management system.
2. Replace existing workstations as required by the National Workspace and Occupancy Standards.
3. **Increase top grade level for customer service representatives.**
4. Change and continuously improve supervisory practices to enhance employee satisfaction at call centers.
5. Implement enhancements to e-mail and VMS.

Provide tools and training to enhance customer service.

1. **Submit a comprehensive customer service employee-training plan to Congress.**
2. Provide adequate number of telephone, fax and e-mail capabilities at each post of duty.
3. Create a training module on customer service for all functional areas.
4. Develop procedures to include user-friendly job aids as part of IRM 2100 to assist front-line Customer Service employees.
5. Provide electronic research tools to front-line employees.
6. Use capabilities of Performance Development System (PDS) to assess competencies and determine training needs.

Create an IRS culture that values employees and rewards top quality service.

1. Prohibit the use of records of tax enforcement in evaluating employees.
2. **Revise IRS mission to focus on taxpayer needs.**
3. **Establish, as a standard practice, that all executives overseeing taxpayer contact functions will interact with taxpayers on a regular basis.**
4. Use internal and external feedback systems to improve culture by:
   - A) Improving customer feedback.
   - B) Implementing tests in 4-8 field offices to improve operations based on customer satisfaction surveys.
   - C) Implement customer satisfaction measures.

Ensure Successful Reorganization of IRS Structure and Management While Maintaining a Stable Workforce

Improve service by reorganizing and refocusing along customer segments.

1. Reorganize the IRS by establishing organizational units servicing groups of taxpayers with like needs.

Measure progress and performance against a balanced measurement system.

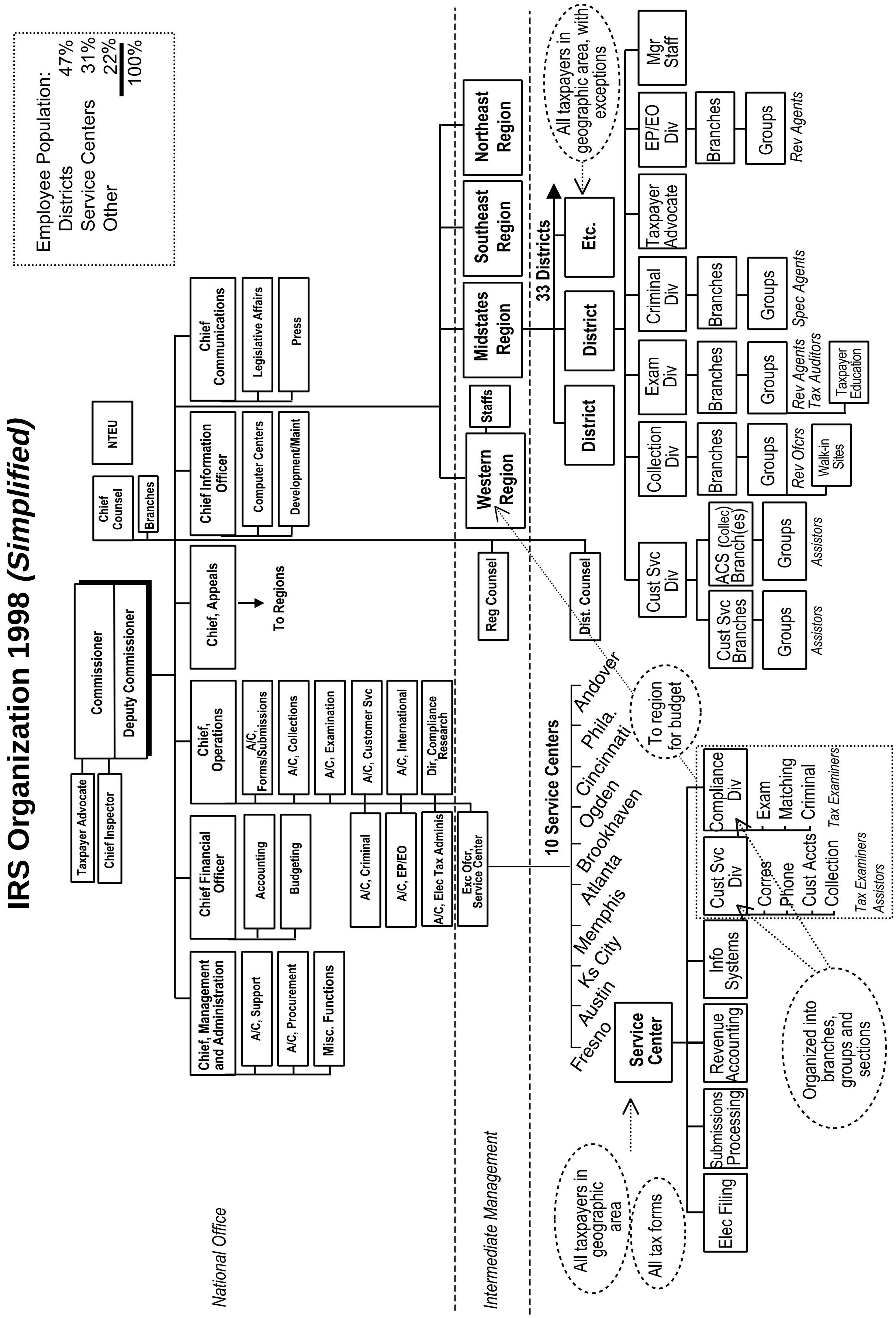
1. Develop a balanced measurement system that measures customer service, employee satisfaction and business results by:
   - A) Aligning all IRS review systems (e.g., business review, peer review, etc.);
   - B) Aligning critical elements of personnel standards into a balanced measures approach;
   - C) Aligning the balanced measurement system into the modernized IRS.
2. Develop and implement a Centralized Quality Review System to improve quality measures and provide better feedback to CSRs and managers.

■ = Completed ■ = Partially Completed

Exhibit B-4: Potential Expanded or New Near Term Improvement Priorities

SERVICE TO EACH	
Develop a viable proposal to include a POA (or other appropriate representational designation) check box on Form 1040.	New
Rollout of oral Taxpayer Information Authorization (TIA).	New
Test placement of "stuffers" on local Problem Solving Days in fourth notices from Collection.	New
Expand Spanish walk-in service to multi-lingual walk-in service via contracted telephone translation support.	Expanded
Implement ACS redesign recommendations.	Expanded
Address outstanding issues from the latest NTA "20 Most Serious Problems." The first issue to address will be misapplied payments/unapplied payments. Perform a study to determine the scope of work required and current trends on this issue.	New
Institutionalize two components of Problem Solving Days within normal operations—taxpayer appointments and cross-functional teams. Recommendations from the current task force will likely expand scope and resource requirements for institutionalizing effort.	Expanded
Small Business Employment Tax Deposit proposal. Ease the burden on small business employers by increasing or easing the existing criteria for quarterly depositors.	New
Create a Small Business Transition Office (SBTO) to continue and expand specialized products and services for small businesses—e.g. Small Business Resource Guide (CD-ROM), partnerships with SBA and other agencies, EFTPS support, FEIN projects, STAWRS support, new employers prototype, Web site products, etc.	Expanded
Coordinate with Small Business Development Centers (SBDCs). Use the over 1200 existing SBDCs as platforms for outreach programs to small businesses.	New
Oversee and migrate approved Small Business lab projects (Pacific/Northwest District) for implementation and/or integration to Small Business/Self Employed operating division. Lab projects will be approved and tracked using TSI process.	New
Small Dollar Notices. Conduct a study to determine the viability of sending notice of balance due amount but waiving payment in cases of small dollar notices. Examine situations where the costs of collection are greater than the balances due (defined by a to-be-determined tolerance level).	New
Convene team of field personnel to review new IRM 2100 to identify issues and suggest improvements.	Expanded
Make progress on notice redesign including measurement of quality and accuracy from taxpayer's perspective. Conduct focus groups to obtain taxpayers' points of view on quality of IRS notices.	Expanded
SERVICE TO ALL	
Implement approved recommendations from the "Reducing Burden National Task Force." Potential items include: - Provide quality service during an audit by taking responsibility for a taxpayer's existing IRS account problems - Expand business hours of audits. Conduct initiative to combat corporate tax shelters Conduct initiative to combat abusive trusts	New
PRODUCTIVITY THROUGH A QUALITY WORK ENVIRONMENT	
Reduce administrative burden on managers. Managers need to spend more time involved in case work and in mentoring and coaching employees.	New
Provide tax preparation assistance for lower graded employees at the service centers (GS3s, GS4s…).	New

Exhibit C: IRS Current Organizations



V. Organization and Management

Previous IRS structure did not adequately support taxpayer demands

The organization structure is the vehicle through which decisions are made and actions carried out. The IRS structure as of September 1, 1998, is shown in Exhibit C. It was built around districts and service centers, the basic organizational units established many years ago and evolved over decades. There were 33 districts and ten service centers. Each of these 43 units was charged with administering the entire tax law for every kind of taxpayer, large and small, in a defined geographical area. Consequently, every taxpayer was serviced by both a service center and a district, sometimes more than one. Within each of these units, work was actually carried out by functional disciplines, principally Examination, Appeals, Collection, Criminal Investigation, Submissions Processing and Customer Service, the latter being an amalgam of collections, examination and general tax law and account information services provided by mail and telephone.

Service centers and districts each performed these functions for the same taxpayer, the responsibility shifting depending on whether the work was done by phone, mail or in person. For example, in the collection area, there are three separate kinds of organizations spread over all 43 operational units that use four separate computer systems to collect taxes. Each of these three units and four systems collects from every kind of taxpayer, from individuals to businesses.

Overseeing these operational units were four regions and a national office, which also operates three large computing centers. There were eight intermediate levels of staff and line management between a front-line employee and the Deputy Commissioner, who is the only manager besides the Commissioner who had responsibility over all aspects of service to any particular taxpayer.

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

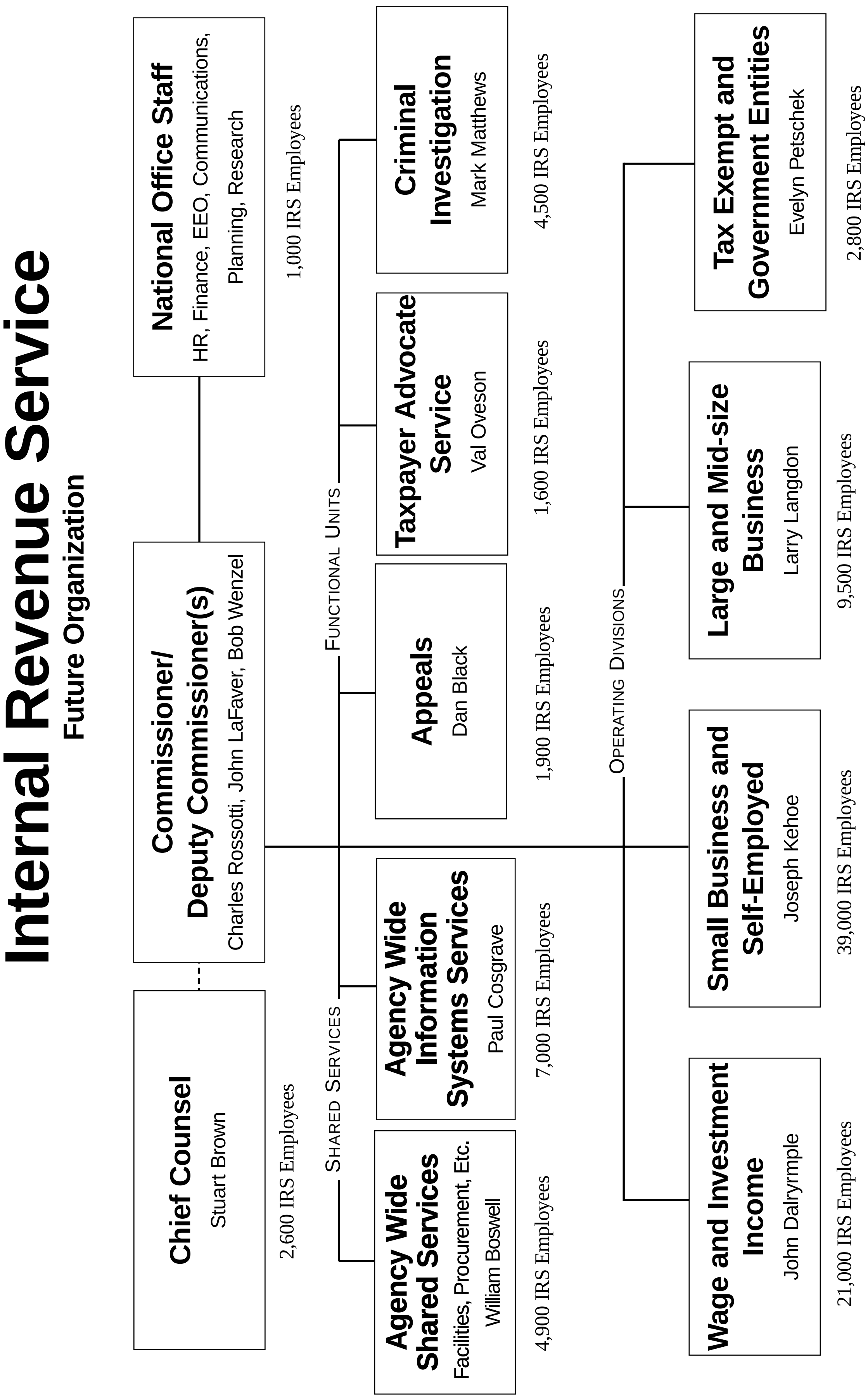
A modernized structure built around taxpayer needs

The IRS' modernized structure is similar to one widely used in the private sector: organized around customers' needs, in this case taxpayers. Just as many financial institutions have different divisions that serve retail customers, small to medium businesses and large multinational businesses, the taxpayer base falls naturally into similar groups. This concept has been closely studied since it was first proposed in early 1998. While some details remain to be worked out, the top-level structure is shown in Exhibit D. Please note: all numbers are approximate and subject to change.

