# Internal Revenue Service
# Budget in Brief
## Fiscal Year 2000

Working to Put Service First

IRS

Department of the Treasury
**Internal Revenue Service**

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# FY 2000 BUDGET IN BRIEF

## *Working to Put Service First*

***A Message from the Chief, Management and Finance***

On July 22, 1998, the 105th Congress enacted the **IRS *R*estructuring and *R*eform *A*ct of 19*98*** (RRA98). Earlier, in January 1998, Internal Revenue Commissioner Charles O. Rossotti announced his **Concept for Modernizing the IRS**. Together, the RRA98 and the Commissioner's Modernization Concept form the basis for the most significant change to the IRS organization, operations, and culture since the 1952 reorganization. The FY 2000 resource request of $8.105 billion supports the mandates contained in the RRA98, which includes the Commissioner's Concept for Modernizing the IRS.

The **Modernization Concept calls for serving the taxpayers better through service to each taxpayer, service to all taxpayers, and productivity through a quality work environment**. Mandated by Congress, the concept will shift the focus of the IRS from its own internal operations to service from the taxpayer's perspective by establishing four operating divisions based on clearly identifiable customer segments. The Concept is in line with the recently revised mission statement reflecting our new focus on customer service and fairness to all taxpayers. Since his announcement of the Concept on January 28, 1998, the Commissioner has received overwhelming Congressional and public support for his proposed changes. Developing and implementing the Modernization Concept and the other mandated tax law changes in the RRA98 will require major changes, some already underway, to modernize how the IRS does business with the American taxpayer.

The FY 2000 President's Budget and the Congressional Justification serve as the initial documents to introduce the Congress to the detailed plan, timeline, and funding requests for implementing the RRA98 and the Commissioner's Modernization Concept.

**David A. Mader**

**The IRS mission . . .**

***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.***

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# FY 2000 BUDGET IN BRIEF

***Working to Put Service First***

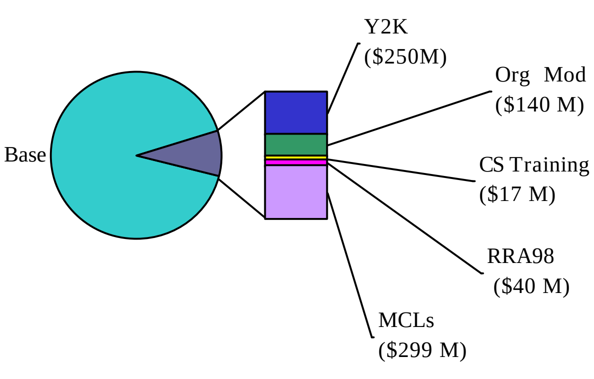
## I. Summary of FY 2000 IRS Budget Request

A <u>Total Budget Request</u>. For FY 2000, the Internal Revenue Service is requesting resources for the Processing, Assistance and Management (PAM), Tax Law Enforcement (TLE), Information Systems (ISY), and Information Technology Investments (ITI) Appropriations that total **$8.105 Billion and 95,767 FTE**. This request is only $2 million more than the $8.103 billion in funding provided in FY 1999. In addition, the IRS is requesting $144 million and 2,095 FTE in funding (an increase of only $1 million over FY 1999) outside the spending caps for the Earned Income Tax Credit (EITC) Appropriation.

| **FY 2000 IRS Budget Request** ($ in Millions) | | | |
|---|---|---|---|
| *Appropriation:* | *FY 1999* | *FY 2000* | *Diff* |
| Processing, Assistance & Mgmt. | $2,985 | $3,313 | $328 |
| Tax Law Enforcement | $3,164 | $3,337 | $173 |
| Information Systems | $1,259 | $1,455 | $196 |
| Investment Technology Account | $211 | $0 | ($211) |
| **TOTAL IRS--inside Caps** | | | |
| **Dollars** | **$7,619** | **$8,105** | **$486** |
| **FTE** | **95,748** | **95,767** | **19** |
| Y2K Emergency Fund | | | |
| Dollars | $483 | | |
| FTE | 239 | | |
| **TOTAL IRS-including Y2K** | | | |
| **Dollars** | **$8,103** | **$8,105** | **$2** |
| **FTE** | **95,987** | **95,767** | **(220)** |
| EITC--outsideCaps | | | |
| Dollars | $143 | $144 | $1 |
| FTE | 1,972 | 2,095 | 123 |

B <u>Budget Increases</u>. The $8.105 billion is required to maintain current services, while investing in critical systems projects and funding organizational restructuring and reform to modernize America's tax agency.