The key operational units are four operating divisions, each charged with full end-to-end responsibility for serving a set of taxpayers with similar needs. These operating divisions are supported by two service organizations: Information Systems and Agency Wide Shared Services (providing common services such as facilities and procurement). Appeals and the Taxpayer Advocate are nationwide organizations that provide separate specialized independent channels for taxpayers. Criminal Investigation will have sole responsibility for investigation of criminal violations of the tax law and, for the first time, will operate as a line unit within the IRS. Chief Counsel provides tax advice, guidance and legislative servies to all components of the IRS. A smaller national office will assume an overall role of setting broad policy, reviewing plans and goals of the operating units and developing major improvement initiatives.

The needs and problems of the taxpayers served by each of these operating divisions are very different, as shown in the table on the next page, and consequently

Exhibit D: IRS Future Organization



Taxpayer Characteristics (Estimates)

	Wage & Investment	Small Business & Self-Employed	Large & Mid-size Business	Tax Exempt & Government Entities
Number of filers	88 million	45 million	210,000	2.4 million
Number of individual taxpayers	116 million	—	—	—
Total tax liability (billions)	$380	$790	$466	$103
Average tax liability per filer	$4,310	$20,231	$2,231,274	$42,698
Gross cash paid (billions)	$46	$915	$712	$221
Average # of transactions with IRS per filer/year	1-4	4-60	60+	60+
Percent preparing own returns	59%	20%	—	—
Assets regulated	—	—	—	$7 trillion
Average number of returns filed per filer	1.1	2.7	3.5	1.7

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

serving them effectively and efficiently requires different services and different ways of delivering that service.

The first of the four operating divisions will serve some 88 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 deal with the IRS only once a year, when filing their return, and most receive refunds. Collection problems are limited since they pay only $46 billion in cash directly to the IRS, the balance of their liability being paid through withholding by their employers. Compliance issues are focused on a relatively limited range of issues, concentrated on dependent exemptions, credits, filing status and deductions. Roughly 60 percent of these taxpayers file their own returns, depending directly on the IRS or volunteer groups for education and assistance.

The second group of taxpayers includes fully or partially self-employed individuals and small businesses. This includes about 45 million filers. This group has much more complex dealings with the IRS than the wage and investment taxpayers. They have four to 60 transactions with the IRS per year and pay the IRS directly $915 billion in cash, representing nearly 44 percent 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 possibilities for errors, resulting in collection and compliance problems, are greatest in this group because of lack of withholding or information reporting and the large amount of cash paid. The result is much more frequent dealings with IRS compliance functions.

Large and mid-size businesses, comprising only about 210,000 filers, pay the IRS $712 billion in cash. This group includes corporations with assets over $5 million. While collection issues are rare, many complex issues such as tax law interpretation, accounting and regulation, many with international dimensions, frequently arise. At least 20 percent of these taxpayers interact with IRS compliance functions each year, and the largest taxpayers deal with the IRS continuously.

The tax-exempt and government entities sector, including pension plans, exempt organizations and governmental entities, represents a large economic sector with unique needs. Comprising 2.4 million filers, this sector ranges from small local community organizations to major universities and huge pension funds. Although generally paying no income tax, this sector pays over $220 billion in cash in employment taxes and income tax withholdings and controls about $6.7 trillion in assets. The IRS is charged with administering detailed and complex provisions of law that are generally not intended to raise money, but rather to ensure that these entities stay within the policy guidelines that enable them to maintain their tax-exempt status.

An example: The Wage and Investment Division

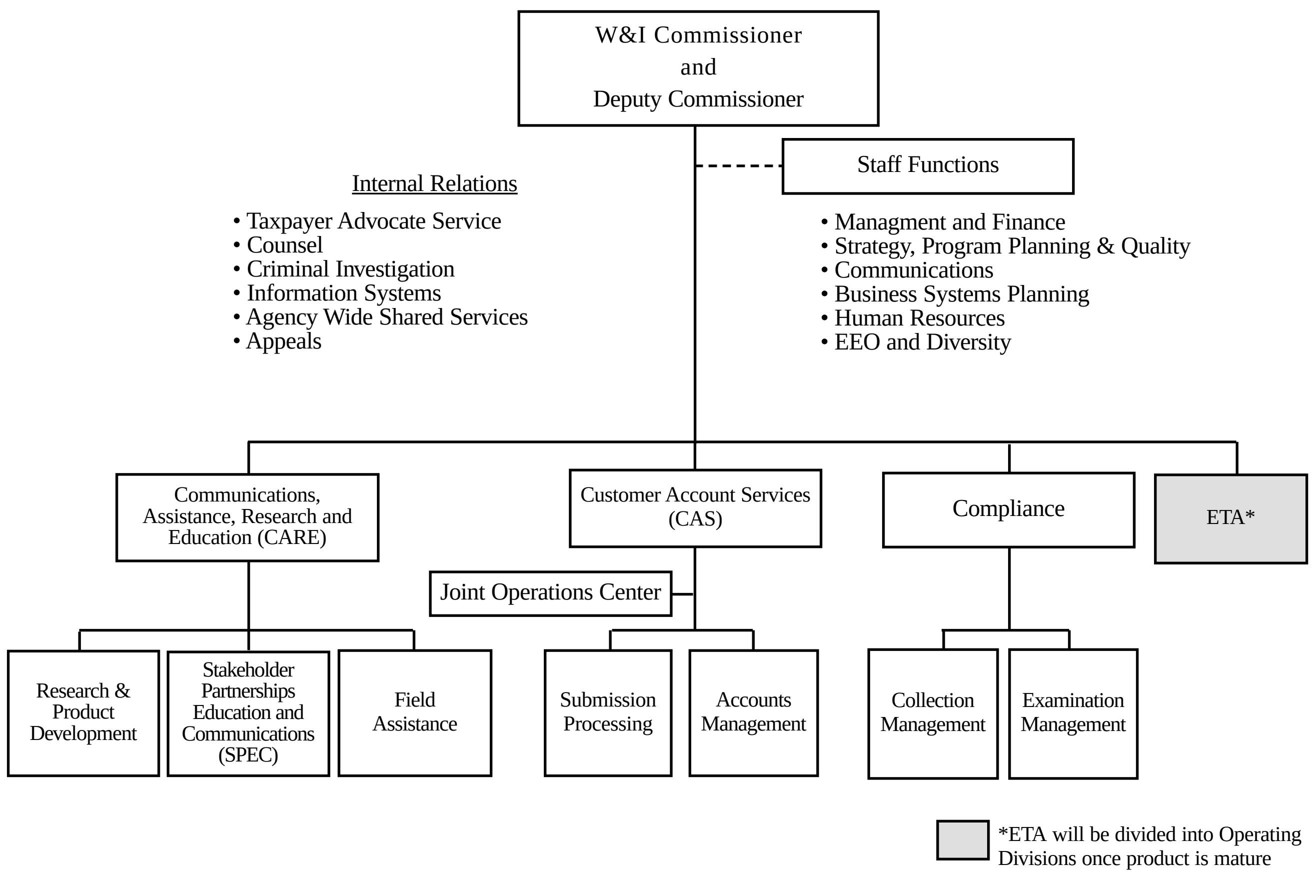
By dedicating a separate unit with full responsibility for serving each set of taxpayers, the best internal structure and business practices to achieve our strategic goals can be developed based on the specific taxpayer needs and problems. For example, an overview of the proposed structure for the Wage and Investment operating division is shown below.

Some key elements shown in this chart are as follows:

- A management team of about six top executives will oversee all aspects of service to these taxpayers. This team will be supported by dedicated senior executives from Information Systems, Counsel and Taxpayer Advocate. Thus, a team of manageable size will have the authority, responsibility and expertise to both oversee current operations and revamp and improve business practices and strategies to achieve our overall strategic goals.

- Internally, the division is structured around the three main areas where taxpayers require service: customer education and assistance, helping the taxpayers understand the law as it applies to them and to prepare correct returns; assistance in filing and gathering information about their accounts; and compliance interaction in the event of a reporting or payment issue.

Wage And Investment Operating Division



• This structure facilitates proper emphasis on prevention of problems and service to those customers who are attempting to comply. One of the three major line executives would be dedicated to customer education and assistance, tailoring it with even more specific programs to meet the needs of various subgroups of taxpayers.

• The structure provides for serving taxpayers in the manner most convenient and appropriate for them. For this group of taxpayers, most transactions can be done by phone, mail and eventually e-mail. All aspects of electronic tax administration hold great promise for improving service and productivity, especially to this group of taxpayers. However, a local field assistance organization is also provided for those taxpayers who need service in person. Over time, these local taxpayer assistance centers will be situated in locations convenient for taxpayers, such as shopping malls, and may be co-located with other Federal or State agencies. Several pilot projects of this kind, including one with the State of Utah and one in a shopping mall in Sacramento, have been started in 1999.

• In addition to serving taxpayers directly, this field service organization would work to build partnerships with practitioners and other groups who assist this group of taxpayers.

• In the compliance area, development and execution of effective, risk-based strategies are made easier by the management of all collection and examination resources directly under a single compliance executive.

• In general, there are only about four levels of management, half the current number, between the top official and the front-line employee, facilitating effective two-way communication.

Each operating division will have a tailored structure

Each of the operating divisions will be structured in a way to most effectively meet the needs of the taxpayers they serve. The Small Business and Self-Employed operating division, dealing more frequently with taxpayers on more complex issues, will have a compliance field organization, including both examination and collection groups, reporting to a multi-functional manager. The Large and Mid-size Business operating division, which deals regularly with taxpayers on complex issues, will be predominantly a field organization that will be structured into five industry groups. The Tax Exempt and Government Entities operating division will have support structures for each type of taxpayer it will serve: exempt organizations, pension plans and governmental entities, with common supporting elements.

The centralization of management information systems resources under the Chief Information Officer and of other common services under a shared services organization will provide for efficient and standardized common services where appropriate.

The Chief 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 who have a dispute over a recommended enforcement action.

The Taxpayer Advocate Service will be geographically distributed to provide local contact with taxpayers, and also have a taxpayer advocate in each operating division to identify systematic problems in the division.

Following the recommendations of the year-long study by Judge William Webster, Criminal Investigation (CI) will become a line unit reporting directly to the Commissioner and Deputy Commissioner. Operating as a nationwide line unit with 35 Special Agent in Charge (SAIC) offices, CI will closely coordinate its activities and strategies with the operating divisions and will be supported by dedicated attorneys from Chief Counsel.

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 division, will ease standardization of business practices and introduction of new technology.

Modernized organization conforms to our guiding principles

As seen through our 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 those 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. 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 our 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. For example, the management of the Wage and Investment Division, although responsible for serving 75 percent of all taxpayers, will generally not have to be concerned with the 83 percent of the tax code that ordinarily does not apply to taxpayers for which it is responsible. Therefore, we can expect managerial accountability for understanding the problems in their area of responsibility and for taking effective action to reach our strategic goals. The Commissioner, Deputy Commissioners and the national office staff, in turn, will be better able to perform their proper role of helping the operating units set appropriate strategic goals and overseeing their performance in meeting them, rather than engaging in detailed operational issues.

This structure is specifically designed to facilitate direct and meaningful two-way communication, both vertically and horizontally, within the organization.

The top management of the agency and of each major division will consist of a set of teams, each of which will be linked to the next level. For example, the agency top management will consist of the Commissioner, Deputy Commissioners, key staff executives and the heads of each major operating division, while top management of each major operating division will consist of its head, deputy head and its top four to six staff and line executives. 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. In addition, many cross-unit councils and networks of individuals with special expertise will be created (e.g., human resources, finance, collections, examination, research, public affairs, etc.), further helping an interchange of best practices.

Development of meaningful measures of performance that relate directly to achieving our overall strategic goals is difficult in the current structure because the operational units are too small and too heterogeneous. For example, it is not meaningful to measure overall compliance at the district level. On the other hand, the IRS as a whole is too large and diverse for such overall measures to be useful except as broad indicators. The modernized organization structure will ease the development of strategic measures for each major operating division that are both meaningful and aligned with each of the three overall strategic goals. In addition, the clear separation in the compliance functions of responsibility for compliance strategy, including selection of returns for audit, from execution will advance the use of appropriate operational measures.

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. Nevertheless, the modernized structure will contribute to achieving the principle of total integrity in two ways: by clarifying the role of the national office as one of oversight rather than operations and by establishing the Inspector General for Tax Administration as a totally independent agency within the Treasury Department.

Clear management roles redefined to achieve goals

Closely related to the modernization of the organization structure is defining the skills and experience required for senior executives. The IRS has been a leader in the federal government in developing executives. The demanding process by which executives are selected and developed is very successful in producing leaders who thoroughly understand the IRS organization and practices. The drawback is that almost all executives have gained all their principal experience within the IRS.

There are many similarities between IRS activities and those of other private and public sector organizations, and the IRS has much to gain by synchronizing our best practices with the best of these organizations. Doing this effectively requires some selective recruiting of executives from outside the IRS. The current IRS organization makes it difficult to recruit and to assimilate outside executives and also makes it hard for IRS executives to fully learn and draw upon best practices from the outside.

The modernized organization, modeled after well-established structures and practices in other organizations, creates roles that are more comparable to those on the outside. This increases the possibility of selectively recruiting external executives with appropriate skills and experience. 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, there has historically been a Commissioner and a Deputy Commissioner at the top of the agency. We expect that there will be 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.

In September 1998, a new top-management team for the IRS was constituted. This team included:

- Bob Wenzel, appointed Deputy Commissioner for Operations with responsibility for overseeing all IRS current operations. Mr. Wenzel is a veteran IRS executive who co-chaired the IRS Customer Service Task Force, a partnership effort between IRS, the Department of Treasury, the National Treasury Employees Union and the White House, which produced the much-acclaimed book, *Reinventing Service at the IRS*.

- John LaFaver, appointed Deputy Commissioner for Modernization with responsibility for planning and implementing the transition to the modernized IRS. Mr. LaFaver is an experienced state tax administrator known for improving state tax agencies' customer focus through effective use of technology.

- Paul Cosgrave, appointed Chief Information Officer. Mr. Cosgrave had 25 years of experience in the information technology industry prior to joining the IRS.

- Val Oveson, appointed National Taxpayer Advocate. Mr. Oveson has experience in tax administration and public accounting, most recently serving as Chairman of the Utah State Tax Commission.

- Stuart Brown, continuing in his role as Chief Counsel.

- David Williams, continuing in his role as Chief Communications and Liaison.

During 1999, additional appointments to this top management team were made, including:

- Evelyn Petschek, appointed Commissioner of the Tax Exempt and Government Entities division. Ms. Petschek previously served in the IRS as Assistant Commissioner for EP/EO, and had prior experience in the Treasury Department and as a partner in the law firm of Patterson, Belknap, Webb and Tyler.

- Larry Langdon, appointed Commissioner of the Large and Mid-Size Business division. Mr. Langdon recently retired as Senior Vice-President of the Hewlett-Packard Corporation, where he had worldwide responsibilty for tax, licensing and customs.

- William Boswell, appointed Chief, Agency Wide Shared Services. Mr. Boswell had 30 years of experience in management, finance and adminstration with major oil companies, including reorganization of one company's services into a shared-services function.

- Mark Matthews, appointed Chief, Criminal Investigation. Mr. Matthews has experience as a federal prosecutor of financial crimes, Deputy Assistant Attorney General for Criminal Tax in the Justice Department, Special Assistant in the FBI and CIA, and a private criminal defense attorney.

- Dan Black, appointed Chief, Appeals. Mr. Black is an experienced IRS executive who has served as Regional Director of Appeals, District Director and site executive.

- Joseph Kehoe, appointed Commissioner of the Small Business and Self-Employed Division. Mr. Kehoe has extensive experience in service sector consulting with Pricewaterhouse Coopers.

- John Dalrymple, appointed Commissioner of the Wage and Investment Division. Mr. Dalrymple is an experienced IRS executive who has served as Chief Operations Officer and Chief Compliance Officer.

As the new operating divisions are established, an important task will be forming top management teams. These management teams must include individuals with the broad range of experience and track record needed to lead each unit in the challenging dual task of managing current operations while modernizing business practices and technology to achieve our new mission and strategic goals. A modernized structure with redefined management roles is one of the essential components needed to achieve our mission and strategic goals. This new structure will make it possible to modernize our business practices and our technology in order to deliver improved service and higher productivity.

VI. Information 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. Hardly any large-scale business can sustain itself without effective, efficient information systems. The IRS is no different, yet is faced with some truly unique, world-class challenges that it must overcome in order to fulfill its mission.

Information technology currently in use

The IRS' installed inventory of information technology is the principal tool that IRS front-line workers and managers use to deliver services to taxpayers and to manage the organization. Nearly all IRS employees depend on the IRS computer systems every day to do their jobs, including over 70,000 individuals who use these systems to provide direct service to taxpayers. In terms of resources, the cost of IRS staff and information technology makes up nearly the entire budget, with staff costs comprising 70 percent and information technology making up 18 percent.

The IRS technology inventory is very large and diverse, comprising at present approximately 147 mainframe computers from 19 vendors, approximately 1,620 mid-range computers from 55 vendors, and over 100,000 individual computers. These computers run over 8,700 vendor-supplied software products and 82 million lines of IRS-maintained computer code. There are four major wide area data networks and 1,182 local area networks. The IRS voice network processes 182 million phone calls per year.

As in any information-intensive organization, the current IRS computer systems are a reflection and codification of IRS' established business practices and organization structure, as well as specific tax code provisions. For example, there are three different systems to support collection activities because there are three different kinds of organizational units that perform collection activities, each using particular business practices. The IRS inventory of hardware and software products is very heterogeneous, in part because each service center and region would sometimes procure different products and, even when using the same products, would use them in slightly different ways. In addition, IRS technology inventory includes many specific programs and systems that have evolved in response to specific provisions of the tax code. This process of change continues with over 800 tax code changes and many procedural changes being implemented for the FY 1999 and FY 2000 filing seasons.

The large and extremely fragmented nature of the IRS technology inventory creates many problems, including high cost and poor service to end users, high costs and long timelines to implement changes and improvements, and control and security difficulties.

IRS core data systems are fundamentally deficient

While large in size, many of the IRS' information technology problems are similar to those of other large organizations that have installed technology piecemeal over a long period of time without a strong focus on professional management of information technology resources from the top. However, the IRS also has a very special problem that is a serious, on-going risk and a fundamental barrier to achieving its strategic goals. This problem is that the core data systems that keep records on taxpayers' tax accounts are fundamentally deficient.

The essential system on which all taxpayer accounts are maintained is called the Master File system. This system was developed in the 1960s in order to provide the first consolidated records of taxpayer accounts. It consists of a series of very large tape files, one set for individual taxpayers and another for business taxpayers. Since it is a sequential tape file it cannot be updated directly. It is updated once a week based on input from other systems, a process that takes three days. From the Master Files tape system, some records are extracted weekly and are placed on a separate on-line system, the Integrated Data Retrieval System (IDRS), in each of 10 service centers. The IDRS system is used by most IRS customer service representatives and many other front-line employees. Dozens of other specialized systems extract and feed data back and forth through these two basic data systems.

Some of the implications of this situation are:

- Because of the delays in updating files and the lack of synchronization of data among different systems, IRS employees frequently have inconsistent and out-of-date data about a given taxpayer. For example, if a taxpayer calls in response to a notice with a correction to his or her account, the adjustment might not take effect for up to 16 days. In the meantime, additional notices might be generated or the taxpayer might call again without the IRS employee knowing what previous adjustments were already in process.

- The Master File computer programs are written to a design and in a language seldom employed anywhere today, and which have the severe limitations of 30-year-old technology. In addition, thousands of changes to the files and the computer code have been made over the years, many of which are highly specific to particular sections of the tax code or to IRS procedures. Consequently, very few highly specialized programmers understand this system. Under these circumstances, the ability to maintain and change the system, even in response to mandatory tax law changes, is severely limited. Implementing revamped business practices, including electronic tax administration programs, is slow or even impossible.

- Because of the limitations of the core systems and the difficulty of changing them, many separate systems grew up to perform specialized functions. In addition to the problems of data synchronization, this situation leads to complex operational problems, great difficulty in making consistent changes to the system as a whole, and increases the chances of error.

- Some tax law requirements and IRS practices simply cannot be accommodated within the limits of the Master File system, leading to situations where some essential taxpayer data is not even reflected on it. For example, the RRA '98 provision for providing "innocent spouse" relief requires separating a single tax liability on a joint return for the spouses into multiple liabilities that must be tracked separately over time. As the Master Files were not designed for such situations and are limited by 30-year-old sequential file technology, it is not practical to keep such records on the Master Files. So, administration of separate files, and other programs, imposes additional costs and greatly increases the likelihood of error and delays in serving taxpayers. Several of the most severe taxpayer problem cases reported in the Senate Finance Committee hearings stemmed in part from the Master File system limitations.

- Although the Master File system holds the IRS' authoritative financial record for every taxpayer, it does not conform to accepted accounting standards. For example, a record of every transaction that affects a financial account should be maintained and be traceable to an original source entry. Amounts due for any taxpayer should be clearly identified as to the source and cause that produced the liability. The Master File system does not maintain this information because it was not designed to do so.

- In 1998, the IRS was able to provide the General Accounting Office (GAO) enough data to reliably report on the custodial activities of the agency, but GAO cited the extensive, costly and time-consuming *ad hoc* procedures needed to provide the data, and the long-term nature of the deficiencies that these procedures represented. The lack of standard accounting tools imposes ongoing costs, impedes the ability of the IRS to serve taxpayers adequately and prevents the IRS from effectively addressing material weaknesses cited by GAO.

Since nearly all IRS systems and procedures require data on taxpayer accounts, the entire IRS inventory of systems is built on a fundamentally deficient foundation. The size of this inventory and databases is comparable to the largest in the world.

Given this situation, the IRS must replace nearly its entire inventory of computer applications and convert its data on every taxpayer to new systems. This must be done in conjunction with redesigned business practices, while continuing to provide service to taxpayers and to respond to ongoing tax law and other changes. This is a vast, complex and risky undertaking that will require many years to accomplish.

Modernizing IRS systems

It is important to understand the kind of process needed to modernize IRS' systems. This process has sometimes been compared to designing and building a new airliner or a huge office building. While there are some similarities, this comparison fails to adequately convey the nature of the IRS technology modernization program. A better metaphor would be a project to redesign and rebuild a large, densely populated city, such as New York City, complete with rebuilding all the subways, utility lines, surface transportation and tall buildings, all without delaying or injuring any residents or businesses and while accommodating ongoing growth and changes in the daily pattern of living and working. Such a program is far too big, dynamic and complex to be implemented or even designed in detail all at once.

The approach that the IRS is taking to deal with this monumental task is to establish an overall architecture for a set of new systems that will accommodate all essential tax administration functions according to modern standards of technology and financial management. Achieving this new system architecture must then be accomplished by defining a sequence of targeted and manageable size projects that meet important and specific needs while, at the same time, working to complete the overall architecture. During this process, the new and old systems must co-exist and must exchange data accurately for an extended period of time until data is gradually converted from old systems to new ones.

Given this situation, the existing inventory of installed operational systems, commonly called the "legacy systems," must not only be maintained to reflect annual tax law and other business changes, but it must also accommodate additional changes in order to bridge to and from new technology systems and convert taxpayer data from old to new formats. **Therefore, the demands on the resources and management of the legacy systems staff will increase, not decrease, for the coming years as a result of technology modernization.**

In 1997, the IRS published a "technology modernization blueprint," which described a detailed target architecture, including technical, functional and data architecture. This blueprint was an important and valuable step in the process of technology modernization.

During 1999, a principal objective was to update the blueprint to reflect the new plan for organization and business practices and, given limited capacity, to decide on the major priorities for implementation.

The speed of implementation of the technology modernization blueprint is subject to three major limiting factors:

- Capacity to design and develop new business practices and systems;
- Capacity of the organization to manage the process; and
- Capacity to make changes in the legacy systems needed to support ongoing operations and temporary integration with new systems.

Of the three factors, the capacity to manage the process and to change the legacy environment are the most constraining. Hence, planning of the technology modernization with the ongoing management of the existing environment is critical.

Organizing to manage information technology

Because of the close inter-relationships, programs to modernize IRS technology both depend on and enable modernization of the organization and business practices. With respect to organization, there are two important dimensions: how the IRS is organized to manage information technology itself, and how the operational units that manage IRS programs work with information technology to improve business practices and achieve our strategic goals. Improvements in both dimensions are essential in order for modernizing IRS technology to succeed.

Improvements in information technology organization are essential to achieve professional, high-quality results in resource use and in managing technology programs, including modernization of core business systems and management of the legacy systems.

Improvements in IRS business organization are essential to create business owners who have the knowledge, authority and commitment to develop improved and consistent business practices. This will also enable them to work in partnership with the information technology organization to develop and deploy appropriate technology that supports modernized business practices.

As part of the IRS overall modernization program, management of essentially all information systems resources was centralized under the Chief Information Officer in October 1998. This was a first step toward creating a professionally managed information technology organization that will provide high-quality, efficient service to all IRS operating units, treating the IRS operating units as customers.

The establishment of IRS operating divisions, as described in the previous section, will enable the appropriate business owner to revamp business practices and work with the information technology organization to modernize supporting technology.

In December 1998, the IRS awarded a PRIME contract to Computer Sciences Corporation and a team of leading technology and consulting firms to be a major partner in managing the modernization of IRS' core business and technology systems.

The modernization of IRS' core systems requires sustained leadership from the top leaders of the entire organization. To provide a framework for the overall management of this process, the IRS established in 1998 a Core Business Systems Executive Steering Committee, chaired by the Commissioner and including top executives, supported by key staff groups.

In June, 1999, Paul Cosgrave was named IRS modernization executive with overall responsibilty for managing and integrating the Core Business Systems programs. Reporting to him, the Enterprise Program Management Office was created to perform overall integration and management of all the projects in the program. The EPMO leadership includes an IRS business executive, an IRS IS executive and a PRIME executive.

Some key operating guidelines about technology modernization were also established, including the following:

- All new systems, large and small, must conform to the target architecture and system life cycle methodology. The EPMO will manage this process.

- All Core Business Systems must have committed, engaged business owners, an executive steering committee and an integrated project team. In addition, they should be designed to last a maximum of about 24 months from approval to proceed with development to initial operational deployment.

- Each project will require an approved business case before proceeding to the next phase.

- The process of developing solutions and approaches for each major project will include finding the best practices and products available from the private and public sectors as a basis for the proposed solution. Where appropriate, the PRIME will conduct a competitive process to select the best solution.

During 1999, one of the principal objectives of the Core Business Systems program was to develop a definition of and priorities for the major projects to be carried out over the next five years. This process included an analysis of projects previously proposed or in process as well as those needed to implement the revised blueprint in accord with the modernization organization and business practices described in this document. The result of this process was a decision on the high level scope and priorities of the program. This program is summarized at a high level on the next page. A more detailed description of the projects is provided in Appendix 3.