**<u>FY 2000 Budget Program Increases</u>**




The FY 2000 submission requests the following increases:

**Y2K Conversion -- $250 million and 239 FTE** to assure continued operation of IRS' information systems into the new century.

**Maintain Current Service Levels -- $299 million** to maintain FY 1999 program levels in FY 2000. We have partially offset this need by taking base program reductions of *$50 million and 580 FTE*; therefore, *the net increase requested is $249 million.*

**RRA98 Implementation -- $40 million and 500 FTE** for implementing RRA98's customer service and electronic tax initiatives.

**Enhancing Customer Service through Improved Training -- $17 million** for investing in customer service training to bring customer service skill levels up to acceptable standards and meet the RRA98 mandate.

**Organizational Modernization Concept -- $140 million** for implementing the Modernization Concept to restructure, reorganize, and re-skill the IRS workforce, including training. These investments will complement the Service's systems modernization efforts and implementation of the RRA98.

C Information Technology Investments (ITI) and the PRIME. In FY 2000, we are not requesting any additional funds for the ITI Appropriation. This is possible because the Congress advance funded the Information Technology Investments account to a level, $506 million, that will sustain us through FY 2000. In FY 2001, however, we are requesting advance funding of $325 million. On December 9, 1998, the IRS awarded the Prime Systems Integration Services Contract (PRIME) to Computer Sciences Corporation (CSC) and their Alliance partners. In early January 1999, the Commissioner and the Chief Information Officer (CIO) established the Core Business Systems Executive Steering Committee to provide IRS-wide strategy planning and budgeting for core systems replacement, oversee core business systems modernization, and review and approve major core systems projects at initiation and key points in the systems life cycle.

D The Earned Income Tax Credit funding outside the discretionary caps. We are requesting $144 million and 2,095 FTE. This is the third year for this account which is funded outside the spending caps and shown separately in the overall Treasury request. The account provides for expanded customer service and public outreach programs, strengthened enforcement activities, and enhanced research efforts to reduce overclaims and erroneous filings associated with EITC.

## II. Commissioner's Concept for Modernizing the IRS and RRA98 implementation requirements

A Creating the New IRS Mission Statement - Serving taxpayers better is the key concept behind everything we are doing to modernize the IRS. To this end, we have revised the IRS mission statement. In September 1998, the Commissioner announced our new 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.***

We know that the twenty-seven words, alone, are not going to change the IRS, but the mission statement serves a very important purpose. It is a benchmark to which we must aspire and against which we must perform. It is a reminder that we must be dedicated every day to serving taxpayers.

To develop our new mission, the IRS reviewed the best private sector practices and determined that our mission statement should reflect our direction and focus on the taxpayer and the RRA98 mandate that the "key part of the mission must be taxpayer service." As part of the overall development effort, we consulted with employees, government contacts, and external stakeholders. We also, for the first time, solicited direct input from the taxpaying public. Public comments, many received via the Internet, argued for a renewed emphasis on "service."

We believe that the new mission statement language clearly reflects Congressional intent, as well as input from our employees and major stakeholders. The need to reemphasize service, yet not ignore our compliance responsibilities, was recognized as a key concern, especially in internal feedback. We concluded that the language in our mission statement must send a strong signal that the IRS is changing, and also reflect that service and compliance responsibilities are not mutually exclusive. Different types of and better quality service can and will lead to increased compliance.

B IRS Modernization Concept - ***"We must shift our focus from our own internal operations and think about our job from the taxpayer's point of view." - Charles Rossotti***

The IRS Restructuring and Reform Act of 1998 is bringing about many changes throughout the IRS. The RRA98 requires the IRS to modernize our operations to focus on customer service and to align the IRS organization with the needs of our customers. The RRA98 requires that we update the IRS organizational structure, revise our mission statement, establish an IRS Oversight Board, provide new personnel flexibilities, improve training and assistance for employees, work toward a goal of 80 percent electronically filed returns by 2007 and expand taxpayer protections and rights.

| Modernizing the IRS | | |
|---|---|---|
| **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.** | | |
| **Goals** | **Guiding Principles** | **Levers of Change** |
| % Service to each taxpayer<br>% Service to all taxpayers<br>% Productivity through a quality work environment | % Understand and solve problems from taxpayer's point of view<br>% Expect managers to be accountable<br>% Use balanced measures of performance<br>% Foster open, honest communication<br>% Insist on total integrity | % Revamped business practices<br>% Organizing into four operating divisions<br>% Developing management roles with clear responsibility<br>% Adopting a balanced measurement of performance<br>% Implementing new technology |

We have begun to build the new IRS. The Concept for Modernizing the Internal Revenue Service, which the Commissioner introduced in January 1998, initiated a realignment in the IRS' organizational structure. ***But more than that, it is a complete change in how the IRS interacts with the taxpayers***. As the Commissioner told Congress during recent testimony, "we must shift our focus from our own internal operations and think about our job from the taxpayer's point of view." Over the last year, Commissioner Rossotti, Deputy Commissioner (Operations), Deputy Commissioner (Modernization), the Taxpayer Advocate, the CIO, the Chief Financial Officer (CFO), and a team of IRS executives, managers and employees, conducted an extensive design, analysis and validation process to establish the framework for the "modernized IRS." The IRS Modernization Concept is based upon the goals, guiding principles, and levers that will drive these fundamental changes, shown in the chart above. **We are now operating under the Commissioner's Modernization Concept; much work and change is necessary to achieve our mission and goals.**

"*...The IRS restructuring and reform law is a milestone in the history of the Service. But more than just a marker, it's the starting signal for the future Service we will build together*." - Commissioner Rossotti to all employees, July 1998.

C <u>The New Organization -- Four New Operating Divisions</u>. The Commissioner's proposed organizational concept is currently undergoing validation and implementation planning. This has entailed developing extensive plans or "blueprints" for all management and operations activities of the IRS from customer service through appeals and information systems operations and undergoing rigorous feasibility validation. The new IRS organization will be organized into **four new operating divisions**. The redesign of business practices will focus on understanding, solving and preventing taxpayer problems. Each business division will be charged with end-to-end responsibility for serving major groups of taxpayers.

**NEW IRS ORGANIZATION**

| Operating Divisions | Customers |
|---|---|
| Wage & Investment **(W&I)** | Individual taxpayers with simple returns, that are not self-employed or do not have supplemental income. These include individual taxpayers filing 1040A, 1040EZ, and simple 1040s. ***CApproximately 90 million taxpayers per year*** |
| Small Business/Self-Employed **(SB/SE)** | This group includes all individual filers that also file C,E, F, or 2106 schedules; partnerships and S-corporations; and corporations with assets under $5 million. ***CApproximately 40 million taxpayers per year*** |
| Large Business/Mid Size **(LB/MS)** | Middle market are corporations with assets between $5 million and $250 million; large corporate are those corporations with assets greater than $250 million. ***CApproximately 80,000 taxpayers*** |
| Tax Exempt **(Tax Exempt)** | This group includes exempt organizations, employee plans, and state/local governments as taxpaying entities. ***CApproximately 1.6 million taxpayers*** |