Core Business Systems - Initial Projects

Project	Objective	Initial Release Business Owners
Customer Communications	• Improve taxpayer access to service via telephone and Internet	Wage & Investment
e-Services: Near Term	• Create an integrated, Web-based replacement for the existing value-adding third-party tools and data collection vehicles	Electronic Tax Administration
Customer Account Data Engine	• Build modernized database for managing customer information	Wage & Investment
Correspondence and Document on Demand Imaging	• Build systems to store and display on-line images of correspondence and selected returns	Tax Exempt & Government Entities
CRM Collections	• Modernize collection processes and policies to enable faster case resolution	SB/SE
Customer Relationship Management (CRM) Exam	• Modernize examination processes, providing improved tools to agents and faster case resolution	Large & Mid-Size Business
e-Services: Strategic	• Foster the creation & marketing of easy-to-use electronic products & services, targeted at specific customer segments, to inform, educate & service the taxpaying public – including secure electronic interactions & customer account self-management	Electronic Tax Administration
Integrated HR System: Integrated Personnel System	• Implement a single system for IRS employee data and human resource services	Management & Finance
Integrated Financial System: Revenue Accounting	• Improve financial management and reporting, and provide service employees with greater access to taxpayer payment data	Management & Finance
Integrated Financial System: Managerial Accounting/Budgeting	• Provide greater access to operational information to support timely, data-driven managerial decision-making • Provide general ledger and budget execution	Business Systems Modernization

VII. Performance Measures

The techniques that an organization uses to measure its performance go to the heart of what the organization really values. In the IRS, as elsewhere, what the organization values is communicated through a variety of means, both explicit and implicit, including what behavior is rewarded, ignored or punished. Quantitative measures, being apparently precise and objective, are an extremely powerful device with great influence on behavior.

For many years, the IRS used statistics and measurements at all levels as part of its management process. A real strength of the organization is that people are used to dealing with hard data as an indicator of how things are working or not working, and they respond to and manage using this information.

For many years, enforcement statistics, especially enforcement revenue, were a key issue in measuring performance at the IRS. Enforcement statistics are counts of actions taken, such as number of levies or seizures, and enforcement revenues are counts of revenue gained from enforcement activities, such as audits or collection actions. Although the revenue that is actually collected (98 percent of which comes in voluntarily and 2 percent of which comes in through enforcement) is measurable on a fairly current basis, the total amount owed that is not collected is less easily measured and, in fact, has not been measured since 1988. In addition, enforcement action has been shown to have a deterrent effect that induces additional revenue from taxpayers other than those directly affected.

For these reasons, enforcement revenue has been a key measure of success at the IRS. Enforcement revenues have been used to justify the overall budget and have been a very important internal measure of performance. The chart below shows a one-page excerpt of the President's Budget for the IRS for fiscal year 1997. As highlighted, there are four references to enforcement revenues on this one page, three of them measuring a particular category of enforcement revenue per FTE (or per full-time employee).

Excerpts from President's Budget

Internal Revenue Service

SERVICE-WIDE PERFORMANCE MEASURES

	1996 ACTUAL	1997 EST.	1998 EST.
Objective Measures:			
Increase Compliance			
Total Collection Percentage (TCP)	.86	86.7	87.3
Total Net Revenue Collected	$1.38T	$1.47T	$1.57T
Service-wide Enforcement Revenue Collected	**$38B**	**$34.7B**	**$35.2B**
PERFORMANCE MEASURES BY BUDGET ACTIVITY			
Telephone and Correspondence:			
Number of Calls Answered (in millions)	99.1	111.4	111.4
Telephone Level of Access	46%	60.2%	60.2%
Telephone Tax Law Accuracy Rate	91.6%	92%	92%
Automated Collection System (ACS) Dollars Collected per FTE	**N/A**	**1.4M**	**1.4M**
TAX LAW ENFORCEMENT PERFORMANCE MEASURES BY BUDGET ACTIVITY			
Examination:			
Field Examination Dollars Recommended (in billions)	26.0	22.83	22.83
Field Examination Dollars Recommended per FTE	**1,089,661**	**1,008,348**	**1,008,348**
Appeals Non-Docketed Cycle Time (days)	234	238	238
Appeals Staff Days per Disposal	2.14	2.14	2.14
Collection:			
Field Collection Dollars Collected (in billions)	5.63	4.87	4.92
Field Collection Dollars Collected per FTE	**486,000**	**462,000**	**476,000**

Recapped in the regulation on balanced measures on Sept 15, 1999

The importance of enforcement revenue as a measure of IRS performance created a dilemma and a controversy that persisted for years. The dilemma was created by the fact that each specific enforcement action must be guided by law as applied to the specific facts and circumstances of the case and, therefore, it has long been considered inappropriate to give "quotas" or quantitative enforcement goals to an individual enforcement officer. For example, in 1959, in the wake of hearings by the House Ways and Means Committee, the IRS issued a policy statement that said:

> *If the duties of the position require the exercise of judgment based on detailed knowledge of laws and regulations or involve material factors of technical or professional judgment, performance must be evaluated in the light of the actual cases or other assignments handled, and no quantitative measurement may be utilized which does not take such differences into account. Dollar production shall not be used as the measurement of any individual's performance.*

For the ensuing 40 years, this dilemma persisted, a history that is recapped in the regulation on balanced measurement, issued in final form on September 7, 1999. (A copy of the regulation is attached as Appendix 2.)

In the 1990s, an attempt was made to increase the emphasis on enforcement revenue by establishing a quantitative performance index to rank the performance of the IRS district offices, an index in which enforcement statistics comprised about 70 percent of the weight of the index. This index was a very important factor in evaluating the performance of the district management. However, by law and regulation, these same measurements were not supposed to be used to evaluate front-line employees. As is now known, this approach resulted in a misalignment of measures for managers and employees, in turn causing a range of serious problems including widespread violations of the regulations on use of statistics.

Establishing a balanced measurement system

Despite this difficult history, it is essential to establish appropriate quantitative performance measures for the IRS and its major component operations. This is required by the Government Performance and Results Act and is essential to the proper operation of any large organization. For this reason, an integral part of the overall IRS modernization program is the establishment of balanced performance measures that support and reinforce achievement for the IRS' restated mission and overall strategic goals.

A critical aspect of establishing an appropriate balanced measurement system is establishing the measurements based on what we need and want to measure in order to achieve our strategic goals and mission, rather than simply what is most easily measured. This balanced measurement system must define quantities that are relevant to each of the strategic goals and that indicate, in total, progress on all three goals. As in most good organizations, the process of measurement can be constantly refined, but the concept of what is being measured remains stable.

Also critical to the measurement system is following the guiding principle that measures must be aligned at all levels, from the top to the front-line employee. This creates a commonality of interest and binds the organization around a common goal, rather than creating conflict and mistrust at different levels. This principle does not mean that all levels and all components of the organization have precisely the same measurements, which would obviously be impossible. Rather, it means that the measures or evaluations are aimed at encouraging the type of behavior that will advance the organization's overall strategic goals, and do not encourage inappropriate behavior.

In developing measures for each organizational level, it is important that each component of the balanced measurement system reflect responsibility at that organizational level. At the top of the organization, management has control over strategies and allocation of resources. At the mid-levels, managers have less control over these variables but do have control over the effectiveness of training, coaching and guidance of

Measuring Performance at the IRS

MEASURES THAT MEASURE WHAT WE REALLY WANT.
BALANCED MEASURES DERIVED FROM THREE CORPORATE GOALS.
MEASURES ALIGNED AT ALL ORGANIZATIONAL LEVELS.

GOALS	STRATEGIC MANAGEMENT LEVEL	OPERATIONAL MANAGEMENT	FRONT-LINE EMPLOYEES
Service to Each Taxpayer • Make filing easier • Provide first-quality service to each taxpayer needing help with his or her return or account • Provide prompt, professional, helpful treatment to taxpayers in cases where additional taxes may be due	• Overall customer satisfaction with service/treatment • Customer dissatisfaction (complaints) • Customer satisfaction compared to other organizations	• Satisfaction with particular service • Dissatisfaction with particular service	• Service to taxpayers and treatment of taxpayers incorporated in critical elements
Service to All Taxpayers • Increase fairness of compliance • Increase overall compliance	• Overall compliance percentage • Increase in compliance • Uniformity of compliance • Allocation of compliance resources - dollars vs. resources	• Quality of particular cases/events (EQMS/CQMS) • Quantity of particular cases/events	• Case quality and time management incorporated in critical elements
Productivity Through a Quality Work Environment • Increase employee job satisfaction • Hold agency employment stable while economy grows and service improves	• Overall employee satisfaction with working environment • Overall workload vs. size of workforce	• Employee satisfaction with particular working environment	• Now: None • Future: Teamwork contributes to improving work environment (TQO)

employees. At the individual level, each employee has control over his or her own individual work and self-development.

An overview of the balanced measures system being implemented at the IRS is shown above. As seen in the matrix, there will be quantitative measurements keyed to each of the three strategic goals at both the strategic level and the operational level. In general, quantitative measures will not be used at the individual employee level.

In September 1999, a Balanced Measures Regulation was issued to formally establish the IRS' new performance management system. The issuance, which followed a public comment period, set forth the structure for measuring organizational and employee performance within the IRS. A copy of the regulation is available in Appendix 2.

Measuring at the strategic level

The strategic level is designed to measure overall performance for delivering on the overall mission and three strategic goals. This level is only meaningful for the organization as a whole or for an organizational component that is responsible for full service to a large set of taxpayers. In today's organization structure, strategic measures would only be meaningful for the agency as a whole. (A district, for example, is too small and heterogeneous to have a meaningful measure of overall compliance and does not have responsibility for the activities in the service centers in its district.) In the future organization structure, these strategic measures will be applicable for each of the four major operating divisions.

In the future, it will also be essential for the IRS to develop regular and meaningful measures of overall compliance. This is important not only for effective management but also for fundamental fairness, to assure taxpayers who pay their taxes that others are also complying. In the absence of such measures, informed decisions on strategies to encourage voluntary compliance, such as those discussed in the earlier section of this paper, Business Practices and Strategies, will be impossible, and the historic tendency to fall back on enforcement revenue as a measure of performance may reoccur.

In the balanced measurement system we are implementing, enforcement revenues are not a measure of performance at either the strategic or operational level. The sole use of enforcement revenue at the strategic level is to measure the effectiveness of case selection for compliance activities. However, overall revenue as compared with expected revenue is a valid strategic measure.

Measuring at the operational level

The operational management level focuses on the effective execution of particular aspects of the organization. Today, these activities are mainly carried out by the "functions," such as Customer Service, field Collection and field Examination. A large percentage of employees work in these important components of the organization, and it is critical to develop appropriate measures of performance for them.

At this level, the balanced measures of organizational performance are derived as follows:

Service to Each Taxpayer / Customer Satisfaction

The "service to each taxpayer"goal is measured from the customer's point of view. The goal of the Customer Satisfaction element is to provide accurate and professional services to internal and external customers in a courteous, timely manner. The customer satisfaction goals and accomplishments of operating units within the IRS are determined on the basis of customer feedback collected via methods such as questionnaires, surveys and other types of information gathering mechanisms. Information to measure customer satisfaction for a particular work unit is gathered from a sample of the customers served. Customers are permitted to provide information requested for these purposes anonymously. Customers may include individual taxpayers, organizational units or employees within the IRS and external groups affected by the services performed by the IRS operating unit.

Service to All Taxpayers / Business Results

The "service to all taxpayers" goal is gauged through a combination of quality, quantity and outreach measures. The goal of the Business Results elements is to generate a productive quantity of work in a quality manner and to provide meaningful outreach to all customers. The business results measures consist of numerical scores determined under the elements of quality and quantity.

- The quantity measures, which are to be used in conjunction with the quality, customer satisfaction, and employee satisfaction measures, provide information about the volume and mix of work products and services produced by IRS operating units and consist of outcome-neutral production and resource data. Examples include the number of cases closed, work items completed, customer education, assistance and outreach efforts undertaken, hours expended and similar inventory, workload and staffing information.

- The quality measures provide information about how well IRS operating units developed and delivered their products and services. The quality measures are determined based upon a comparison of a sample of work items handled by certain functions or organizational units against a prescribed set of standards that incorporate the customers' point of view. Additional quality measures will gauge the accuracy and timeliness of the products and services provided.

Productivity Through a Quality Work Environment / Employee Satisfaction

The "productivity through a quality work environment" goal is assessed via measures of employee satisfaction. The goal of the Employee Satisfaction element is to create an enabling work environment for employees by providing quality leadership, adequate training and effective support services. The employee satisfaction ratings to be given within the IRS are determined on the basis of information gathered via survey. All employees have an opportunity to provide information regarding employee satisfaction under conditions that guarantee them anonymity.

Measuring at the individual level

All quantitative measurements are assessments of organizational performance, not of individual employees. This is always true because it is impossible to capture in any quantitative measurement system all that is important in evaluating an individual. For managers responsible for an organizational component, the quantitative measurements of the balanced measurement system are one of the factors that should influence a performance appraisal.

For front-line employees, quantitative measurements are not used to evaluate performance, except in certain submissions processing functions. This is because, in most cases, it is not practical to quantify the performance of an individual employee in a meaningful and appropriate way. Instead, the desired activities and behavior consistent with the strategic goals are incorporated into the "critical elements" of each employee's position description and should be evaluated by the manager based on informed observation of that employee's job performance. Thus, the front-line employee's evaluation, although not quantified, is directly aligned with that of the management chain.

Operational measures were first implemented

The IRS began to implement the balanced measures system at the operational level in 1999, starting with three functions, Customer Service, Exam and Collection, which have most directly affected large numbers of taxpayers and employees. The operational measures for these functions could be implemented within the existing organizational structure and will remain valid in the new organizational structure. By the end of 1999, a large scale training effort had been completed to support the initial implementation of balanced measures. Approximately 913,000 hours of training were provided to 52,700 managers, employees and NTEU representatives.

Beginning in FY 2000, quantitative measures for the balanced measures for these functions will be regularly available to gauge progress. Also, beginning in FY 2000, the system of setting and measuring performance expectations for nearly all managers and executives has been redefined to be aligned with the balanced measurement system.

Progress Update

Much work remains to be done on the measurement process. The IRS completed balanced measures development for the Examination, Collection and three Customer Service product lines in calendar year (CY) 1998. In CY 1999, additional balanced measures were approved for: Tax Exempt and Government Entities, Large and Mid-Size Business, Appeals, Taxpayer Advocate Service, Research, Statistics of Income and additional Customer Service product lines. These measures are undergoing final design and implementation. Other measures teams underway in CY 1999 that are expected to have approved balanced measures in early CY 2000 include: Information Systems, Criminal Investigation, Counsel, Submission Processing and Agency Wide Shared Services.