# III. Results Based Budgeting -- Performance Measures

**A** IRS is Developing a Performance Measurement System - ***Measuring Our Service to the Taxpayers***

Measures are the criteria we use to evaluate how well the IRS is achieving its goals and mission; translated: how well are we serving taxpayers? The IRS is in the process of implementing a framework for measuring organizational performance that balances business results (quantity and quality), customer satisfaction, and employee satisfaction. This system of balanced measures is one of the five "levers of change" the IRS must adopt if we are to achieve the modernization concept. In the past, the IRS measures have varied and were often not balanced. All too often, they focused on enforcement dollars and gave insufficient attention to customer and employee satisfaction. The IRS is changing its measures and the way it uses measures to focus attention on priorities, assess organizational performance, and identify improvement opportunities. Management processes and activities are being realigned to ensure that they support the mission of the IRS and incorporate the principles of a balanced measurement system. Under this new approach, the framework for measuring organizational performance will balance the IRS' focus across three major areas: **business results, customer satisfaction, and employee satisfaction**, as outlined below:

| Framework for New Measures - Balancing Performance with Results | |
|---|---|
| **Business Results: Some Old, Some New** | Measures that balance significantly altered measures of *quantity* with new measures of *quality*. We will not use enforcement dollars as a measure in front line operations. Quality factors will include a case quality index and caseload management. |
| **Customer Satisfaction: NEW** | A customer satisfaction index will measure the full spectrum of our interactions with taxpayers. We can build on IRS Customer Satisfaction Surveys for this component of the measures. |
| **Employee Satisfaction: NEW** | An employee satisfaction index will measure the quality of the working environment as perceived by IRS employees. |

Unlike previous measurement efforts, the redesigned measures will ensure that customer and employee satisfaction share equal importance with business results in driving the agency's actions and programs. The measures will address organizational performance (not individual performance) and be used at all levels of the organization. FY 1999 presents a transition period to introduce and "baseline" the new measurement system. However, as the Commissioner has stated, it will take several years to achieve a set of balanced measures that can be used at all levels of the organization.

This effort, however, is not just about measures -- it is the first action in establishing how to manage in the New IRS. In fact, the measures and processes have and are being designed with a new management model in mind. All of our efforts in performance measurement are being integrated and communicated throughout the organization. The IRS will strive for a holistic approach to address all the critical pieces of performance measures and processes while communicating and educating the organization on how to manage the New IRS.

During FY 1999, the IRS will begin to use the balanced measurement system with measures of customer and employee satisfaction. As of January 1999, key performance measures have been defined for the major functions in the balanced measurement system (i.e., examination, collection, customer service, employee satisfaction, customer satisfaction, and cross-cutting issues).

B IRS Performance Measures. FY 1999 will be a transition year to introduce the balanced set of measures, educate and train managers and employees about the performance measures, gather and analyze data (i.e., baseline), and refine the measurement system. In addition, while this system will set the building blocks for the long term solution to measures, it is still the first step for the following reasons: it does not achieve the ultimate and elusive organizational goal of measuring voluntary compliance; it will need to be revisited to adapt to the modernized structure of the IRS; it is constrained by systems and data availability; and it must allow for organizational learning on the effectiveness of these measures and how they are used.

The following table reflects the new Servicewide measures, most of which will have the baseline determined in FY 1999:

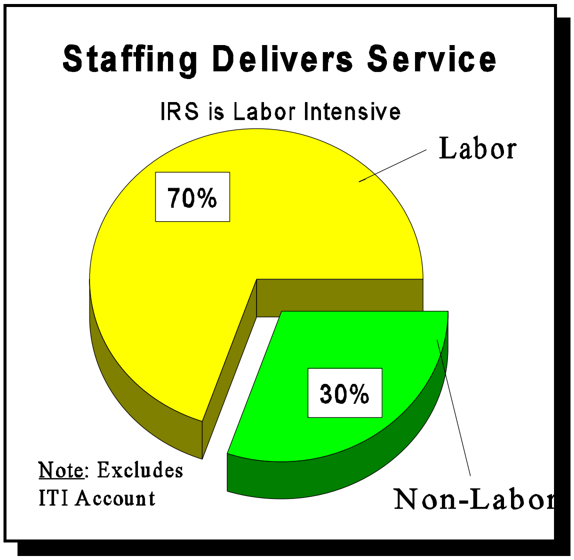
| *IRS Performance Measures -- Mission and Goals* | | | |
|---|---|---|---|
| | **FY 1998** | **FY 1999** | **FY 2000** |
| Performance Measures: | **Actual** | **Plan** | **Proposal** |
| **Mission: Provide America's taxpayers top quality service by helping them understand and meet their tax responsibilities and by applying the tax law with integrity and fairness to all.** | | | |
| **Performance Goal: Service to Each Taxpayer** | | | |
| 1. Toll-Free Level of Access [1/] | 89.96% | 80%-90% | 80%-90% |
| 2. Number of Calls Answered - Includes Automated (Millions) - workload projection only [2/] | 113.3 | 120.3 | 120.3 |
| 3. Tax Law Accuracy Rate for Taxpayer Inquiries (Toll Free) | 93.8% | 85% [3/] | 85% [3/] |
| 4. Customer Satisfaction - Toll Free | N/A | Baseline | TBD |
| 5. Number of Taxpayers Served - Walk-In (millions) - workload projection only [2/] | 10.1 | 10.0 | 10.0 |
| 6. Customer Satisfaction - Walk-In | N/A | Baseline | TBD |
| 7. Customer Satisfaction - Field and Office Examination | N/A | Baseline | TBD |
| 8. Field Collection Quality | N/A | Baseline | TBD |
| 9. Field and Office Examination Quality | N/A | Baseline | TBD |
| 10. Customer Satisfaction - Field Collection | N/A | Baseline | TBD |
| **Performance Goal: Service to All Taxpayers** | | | |
| 11. Total Net Revenue Collected (trillions) - workload projection only [2/] | $1.616 | $1.725 | $1.785 |
| 12. Total Enforcement Revenue Collected (billions) -workload projection only [2/] | $35.2 | $33.3 | $33.3 |
| 13. Total Enforcement Revenue Protected (billions) - workload projection only [2/] | $7.2 | $7.2 | $7.2 |
| 14. Alternative Treatment Revenue | N/A | Baseline | TBD |
| **Performance Goal: Productivity Through a Quality Work Environment** | | | |
| 15. Employee Satisfaction (Servicewide) | N/A | Baseline | TBD |
| 16. IRS Productivity Measure (placeholder) | N/A | N/A | Baseline |

1/ The FY 1997 Level of Access has been recalculated to reflect the GAO definition, adopted by IRS. The new definition renders the goal more challenging since it is based on calls offered over total call attempts whereas the former definition (calls answered over unique caller demand) only counted repeated callers once.
2/ This measure is not intended to be a performance target but is to be used only as a workload projection.
3/ Starting in FY 1999, Tax Law Accuracy will be generated by the Centralized Quality Review System (CQRS), a new quality review system that is more comprehensive than the Integrated Test Call Survey System (ITCSS) used in prior years.

# IV. FY 2000 Budget Request

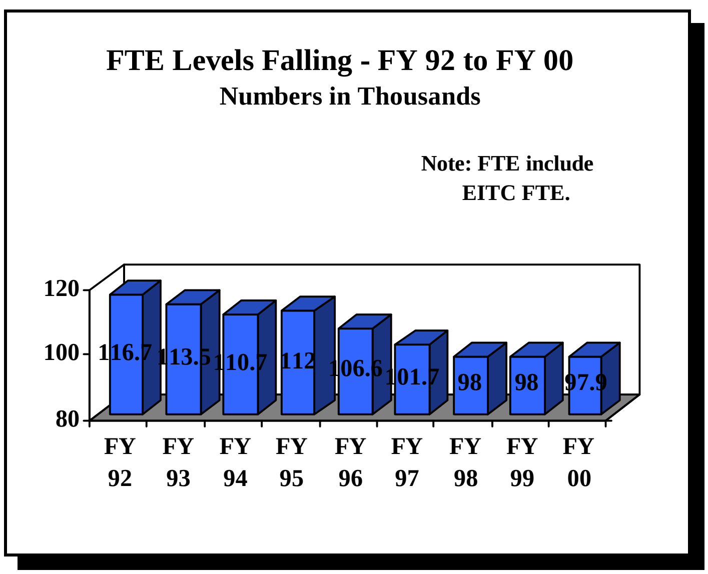
The Service's requested increases, totaling $746 million, advance our five priorities:

A **Maintain Current Service Levels**-- *$299 million* is needed to maintain FY 1999 program levels in FY 2000. We have partially offset this need by taking base program reductions of *$50 million and 580 FTE*; therefore, *the net increase requested is $249 million.* Our objective is to handle increased workload due to the growing economy and tax law changes while holding the overall workforce constant. Relative to the size of the economy, IRS workforce costs will shrink. The stabilization of the workforce is pivotal to efforts to refocus IRS staff on the critical priority areas of customer service, technology operations and training. Further decreases to our staffing levels would hamper our ability to implement modernization in an effective manner.




In FY 2000, IRS faces formidable workload challenges--to fully implement RRA98 while processing 213 million tax returns, issuing 94 million refunds, answering 120 million calls for tax assistance, collecting nearly $1.8 trillion, and continuing implementation of tax law changes from the 1997 Taxpayer Relief Act. Additionally, IRS must fully follow through with the Y2K conversion and mainframe consolidation. These workload categories have all grown in recent years, but IRS has met the challenge of working more efficiently at less cost to the taxpayer.

Since 1992, the IRS workforce has decreased **over 16 percent** (from 116,673 FTE to 97,862 FTE) while it has handled significant increases in workload **due to tax law changes** and **customer demand**. The IRS organization has exhausted its ability to do more with less, at least until we have had a chance to implement both a modernization concept
effort that will significantly realign resources and to invest in information technology to support the modernization concept. Without the requested $299 million to meet inflation costs, the Service would face staffing losses of up to **5,000** FTE that could not be achieved through attrition alone and would reduce direct revenue collections by nearly $1 billion. Full funding of the MCL's is essential if the IRS is to implement the RRA98 and Organizational Modernization, while still conducting day-to-day business.

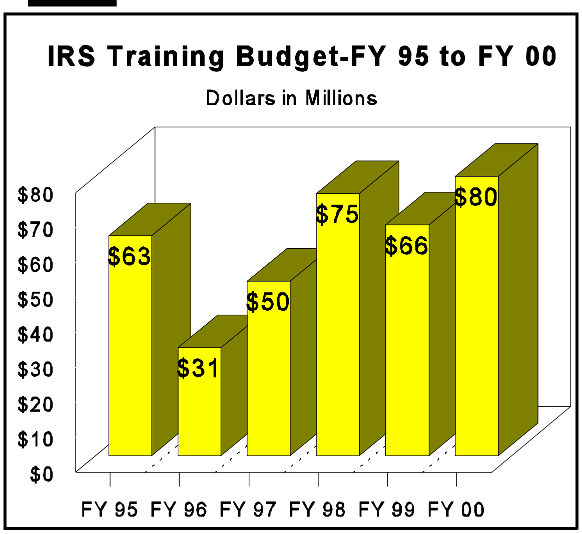


B **Providing for Implementation of the IRS Restructuring and Reform Act of 1998 (RRA98)-***$40 million and 500 FTE* is requested for implementing the RRA98. During FY 1999, the IRS is redirecting significant resources within the base to meet expected increases in workload in new and ongoing programs. Although much of this work can be initiated within existing resources, additional resources are required in FY 2000 to complete the transition and fully and effectively carry out the legal mandates. IRS operational organizations have estimated that they will spend over $200 million in FY 1999 on implementing provisions of the RRA98. This money will come largely from the curtailment of compliance activities and could result in reduced direct compliance revenue.

The funding request includes staffing costs of 500 FTE and $18.6 million -- 300 FTE in Submission Processing to meet increased notice activity and processing for *innocent spouse relief* and *due process in collection actions* (pre-levy notices) and 200 FTE in the Telephone and Correspondence Activity to provide *Spanish language taxpayer assistance*.