Strategic measures for all of the operating units and for the IRS as a whole must be defined and implemented. In part, the strategic measures depend on assembling data on overall compliance, which will take longer to assemble.

Most importantly, the IRS must learn how to use balanced measures as a tool to achieve a high level of performance on all three of our strategic goals.

Implications for the way people work with each other and with taxpayers

The new balanced measurement system at the operational level is much more than a change in measurements. The measurements should never be used as an end in themselves, but as an indicator of organizational performance and a guide to improve performance. This requires an effort, every day, to "get behind the numbers" to understand what is really happening. It also implies profound changes in the way people work with each other within the organization and with taxpayers.

Concerning work with taxpayers, the changes implied are directly related to the restated mission. All actions must be looked at from the taxpayer's point of view and, in particular, must insist on observation of taxpayer's rights. This criterion is a strategic goal, a guiding principle of our modernization effort and a direct element in measuring and evaluating the performance of every manager and employee. Good quality work is the result of understanding the taxpayer's point of view and the law, not one or the other.

The way managers and employees work with each other also will change. Their goals are aligned, even though the specific roles may be different, and achievement of the goals should always be viewed as a team effort. The managers' role is to develop a meaningful understanding of the work of their direct reports and to assist them in achieving the highest possible performance in contributing to the strategic goals. At the front-line level, since performance of quality case work is central to achieving the goals, it is vital for managers to work with employees and their customers to develop a true understanding of the strengths and weaknesses of the work and to assist in making the quality as high as possible. At higher levels of management, it is also vital to understand the taxpayers' and employees' points of view by direct communication with them about issues of importance in their work and to help them resolve difficult issues and remove obstacles.

Development of the balanced measurement system and, even more so, learning the new ways of working will take years. By focusing our attention on what is important for achieving our strategic goals, we will be on the right path and will make progress step by step.

VIII. Planning, Priorities and Risks

This paper sets forth major changes that the IRS is undertaking to achieve a restated mission and strategic goals that closely follow the expectations of Congress and the American people. Recapped earlier in the chart on page 3, these changes are comprehensive and are made up of business practices and strategies, organization and management, information technology and performance measures. This process, referred to as "modernization," represents a fundamental redesign of the way the agency works, a challenging process for any organization. These changes must take place while current, large-scale operations continue uninterrupted, including ongoing changes to implement new tax laws.

Risks

The amount of change required for modernization, coupled with current complex operations, means that there is significant risk that unanticipated problems will arise, particular plans or milestones may have to be changed, and operational errors will occur. When these events occur, time and money will be needed to address them.

Given the current situation at the IRS, there is no low-risk plan. Any attempt to retain the status quo or make modest incremental changes would increase the gap between the IRS' ability to deliver required services and what the public and Congress expect, while imposing increasing direct and indirect costs on the public for administering the tax system. In addition, the information technology on which the IRS critically depends is fragile and deficient and cannot be fixed short of a near total replacement. Yet, success in modernization of technology can only be achieved with the appropriate management and organization structure and a program to modernize business practices.

Although there are inherent risks in the modernization process, knowing that they exist means that they can be managed and mitigated so that no setback is fatal, and we can be reasonably confident of ultimate success. In this regard, two items are critical:

- Setting overall priorities in light of the limited organizational capacity; and

- Establishing effective management over each major change process.

Organizational capacity and priorities

The IRS, like any organization, has limited capacity to manage and absorb change. These limitations arise from such things as the capacity of the top managers to understand, plan and make correct decisions about the many complex issues that arise; the capacity of managers and employees throughout the organization to learn many new ways of doing business, new practices and technology; limitations on the number of subject-matter experts in highly specialized areas, ranging from tax law to technology; time required to consult outside and inside stakeholders; and time required to resolve disagreements. Because the IRS is a public agency that provides an essential service, capacity to make change rapidly is further limited by the need to ensure that essential services, such as the filing season, are never jeopardized and the financial integrity of the revenue stream is maintained. The inherent limitations of organizational capacity and the need to manage risk make it essential to set overall priorities in light of the overall goals.

Even before the redefined mission and modernization program were undertaken, the IRS organizational capacity was stressed to the maximum in an attempt to respond to thousands of individual recommendations from studies and proposals, as well as legislative mandates and tax law changes. This reactive process used up all available capacity without addressing the fundamental problems.

In order to deal with this issue, a set of programs was established to manage activities and priorities in an orderly way in each major area of change with an overall sequence that attempts to maximize the use of available organizational capacity, while gradually expanding it. This sequence aims at delivering on essential near-term operational requirements and improvements in service delivery while carefully planning and implementing longer-term changes. At a very high level, the strategy for each major change program is as follows:

- Century date change and essential filing season-sensitive changes have been top priorities and were managed as one program. This program was completed in early FY 2000.

- Near-term taxpayer treatment and service improvements are rigorously prioritized based on those that are either mandated or deliver maximum benefit to the taxpayer in 12-18 months, and are subject to the limitations of the existing operations and information services organization capacity. As the new operating divisions become operational, they will assume responsibility for ongoing improvements in service. This process will be managed through a new strategic planning and budgeting process.

- By the end of 1999, the design of the new organizational structure at the detailed level was nearly complete and the new organizational units were beginning to assume responsibility for operations.
  - On October 1, 1999, an interim step was implemented in which management of all 25 customer service sites was unified under a Customer Service Field Organization. This organization will eventually become part of the Wage and Investment and Small Business and Self-Employed Divisions.

  - As of early FY 2000, the Tax Exempt and Government Entities Division, Agency Wide Shared Services, Information Systems and the reorganized Taxpayer Advocate Service were operational and the Large and Mid-size Business Division, Appeals and Criminal Investigation were planned to be operational in the first half of 2000.

  - The remaining units, the Wage and Investment Division, the Small Business and Self-Employed Division and Counsel are scheduled to become operational by the end of calendar 2000. If all goes as planned, by the end of 2000, the existing districts, regions and operational components of the national office will cease to exist and the major elements of the new organizational structure will be in place, although further internal reorganizations and workload reassignments will continue through the 2002 filing season.

- As the new organization is implemented, organizational capacity to manage business process and technology change will increase. There will be four management teams, each with full responsibility for a major part of the operation, as well as a new information systems organization.

- As the new organizational structure is implemented, new balanced strategic measures will be developed while the newly-introduced operational measures continue.

- The Information Systems Modernization program, which was mainly engaged in planning in 1999, will ramp up substantially in 2000 with the goal of delivering the first major projects by 2001. Thereafter, major releases supporting improved business processes and strategies, as outlined in Chapter VI of this document, will be delivered regularly, usually at least once-a-year.

Risks and schedules

An essential aspect of managing risk in this change program is properly managing and communicating the schedules and dates for accomplishing particular change events.

In this huge change process, there will be hundreds of specific changes implemented on particular dates. For example, an organizational change occurred when customer service sites began reporting to a single customer service field organization headquarters instead of a district or service center; a new business system and process implementation occurred when the centralized call-routing software began to route incoming telephone calls to call sites around the country; and a technology change occurred when the mainframe computer programs for the Andover Service Center began executing on a consolidated computer in Martinsburg rather than on local computers in Andover.

Every change of this kind carries with it risk, and the decision as to when and how to proceed must be carefully evaluated and reevaluated in light of all information available at each point in time. Every specific project that composes the overall change program should be recognized as a learning experience in which more detailed and complete information becomes available over time. Proper risk management depends on constantly using this information to set and reset schedules. Failure to manage risks and schedules in this flexible way enormously increases the likelihood of failures and frequently ends up delaying, rather than accelerating, actual progress.

The role of high-level planning and the presentation of overall milestones, such as those presented in this paper, are to allow for the setting of priorities and the initiation of more detailed planning and implementation projects.

Given the nature of this change process, it is extremely important for management to keep all key stakeholders informed on a regular basis and to explain the intent of presenting various milestones and schedules. It is important for stakeholders to understand the nature of this process, and to evaluate the program based on overall progress towards the strategic goals, rather than placing undue significance on the date on which particular events occur.

Management process

Since the IRS is undergoing extensive change in each of the dimensions described above while current operations continue uninterrupted, an appropriate management process must be established. Each of the dimensions of change affects various parts of the existing operations and requires both high-level leadership and decision making to address major issues and intensive daily management of massive levels of detail and analysis. Finally, each dimension of change requires special expertise and knowledge of best practices used in other private and public sector organizations around the country.

To manage these changes, the IRS established a tailored management process for each area of change. In each change area, an executive steering committee acts as the top-level governing body. The executive steering committee consists of the Commissioner and the senior executives responsible for all the major areas affected by the change. In addition, the Assistant Secretary of the Treasury for Management and the President of the NTEU are members of each committee.

The purpose of these executive steering committees is to provide consistent direction and prompt decision making on all major issues that affect progress in the change areas. Under the general direction of the executive steering committee, there is a program office headed by a senior executive that manages the on-going program and also provides staff support to the committee. The program office maintains plans, performs analyses and provides detailed management and guidance to whatever organizational components within the IRS are necessary for implementation of changes. In most of the change areas, organizational capacity is augmented and knowledge of best practices is provided by an experienced lead contractor.

Since the Commissioner, the two Deputy Commissioners, Chief Information Officer and other top executives are common members of these executive steering committees and also supervise all ongoing operations, high-level communications and coordination are facilitated.

An essential aspect of this change program is very active, ongoing, two-way communications within the organization at all levels and with outside stakeholders, including Congress, Treasury and numerous outside groups with an interest in IRS matters. In each change program, an important function of the program office and of the top executives is developing communications materials and personally meeting with many individuals and groups. This activity is coordinated through an overall modernization communications program managed by the Chief, Communications and Liaison.

Top-level change processes in effect in 2000

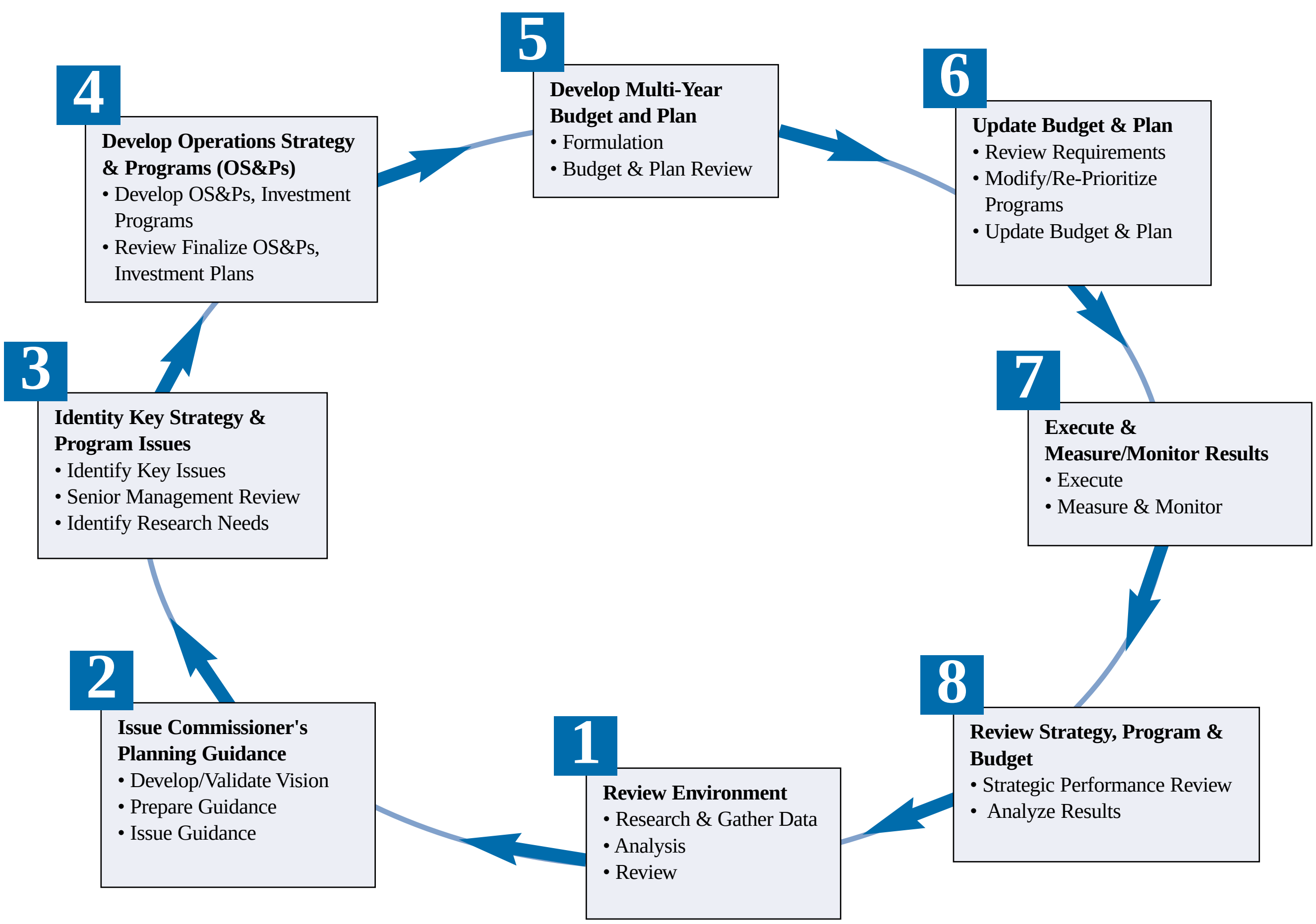
Executive Steering Committee	Top Executive	Program Office	Lead Contractor
Taxpayer Treatment & Service Improvements	Deputy Commissioner Operations-Wenzel	TTSI-Tomaso	None
Organization Modernization	Deputy Commissioner Modernization-LaFaver	Modernization Program Management-Stocker	Booz-Allen
Measures	Deputy Commissioner Operations-Wenzel	Measures Organizational Performance Management Executive-Cables	Booz-Allen
Core Business System	Modernization Executive Chief Information Officer Cosgrave	EPMO Mazei	CSC & PRIME Alliance
Financial Management and Control	Deputy Commissioner Operations-Wenzel	FMC Tomaso	None