Support costs include $12.5 million in management contracts for Electronic Tax Administration (ETA) *e-file* marketing, partnering with the private sector and incentives for electronic return originators. Other related costs include $4.0 million in additional grants for *Low Income Taxpayer Clinics*, and $4.0 million in Information Systems to fund toll-free circuitry and equipment costs and *enhanced internet access*. Increases of less than one million dollars are also included for Spanish language translation of recorded messages used on voice response units.

C **Enhancing Customer Service through Improved Training -- $17 million** is requested for tax-related technical training required by the RRA98. This includes funding for the first phase of a concerted four-year effort to provide the training required to increase competencies of Service employees, in particular customer service representatives, as mandated in the IRS Restructuring and Reform Act of 1998. This effort will relate to ongoing modernization efforts, integrate with our balanced measures systems, make modifications to our employee performance management system as required by RRA98, and take advantage of considerable public and private sector experience in customer service training.



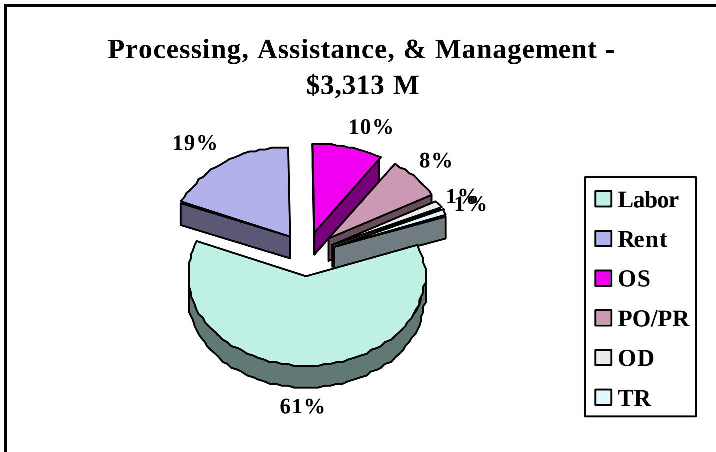

Given the current gap between the desired goal and current performance, a permanent adjustment of $13 million to the IRS training base is requested for FY 2000 (the other $4 million is for Chief Counsel staffing to support education). General customer service competency norms for those front-line employees who have contact with taxpayers are currently at a standard score of approximately 30 compared to a private sector standard score of 50. The goal is to improve critical competencies by at least 10 points per year to a standard score of 80 in order to deliver customer-focused service to taxpayers. Experience to date within the Customer Service function shows that providing employees with focused competency training can improve competency score ratings by as much as 20 points. The required amount will restore base funding levels for employee technical and proficiency training, which has been severely underfunded at approximately 70 percent of requirements. The training shortfall, and its resulting skills gaps, contributed to some of the taxpayer treatment issues that engendered RRA98, and it is essential that the IRS be accorded full funding to correct them.

D **Funding for Y2K Conversion -- $250 million and 239 FTE** is needed to assure continued operation of IRS' information systems into the new century. This includes staffing, telecommunications, and related support to convert and ensure Y2K compliance of the programming code operating IRS tax administration systems, including acquisition of new software or hardware when appropriate. The funding also supports resources for consolidation of mainframe computers in the data centers, replacement of the antiquated systems used to enter tax return data into IRS' automated systems, and management of tax payments with an Integrated Submission and Remittance Processing System.

The CIO is planning for multiple activities that will be required to implement an "end-game" strategy to ensure that all measures have been taken to reduce risk and have a successful Y2K implementation. This includes the establishment and operation of a situation response center (SRC) to receive and address all Y2K problems as soon as they are discovered. The scope of the SRC will include the ability to deal with external suppliers/service failures (e.g., utilities) and the potential for opportunistic crime as well. Other items include any remaining work on the IRS' non-IT systems (e.g., building systems), and IT hardware and software maintenance costs resulting from upgrades required to become Y2K compliant.