Strategic planning and budgeting

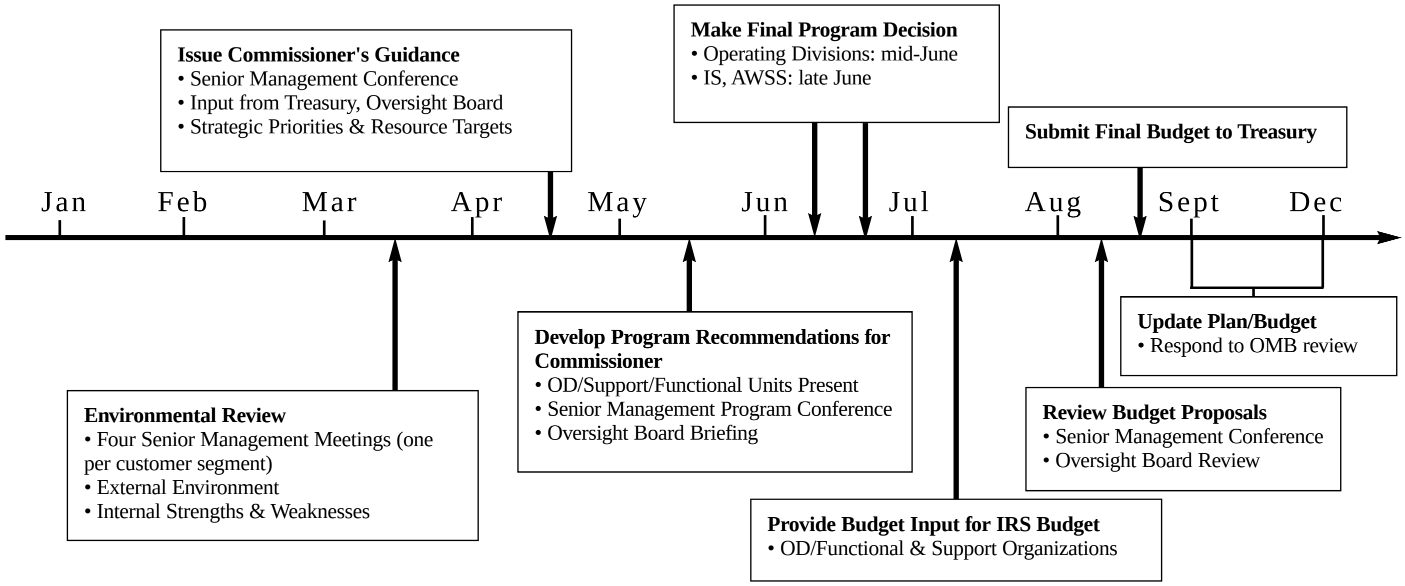
The IRS is developing a new strategic planning and budgeting process to support the modernized organization. The purpose of strategic planning is to provide a structured dialogue, occurring over time, among the senior leadership of the IRS to determine how resources should be allocated and priorities established. The new strategic planning and budgeting process provides a formal process for defining future IRS strategies and resource allocations. The process incorporates senior management guidance while ensuring operating unit ownership of operational plans and business practices and provides for greater process integration between strategic planning, budgeting, research and accountability mechanisms.

The major role of the Commissioner is to provide broad guidance to the operating units and to review the proposed plans. The heads of the operating units will have major responsibility for proposing and executing programs to support the Commissioner's guidance. The Commissioner is supported by a staff facilitating the planning process, providing guidance to the operating units and formulating and executing the budget.

The Strategic Planning And Budgeting Process



Proposed Strategic Planning and Budgeting Process Timeline



The successful implementation of the strategic planning process requires new planning and management practices throughout the organization and coordination among the business units.

Changes required:

- Extend the planning horizon to five years.
- Integrate Treasury in review of proposed plans and budgeting.
- Provide for substantive input and review by the Oversight Board at key points in preparation of plans and budget.
- Planning and priority setting are constrained by the Commissioner's budget guidance.
- Improvement initiatives proposed and approved as part of the planning and budgeting cycle.
- Results of the planning cycle should translate very readily into budget categories acceptable for submission to Treasury and OMB.
- Closely tie research to strategy and plan development.
- Maintain a distinction between operating costs and investment costs.
- Link information systems planning to operating units plans.
- Maintain measures related to output and results of strategic planning and budgeting, e.g. identifying both operational measures such as volume and quality of service on calls returned and strategic measures such as trends in customer satisfaction.
- Incorporate program analysis, measurement and reviews into the annual cycle.

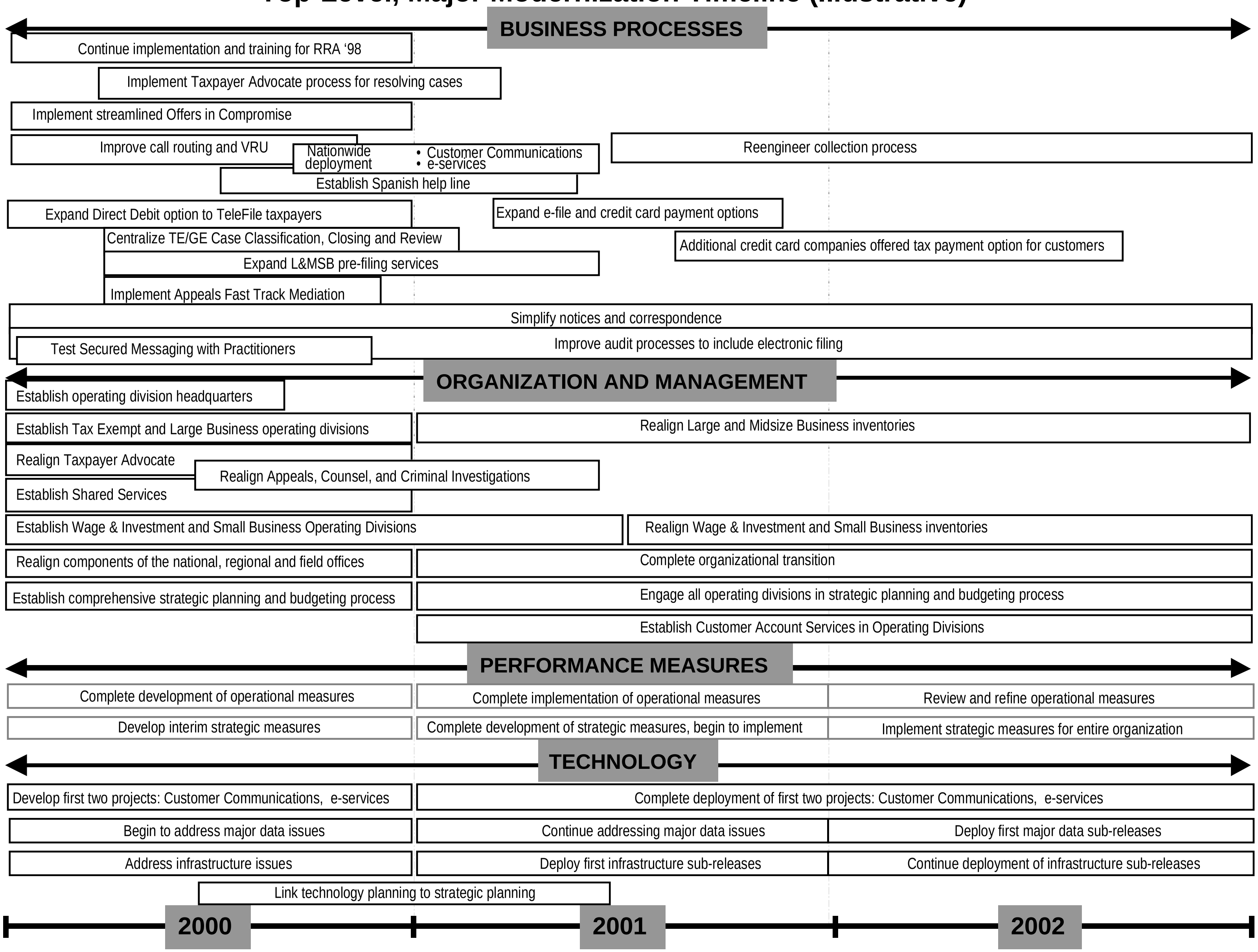
IX. Milestones

In 2000, the major milestones expected from the IRS modernization change program are:

- Successfully complete the Century Date Change program.
- Implement planned service and electronic tax administration improvements in the 2000 filing season and throughout the year.
- Refine and improve on initial implementation of the taxpayer rights provisions of RRA '98, clarifying areas of uncertainty and improving quality and productivity of operations.
- Complete implementation of balanced measures program for all major operational functions and use data for the first time in fiscal 2000 performance management process.
- Develop initial set of strategic measures for the operating divisions.
- Complete recruiting of top management teams for the new organization.
- Complete implementation of all top level units in the new organization structure, while completing detailed planning for remaining reorganization and workload redistribution in the new structure.
- Establishment of a new management process and plan to focus on improvements in financial management and financial controls. This plan will be rigorously managed in the same way as other change programs, and will be supported by the Core Business Systems program where major systems changes are needed.
- Make progress as planned on core business systems projects with objective of delivering first major releases in 2001 and subsequent releases regularly thereafter. Each major project will be a vehicle to achieve modernized business processes and progress on all three strategic goals.
- Establish new strategic planning and budgeting process as a vehicle for managing resource allocations, setting priorities and establishing improvement initiatives as an integral part of operational management.

A timeline depicting the high level milestones for the overall modernization effort is shown on the following page.

Top-Level, Major Modernization Timeline (Illustrative)



Appendices

Appendix 1: Examples of Strategy to Improve Service and Increase Compliance

Simplifying Filing:

The Simplifying Individual Filing Research Strategy focuses on ensuring that the IRS tax forms and instructions are as easy as possible to use, guiding taxpayers toward the simplest form and reducing demand for service through simplifying individual filing. For example, in the 1997 tax year, approximately 16 million taxpayers filed more complicated individual tax returns than they needed to file to meet their filing obligation. In addition, approximately 18 million taxpayers threw away Telefile packages and filed other paper tax forms. Taxpayers spent over 63 million more hours filing, and the Service spent nearly seven million extra dollars processing 1997 Forms 1040 Series because of this single issue (filing more complicated form than necessary).

Subsequent research quantified the extent of difficulties, costs and resulting problems. Working in collaborative fashion with the Multimedia Division has enabled the Service to improve the percentage of mailed tax packages that can be used by the receiving taxpayers.

Research worked with the Submission Processing and Forms and Publications Divisions to use data related to taxpayer errors on forms to identify the order in which forms and publications were redesigned. This resulted in the changing of two forms and related publications, one of which, because of the redesign, will no longer cause over 20 million taxpayers to call or find other guidance and instruction to complete a form they would not use anyway.

The Strategy also addressed the issue of taxpayers filing when they were not required to file. Taxpayers having no taxable income, no withholding and/or no tax liability were going through the filing process and incurring the costs to file. These taxpayers expended over 51 million hours in 1998 in filing and the Service spent over 25 million dollars processing these unnecessary returns. Research again worked with Submission Processing Division to complete focus group and other research techniques to enact change. This resulted in redesigned flyers, instructions, web page and marketing techniques to ensure the right taxpayers were reached and that they received clear and understandable communications. In the second year of this research, over three million taxpayers in two age groups, elderly and young filers, will receive flyers and follow-up items to assist them in understanding they do not have to file.

Electronic Tax Law Assistance (Previously known as "Ask the IRS")

The Electronic Tax Law Assistance (ETLA) Program provides a convenient, alternative means for taxpayers to get answers to their tax law and procedural questions. Taxpayers can submit their questions through the IRS Web site at any time, day or night, and will receive prompt written responses. They do not have to wait in queue on the telephone, and can have a response they can refer to as needed. They do not need to be concerned about forgetting the details of a response verbally communicated to them via a telephone conversation. The service has been well received by taxpayers. Our survey results show that 97 percent of our customers chose the new service in lieu of the telephone, and 94 percent said they will use the service again.

The Electronic Tax Law Assistance (ETLA) program began as a pilot at the Nashville Customer Service site during the 1994 and 1995 filing seasons and has operated year-round since March 1996. The pilot program had receipts of 270,000 in FY 99, and receipts of 700,000 are projected in FY 2000.

ETLA also allows Customer Service to manage its workload more efficiently. The workload can be balanced by switching assistors from the telephones to e-mail during periods of slack telephone demand.

Electronic W-4

Research is developing a computerized Form W-4 that will be both simpler for employees to use and more accurate than the paper Form W-4 can be. Employees use the Form W-4 to tell their employers how much tax to withhold from their paychecks. The paper form helps employees to convert the most important aspects of the tax law into either a number of withholding allowances (to avoid having too much withheld) or an additional amount of tax to withhold per-pay-period (to avoid having too little withheld). Since the paper form has to accommodate most people's situations, and since it requires the employee to perform several calculations, it is often burdensome and non-intuitive to use. Moreover, since the complex tax calculations need to be approximated on the paper form, the amount actually withheld can deviate substantially from one's actual tax liability.

The electronic W-4 will be both easier to use and more accurate than the paper form by having the computer do the work and by customizing the calculations based on user input. Users will be prompted to enter only the information that is relevant to their situation (e.g., based on their marital status, number of jobs, etc.), and the program will provide them with all the information they need to be withheld as accurately as possible. The program is being developed as a Web-based application, but can be distributed to employers in other forms as well. Future versions may even be able to print out a completed Form W-4 at the conclusion of the program. In addition to reducing taxpayer burden, the electronic W-4 may help to reduce unexpected under-withholding, and therefore may prevent many balance due and non-filing cases.

TIP Rate Determination and Education Program

In 1993, IRS estimated that tipped employees in the food and beverage industry were receiving approximately $18 billion in tip income, but reported less than $9 billion. Proper reporting would result in increases to corresponding items such as FICA tax, federal income tax, state unemployment tax, workers' compensation insurance, state income tax and any other tax or benefit that is based on wages.

It is important to stress that this program emphasizes outreach and education as the means to increase voluntary compliance without having to use traditional enforcement actions, such as tip examinations. This reduces the tax burden for all those affected. Employers and employees are not burdened with unplanned tax liabilities that result from tip examinations. The IRS also profits, in that fewer resources are used in promoting this program than if labor intensive examinations were to be performed.

The Tip Reporting Alternative Commitment, begun in October 1993, directed Examination field personnel to make contact with individual restaurants and secure Tip Rate Determination Agreements (TRDA). Under the program, the IRS works with restaurants to determine a fair tip rate to be reported by all tipped employees. These tips are reported to the IRS. The restaurant industry raised concerns about the accuracy of the established average tip rates. As an answer to the industry's stated concerns, the IRS worked with a coalition of representatives from food and beverage industry to develop the Tip Reporting Alternative Commitment (TRAC), which became available in June 1995.

Under TRD/EP, in addition to one-on-one contacts with restaurants, the IRS has sent trained IRS personnel to speak to interested groups, such as local restaurant associations and practitioner groups. These personnel also teach workshops on tip reporting to tipped employees and write articles for local publications.

The number of employers filing from 8027, Employer's Annual Information Return of Tip Income and Allocated Tips, increased from 48,178 in 1993, to 56,468 in 1998. However, the most significant factor is that the tips being reported on these forms, by tipped employees, increased from $3.9 billion in 1993 to $7.03 billion in 1998. (Food and beverage employers must file this return to make annual reports to the IRS on receipts from food and beverage operations and tips reported by their employees.) During this same period, tip rates increased from 7.8 percent in 1993 to 10 percent in 1998.

This program has had an impact on all other industries that report tip wages as evidenced by the increase in tip wages being reported on Forms 941, Employer's Quarterly Federal Tax Returns. Tip wages reported, from all industries, increased from $8.52 billion in 1994 to nearly $12 billion in 1998.

Due to the tremendous success experienced with the TRAC and TRDA, the program was extended to the gaming (casino) and hairstyling industries in 1996. Plans are underway to develop generic agreements for all other industries where tipping is customary.

EITC & Year of Birth Project

In October 1998, legislation gave the IRS the authority to use year-of-birth data from Social Security Administration (SSA) records to determine the accuracy of the age of children used to claim EITC benefits on tax returns. If the age reported by the taxpayer for the child is found to be in error, the EITC may be disallowed during returns processing as a math error.

The law does not allow EITC to be claimed for a qualifying child over the age of 23 unless the qualifying child is permanently and totally disabled. In July 1998, 38,999 Tax Year 1997 returns were identified as claiming EITC for children who, according to SSA records, were over the age of 23. Research assisted the EITC Project Office to issue a notice to those taxpayers (not already being contacted for other errors) telling them of the discrepancy between the age reported on the return and SSA data relevant to the child.

The notice asked taxpayers to carefully review their 1997 tax return and, if the age reported on the return was erroneous, to not claim EITC on behalf of that person on their 1998 income tax return. If the information on the 1997 tax return was correct, the taxpayer was asked to contact SSA to have the record corrected. Of the 26,783 taxpayers who were mailed a notice, 52.3 percent did not repeat the erroneous condition on their 1998 tax return.

Farm Labor Contractor Strategy

This central California strategy addressed a business segment that historically was highly noncompliant, and the taxpayers were often in an adversarial relationship with the IRS. This business segment is made up of agricultural farm labor contractors who supply temporary farm workers to farm operators. Before the new program began, relatively few contractors were compliant with employment tax and withholding obligations, as well as various State tax obligations. Working with an association of farm contractors and the State agencies, the IRS team was able to develop agreements as well as educational programs that persuaded most members to comply early, while working out acceptable arrangements for meeting past obligations. In particular, the IRS team forged an agreement with the State of California that made the issuance of State business licenses for farm contractors contingent on compliance with all federal and State tax laws. Only a very few taxpayers who blatantly refused to comply were investigated and prosecuted. The leader of this particular association was very vocal in his praise of this program because it eliminated in a practical way a major ongoing problem for most of his members, many of whom wished to be compliant but had difficulty doing so when the majority of their competitors were not complying. In 1993, businesses in the team’s jurisdiction owed the government $11.1 million. As of 1997, that figure was down to $240,000.

Appendix 2:
Department of the Treasury
Internal Revenue Service

PART 801--BALANCED SYSTEM FOR MEASURING ORGANIZATIONAL AND EMPLOYEE PERFORMANCE WITHIN THE INTERNAL REVENUE SERVICE

Sec.

Authority: 5 U.S.C 9501 et seq. ; secs. 1201, 1204, Pub. L. 105-206, 112 Stat. 685, 715-716, 722 (26 U.S. C. 7804 note).

801.1 Balanced performance measurement system; In general

(a) In general-- (1) The regulations in this part 801 implement the provisions of sections 1201 and 1204 of the Internal Revenue Service Restructuring and Reform Act of 1998 (Public Law 105 -106, 112 Stat. 685, 715-716, 722) and provide rules relating to the establishment by the Internal Revenue Service of a balanced performance measurement system.

(2) Modern management practice and various statutory and regulatory provisions require the IRS to set performance goals for organizational units and to measure the results achieved by those organizations with respect to those goals. To fulfill these requirements, the IRS has established a balanced performance measurement system, composed of three elements: Customer Satisfaction Measures; Employee Satisfaction Measures; and Business Results Measures. The IRS is likewise required to establish a performance evaluation system for individual employees.

(b) Effective date. This part 801 is effective September 7, 1999.

801.2 Measuring organizational performance

(a) In general. The performance measures that comprise the balanced measurement system will, to the maximum extent possible, be stated in objective, quantifiable and measurable terms and, subject to the limitation set forth in paragraph (b) of this section, will be used to measure the overall performance of various operational units within the IRS. In addition to implementing the requirements of the Internal Revenue Service Restructuring and Reform Act of 1998 (Public Law 105 -206, 112 Stat. 685), the measures described here will, where appropriate, be used in performance goals and performance evaluations established, inter alia, under Division E, National Defense Authorization Act for Fiscal Year 1996 (the Clinger-Cohen Act of 1996) (Public Law 104 -106, 110 Stat. 186, 679); the Government Performance and Results Act of 1993 (Public Law 103 -62, 107 Stat. 285); and the Chief Financial Officers Act of 1990 (Public Law 101-576, 108 Stat. 2838).

(b) Limitation--quantity measures (as described in '801.6) will not be used to evaluate the performance of or to impose or suggest production goals for any organizational unit with employees who are responsible for exercising judgment with respect to tax enforcement results (as defined in '801.6) except in conjunction with an evaluation or goals based also upon Customer Satisfaction Measures, Employee Satisfaction Measures, and Quality Measures.

801.3 Measuring employee performance

(a) In general. All employees of the IRS will be evaluated according to the critical elements and standards or such other performance criteria as may be established for their positions. In accordance with the requirements of 5 U.S.C. 4312, 4313 and 9508 and section 1201 of the Internal Revenue Service Restructuring and Reform Act of 1998 (Public Law 105 -206, 112 Stat. 685) (as is appropriate to the employee's position), the performance criteria for each position will be composed of elements that support the organizational measures of Customer Satisfaction, Employee Satisfaction and Business Results; however, such organizational measures will not directly determine the evaluation of individual employees.

(b) Fair and equitable treatment of taxpayers. In addition to all other criteria required to be used in the evaluation of employee performance, all employees of the IRS will be evaluated on whether they provided fair and equitable treatment to taxpayers.

(c) Senior Executive Service and special positions. Employees in the Senior Executive Service will be rated in accordance with the requirements of 5 U.S.C. 4312 and 4313 and employees selected to fill positions under 5 U.S.C. 9503 will be evaluated pursuant to workplans, employment agreements, performance agreements or similar documents entered into between the Internal Revenue Service and the employee.

(d) General workforce. The performance evaluation system for all other employees will:

(1) Establish one or more retention standards for each employee related to the work of the employee and expressed in terms of individual performance --

(i) Require periodic determinations of whether each employee meets or does not meet the employee's established retention standards; and

(ii) Require that action be taken, in accordance with applicable laws and regulations, with respect to employees whose performance does not meet the established retention standards.

(2) Establish goals or objectives for individual performance consistent with the IRS' performance planning procedures --

(i) Use such goals and objectives to make performance distinctions among employees or groups of employees; and

(ii) Use performance assessments as a basis for granting employee awards, adjusting an employee's rate of basic pay, and other appropriate personnel actions, in accordance with applicable laws and regulations.

(e) Limitations--(1) No employee of the Internal Revenue Service may use records of tax enforcement results (as defined in '801.6) to evaluate any other employee or to impose or suggest production quotas or goals for any employee.

(i) For purposes of the limitation contained in this paragraph (e), employee has the meaning as defined in 5 U.S.C. 2105(a).

(ii) For purposes of the limitation contained in this paragraph (e), evaluate includes any process used to appraise or measure an employee's performance for purposes of providing the following:

(A) Any required or requested performance rating.

(B) A recommendation for an award covered by Chapter 45 of Title 5; 5 U.S.C. 5384; or section 1201(a) of the Internal Revenue Service Restructuring and Reform Act of 1998, (Public Law 105 -206, 112 Stat. 685, 713-716).

(C) An assessment of an employee's qualifications for promotion, reassignment or other change in duties.

(D) An assessment of an employee's eligibility for incentives, allowances or bonuses.

(E) Ranking of employees for release/recall and reductions in force.

(2) Employees who are responsible for exercising judgment with respect to tax enforcement results (as defined in '801.6) in cases concerning one or more taxpayers may be evaluated with respect to work done on such cases only on the basis of information derived from a review of the work done on the taxpayer cases handled by such employee.

(3) Performance measures based in whole or in part on Quantity Measures (as described in '801.6) will not be used to evaluate the performance of or to impose or suggest goals for any non-supervisory employee who is responsible for exercising judgment with respect to tax enforcement results (as defined in '801.6).

801.4 Customer satisfaction measures

The customer satisfaction goals and accomplishments of operating units within the Internal Revenue Service will be determined on the basis of information gathered via various methods. For example, questionnaires, surveys and other types of information gathering mechanisms may be employed to gather data regarding customer satisfaction. Information to measure customer satisfaction for the particular work unit will be gathered from a statistically valid sample of the customers served by that operating unit and will be used to measure, among other things, whether those customers believe that they received courteous, timely and professional treatment by the Internal Revenue Service personnel with whom they dealt. Customers will be permitted to provide information requested for these purposes under conditions that guarantee them anonymity. For purposes of this section, customers may include individual taxpayers, organizational units or employees within the Internal Revenue Service and external groups affected by the services performed by the Internal Revenue Service operating unit.

801.5 Employee satisfaction measures

The employee satisfaction numerical ratings to be given operating units within the Internal Revenue Service will be determined on the basis of information gathered via various methods. For example, questionnaires, surveys and other information gathering mechanisms may be employed to gather data regarding employee satisfaction. The information gathered will be used to measure, among other factors bearing upon employee satisfaction, the quality of supervision and the adequacy of training and support services. All employees of an operating unit will have an opportunity to provide information regarding employee satisfaction within the operating unit under conditions that guarantee them anonymity.

801.6 Business results measures

(a) In general. The business results measures will consist of numerical scores determined under the Quality Measures and the Quantity Measures described elsewhere in this section.

(b) Quality measures. The quality measure will be determined on the basis of a review by a specially dedicated staff within the Internal Revenue Service of a statistically valid sample of work items handled by certain functions or organizational units determined by the Commissioner or his delegate such as the following:

(1) Examination and Collection units and Automated Collection System units (ACS). The quality review of the handling of cases involving particular taxpayers will focus on such factors as whether Internal Revenue Service personnel devoted an appropriate amount of time to a matter, properly analyzed the issues presented, developed the facts regarding those issues, correctly applied the law to the facts, and complied with statutory, regulatory and Internal Revenue Service procedures, including timeliness, adequacy of notifications and required contacts with taxpayers.

(2) Toll-free telephone sites. The quality review of telephone services will focus on such factors as whether Internal Revenue Service personnel provided accurate tax law and account information.

(3) Other workunits. The quality review of other workunits will be determined according to criteria prescribed by the Commissioner or his delegate.

(c) Quantity measures. The quantity measures will consist of outcome-neutral production and resource data, such as the number of cases closed, work items completed, customer education, assistance and outreach efforts undertaken, hours expended and similar inventory, workload and staffing information, that does not contain information regarding the tax enforcement result reached in any case involving particular taxpayers.

(d) Definitions--(1) Tax enforcement result. A tax enforcement result is the outcome produced by an Internal Revenue Service employee's exercise of judgment recommending or determining whether or how the Internal Revenue Service should pursue enforcement of the tax laws.

(i) Examples of tax enforcement results. The following are examples of a tax enforcement result: a lien filed; a levy served; a seizure executed; the amount assessed; the amount collected; and a fraud referral.

(ii) Examples of data that are not tax enforcement results. The following are examples of data that are not tax enforcement results: case closures; time per case; direct examination time/out of office time; cycle time; number or percentage of overage cases; inventory information; toll-free level of access; talk time; number and type of customer education, assistance and outreach efforts completed; and data derived from a quality review or from a review of an employee's or a work unit's work on a case, such as the number or percentage of cases in which correct examination adjustments were proposed or appropriate lien determinations were made.

(2) Records of tax enforcement results. Records of tax enforcement results are data, statistics, compilations of information or other numerical or quantitative recordations of the tax enforcement results reached in one or more cases, but do not include tax enforcement results of individual cases when used to determine whether an employee exercised appropriate judgment in pursuing enforcement of the tax laws based upon a review of the employee's work on that individual case.

(e) Permitted uses of records of tax enforcement results. Records of tax enforcement results may be used for purposes such as forecasting, financial planning, resource management and the formulation of case selection criteria.