E **Implementation of the Modernization Concept as required by the RRA98 -- $140 million** is required for a series of organizational investments to restructure, reorganize, and re-skill the IRS workforce. This covers all aspects of organizational change that will complement the Service's systems modernization efforts and implementation of the RRA98 reorganization mandate. The requested resources build on $25 million provided by the Congress in FY 1999. The funding will support realigning and shifting the focus of the IRS from its own internal operations to an agency focused on the customer point of view. The modernization blueprint plans call for establishing four main operating divisions based on customer segments: wage and investment, small business/self-employed, large and mid-size business, and tax exempt. This will require an additional investment of $140 million in FY 2000 to restructure, reorganize, and re-skill certain occupations and offer buyouts and relocations of IRS staff to locations aligned with customer requirements. We anticipate that base funding will have to be spent to deliver other aspects of the Modernization Concept. This includes contract support, continued support of the IRS teams, and making facilities modifications, computer support, and other expenses of establishing the four new operating divisions while also realigning the other divisions (Appeals, Chief Counsel, Information Systems, Criminal Investigation, Shared Services, Taxpayer Advocate, and the Core).

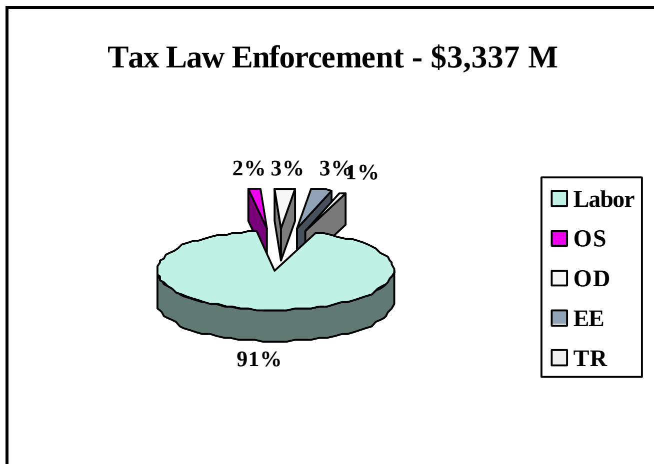
# FY 2000 IRS FUNDING

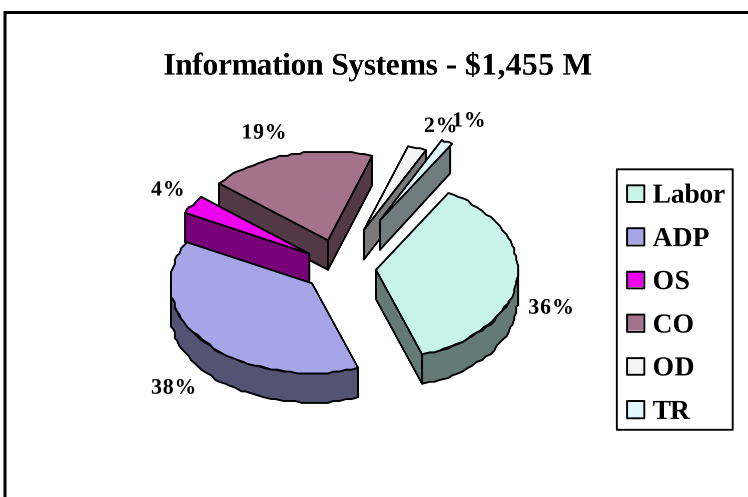



Labor in the PAM appropriation is 61% of the budget. In addition to staffing, PAM funds the rent, space alterations, utilities, postage and printing for the Service **(44,691 FTE)**.

**OS** is Other Support costs which include non-ADP equipment and services and support.
**PO/PR** is postage and printing.
**OD** is Other Direct costs which include moving and travel expenses.
**TR** is training.
**EE** is enforcement expenses.
**CO** is telecommunications.

The TLE Appropriation consists entirely of staffing and related expenses such as travel, training, and enforcement **(43,677 FTE)**.




The IS Appropriation contains all of the ADP and telecommunications resources in the IRS. Other expenses in this appropriation include developmental and operational information systems **(7,399 FTE)**.