(f) Examples. The following examples illustrate the rules of this section:

Example 1. In conducting a performance evaluation, a supervisor may take into consideration information showing that the employee had failed to propose an appropriate adjustment to tax liability in one of the cases the employee examined, provided that information is derived from a review of the work done on the case. All information derived from such a review of individual cases handled by an employee, including time expended, issues raised and enforcement outcomes reached may be considered in evaluating the employee.

Example 2. When assigning a case, a supervisor may discuss with the employee the merits, issues and development of techniques of the case based upon a review of the case file.

Example 3. A supervisor may not establish a goal for proposed adjustments in a future examination, based upon the tax enforcement results achieved in other cases.

Example 4. A headquarters unit may use records of tax enforcement results to develop methodologies and algorithms for use in selecting tax returns to audit.

Commissioner of Internal Revenue

Approved:

Assistant Secretary of the Treasury (Tax Policy)

Appendix 3:
Business Systems Modernization Projects Descriptions

The Business Systems Modernization projects that directly support business goals are briefly described below. Some of these already exist and have teams identified.

Customer Communication

The focus of this project is to provide centralized national call management capability so that taxpayer calls can be routed to any IRS assistor in the country. In addition, this project will concentrate on improved self-service telephone and Internet services for taxpayers.

e-Services

The goal of this project is to foster easy to use electronic products and services which provide the taxpayer the ability to conduct all of their interactions electronically and allows account management among payers, employers and tax authorities. By 2007, IRS e-Services will enable the agency to exceed the Congressional mandate by electronically transacting with more than 80 percent of U.S. taxpayers while achieving a 90 percent customer and employee satisfaction rate.

Customer Account Data Engine (CADE)

This project will replace the master files and Integrated Data Retrieval System (IDRS) with new technology, new applications and new databases. CADE will allow employees to post transactions and update taxpayer accounts and return data from their desks. Updates will be immediately available to anyone who has authorized access to data and will provide a complete, timely and accurate account of the taxpayer's information. Taxpayers will be removed from the master files as they are added to modernized systems. Over several years, the master files and IDRS will shrink as CADE grows.

Correspondence and Document on Demand Imaging (CADDI)

This project will image taxpayer correspondence and selected paper tax returns to support more efficient customer service and case management. Today, correspondence is often not available to customer service representatives (CSRs) and examiners as they are interacting with the taxpayer. Without access to this key information, IRS employees are not able to consider information provided by the taxpayer, so they do not get the service that they deserve. CADDI will allow employees to see an electronic image of correspondence in the electronic case folder.

Customer Relationship Management Core (CRM Core)

The CRM Core project will provide the central, shared electronic case folders needed for case management. Creating the case management information in a central and accessible repository will significantly benefit taxpayers and employees who are involved in any case management activity. CRM Core will enable an end-to-end view of the interactions between the IRS and its customers. Taxpayers expect the IRS to have this essential capability in place when they receive a call to discuss their account.

Customer Relationship Management Exam (CRM Exam)

The CRM Exam project focuses on reducing the time and increasing the quality in the exam process. The project will investigate using commercial-off-the-shelf (COTS) software and integration with common CRM Core capabilities and a risk-based approach to identifying workload. The goal is to reduce the current two-to-four-year cycle to a process that will be completed in 12 to18 months while providing more support to exam to identify and resolve important issues.

Customer Relationship Management Collection (CRM Collection)

This project is focused on reengineering the entire collection process in two major ways. The first is using technology to intervene more quickly and in the most effective way, in every collection situation based on the history and risk in the taxpayer's account. The second is ensuring every employee has the information and the tools needed to resolve the taxpayer's issues quickly and efficiently while observing the taxpayer's rights. This may involve sending a notice, making a telephone call or having a revenue officer visit the taxpayer.

Customer Relationship Management Registration (CRM Registration)

This project will incrementally improve those processes that support taxpayer identification number assignments, S corporation elections, exempt organization status determinations, power of attorney and reporting agent assignments, bond approvals and transfer pricing approvals. It will reduce the elapsed time from application until assignment and incrementally develop systems supporting processes to provide integrated on-line support.

Integrated Research

This project will build systems to improve research to facilitate the early identification of new compliance issues, workload decisions and educational outreach. It will provide data-driven analysis of taxpayer behavior and enforcement activity, and enable continuous feedback from case resolution activities for use in pre-filing activities.

Customer Relationship Management Outreach (CRM Outreach)

CRM Outreach will build new processes and maximize the use of modernized and legacy electronic technology support for conducting proactive taxpayer outreach activities to inform, assist and educate.

Integrated Human Resource System (IHRS)

This project will acquire and implement a single system for IRS employee data and Human Resources (HR) services. The project is part of a Treasury-wide HR system integration utilizing commercial-off-the-shelf (COTS) technology. The project's strategic goals are to reduce the administrative burden associated with managing the IRS work force, improve development opportunities for IRS people and help improve job satisfaction.

IFS-ERP (Integrated Financial Systems-Enterprise Resource Planning)

The Integrated Financial Systems project will incrementally build an agency-wide system that collects and provides standards-compliant administrative and custodial financial management information. Step one is to build two corporate data warehouses. The first will manage taxpayer revenue data and to produce the associated required custodial sub-ledgers. The second will form the basis for corporate financial and performance measures information at the business unit level. This will provide a revised budgeting and performance measurement capability. In addition, a payment information database will be created to properly track and clarify payment at the time of receipt.

Projects	Gaps Addressed
Customer Account Data Engine (CADE)	• Provide timely, accurate account updates and settlement with complete and integrated data • Shorten time between receipt of info and sending out notice to taxpayer • Clarify notices • Increase electronic means of notification • Provide daily processing and real-time posting • Accelerate refunds and notices and improve customer service • Increase level of early fraud detection
Customer Relationship Management (CRM) Core	• Provide timely, accurate account updates with complete and integrated data • Provide universal access to case history • Provide capability to assign cases based on skill • Provide broad view of customer contact • Provide risk-based case prioritization • Provide daily processing and real-time posting • Receive and respond to inquiries via multiple media • Provide complete history of contact
CRM Outreach	• Provide focused outreach to taxpayer segments • Provide automated informing capability • Clarify forms and publications • Leverage external organizations with proactive outreach activities
Correspondence and Document on Demand Imaging (CADDI)	• Increase electronic means of corresponding with the IRS • Accelerate transmission of correspondence to the appropriate case-worker and improve document tracking • Reduce overall manual effort and physical storage • Support improved customer service
CRM Collection	• Significant cycle time reduction and resolution of cases • Improved probability for collection as a result of resolving collection cases earlier • Empowerment of employees to vary case treatments
CRM Examination	• Reduce exam cycle time to 12-18 months • Risk-based case selection allows for more efficient allocation of resources
e-Services	• Increase level of electronic filing • Provide more convenient methods of filing • Increase accuracy of data capture
CRM Registration	• Provide automated method for status tracking
Integrated Financial Systems	• Need for improved receivables collection • Need for accurate receivables management and documentation • Need sub-ledger of revenue, refunds, receivables and payables integrated with general ledger

Enterprise Journey Map: Process View Summary

	Current Issues Column		Process
Direct Support of Business Goals	• Taxpayer access to information is largely a result of their research rather than proactive communication from IRS • Limited information on taxpayers or taxpayer groups constrains employees' service capabilities • Communication strategies are designed to maximize coverage versus customizing or targeting to segment needs • Taxpayer educational programs do not leverage info captured in post-filing activities • Uneven participation in e-filing by third parties limits customer satisfaction and employee productivity	Integrated Research and Analysis	**Educate and Communicate**
	• Employees lack access to certain taxpayer information that could assist in offering proactive assistance • Automated telephone systems are difficult and confusing to use • Taxpayers have difficulty in reaching the IRS by telephone or e-mail • Employee training is often not focused on specific skills that will enable an employee to better serve taxpayers • Limited access to tax law information makes it difficult for employees to answer taxpayer questions on the subject		**Provide Pre-Filing Assistance**
	• Taxpayer options to submit, communicate or pay are limited, often complicated and potentially cost time and money • Paper-based system causes heavy peaks in manual workload and delays in returns processing • Taxpayers are dissuaded from trying or using e-file due to third party biases against the added workload, complexity and cost • Taxpayer receive refunds in 4-6 weeks • Taxpayer filing and discrepancy resolution is lengthy		**Accept Filings and Payments**
	• Taxpayers often cannot obtain refund status through current customer service options • Taxpayer options for obtaining account information are limited • Employees have difficulty properly serving taxpayers because of a lack of accurate account data, contact history or real-time update capabilities • Employee training often not focused on just those skills that will enable an employee to better serve taxpayers • Limited assistance options because no secure mechanisms are in place for taxpayers and third parties to get account assistance electronically		**Provide Account Assistance**
	• Significant time delays in resolving cases results in increased interest and penalties • Case resolution tools and authority insufficient to allow employees to serve taxpayers • Delays in initiating cases increases tax record-keeping burden • Limited risk-based approach to case selection inhibits productivity		**Correct Non-filing and Under-reporting**
	• Centralized electronic case history throughout life of case is lacking • Limited use of risk-based case selection impacts productivity • Significant time delays in initiating and resolving cases, which impacts collectability of receivables		**Collect Unpaid or Overdue Balances**
Indirect Support of Business Goals	• Workforce management hampered by lack of centralized employee skill information • Workforce planning is not tied to recruitment, learning and development • Insufficient control of monies received by IRS • Cost accounting system lacks detail		**Internal Management**
	• Disjointed or overlapping infrastructure programs result in increased costs and decreased effectiveness • Lack of standards and efficient platforms on which to host e-Services slows their development and implementation		**Infrastructure**

Legend:

Planned Tier A projects that support business goals

1. Customer Communications
2. e-Services
3. Customer Account Data Engine (CADE)
4. Correspondence and Document on Demand Imaging (CADDI)
5. Customer Relationship Management (CRM) Core
6. CRM Exam
7. CRM Collection
8. CRM Registration
9. Compliance Research
10. CRM Outreach
11. Integrated Human Resources Systems (IHRS)
12. Integrated Financial System (IFS)

Benefits Summary

Organizational Modernization Benefits (Not Process-Specific)	Near-Term (Filing Season 2001-2002)	Medium-Term (Filing Season 2003-2005)*	Long-Term (Filing Season 2006-2008)**
• Customized Services	Increased value to proposition to transact electronically (2) Selected value adding parties receive long awaited enhancements (2)	More value adding third parties converting to e-Services and more being retained (2) Targeted marketing focuses resources more efficiently and lowers administrative costs (2) Targeted marketing helps to increase volume of e- Service usage by focusing on under-performing third parties and underserved taxpayers (2)	Targeted and customized education via improved research and segmentation (2,8,9,10) Improved taxpayer issues identification increases quality of communication (5,6,7,9)
• Greater focus on education and communication • Early recognition and resolution of problems • End-to-end accountability	Improved taxpayer access to service, by telephone and Internet (1) Improved workload management via intelligent call routing (1)	Enhanced assistance options for taxpayers via secure e-mail correspondence (2,5) Correct and consistent responses to taxpayer inquiries (5) Proactive assistance via taxpayer case histories (10) Targeted, timely employee training in enhanced assistance capabilities (11)	Reduced cycle-time for registering new taxpayer entities (8) Proactive, targeted assistance delivered through multiple channels (5,6,7,8,9,10,11)
• Management roles revised to move decisions closer to taxpayers • Facilitate reengineering and deployment of technology • More effective/efficient tax administration	Some refunds within days for e-filers (2,3) Increased electronic filing through third parties (2)	Refunds within days for most taxpayers (2,3) Reduced taxpayer burden, making it simpler and easier to file taxes (time, cost, etc.), via direct filing (2) Increased taxpayer satisfaction leading to greater participation in e-Services and higher retention (2)	Improved payment options for taxpayers (2) Exceed RRA goal of 80% electronic submissions (2) More effort spent serving taxpayers due to less effort spent processing paper (2)
• Increased practitioner involvement • Empower employees to improve service (workforce realignment) • Customer-focused organization (operating division realignment)	Improved taxpayer access to service, by telephone and Internet (1) Improved Power of Attorney management for e-filers (2) Enhanced assistance messages for third parties via secure messaging (2)	Improved "first-call" resolution rate via electronic case folders (5) Enhanced assistance options via secure e-mail and Internet correspondence (2) Real-time access to customer account data (5) Targeted, timely employee training in enhanced assistance capabilities (1,11) Greater employee insight into customer history and future needs (4,5,9)	Proactive, targeted assistance delivered through multiple channels (5,6,7,8,9,10,11)
• Improved service to large and mid-sized businesses (industry realignment) • Better alignment between field and service centers (service center realignment)	Increased effectiveness via more targeted case selection (6) Faster case resolution (4,6)	Improved case management (5,6)	Targeted exam efforts resulting from risk-based case selection (6) Exam cycle reduced to 12 - 18 months (3,6) *Highly effective resource allocation (3,5,6)*
		Centralized case history (7) Increased use of risk-based criteria for case-selection help to empower employees (7)	Targeted collection efforts due to risk-based case selection (7) Improved probability of successful collection resulting from earlier initiation (7)
	Enhanced training programs for employees (11) Improved access to management information. (11)	*Targeted and timely employee training (11)* More effective workforce management (11) Improved management reporting & decision-making (12)	*Integrated planning, budgeting and capital expenditure (12)* Improved overall resource/asset management (12) Reliable financial statements (12)
	Consolidation of multiple IS Help Desks to a single Virtual Help Desk *Remote network support capabilities allowing flexible resource locations* Centralized reporting on all IRS computing devices	*Improved systems to provide global service* *On-line Tax Law Assistance* Standards-based integrated systems development and maintenance environment	Reduction in unit cost of telecommunications services while substantially increasing usage Improved methods for providing continuous protection of IRS information resources

Tier B projects to be defined by new business units
* in addition to near-term benefits
** in addition to near-term and medium-term benefits

Italic - Process Re-engineering Enabled Benefits
Blue - Technology-enabled Benefits
Plain - Both Process & Technology Enabled