

**MSP
#3****IRS FUNDING: The IRS Does Not Have Sufficient Resources to Provide Quality Service****TAXPAYER RIGHTS IMPACTED¹**

- *The Right to Be Informed*
- *The Right to Quality Service*
- *The Right to Pay No More Than the Correct Amount of Tax*
- *The Right to Challenge the IRS's Position and Be Heard*
- *The Right to Appeal an IRS Decision in an Independent Forum*
- *The Right to Finality*
- *The Right to Privacy*
- *The Right to Confidentiality*
- *The Right to a Fair and Just Tax System*

PROBLEM

Between fiscal years (FYs) 2010 and 2019, the IRS budget was cut by 20.4 percent after adjusting for inflation.² Mostly because of antiquated technology, a smaller workforce, and an increasing workload, the IRS cannot afford to provide the quality of service that taxpayers deserve. With the IRS developing a comprehensive taxpayer service strategy³ and much of that strategy likely dependent on technology modernization,⁴ it will be nearly impossible for the IRS to improve service without additional funding.

IMPACT ON TAXPAYERS**Background**

While no single data point provides a perfect measure of the IRS's workload, the number of income tax returns the IRS receives is probably the best general indicator. Most of the IRS's core work (*e.g.*, answering calls and letters, conducting audits, and taking collection actions) increases with the number of filers. Between FYs 2010 and 2019, the number of income tax returns increased by about nine percent. At the same time, the IRS's appropriation (after adjusting for inflation) and number of employees both declined by more than 20 percent, respectively, as shown in Figures 1.3.1-1.3.3.

- 1 See Taxpayer Bill of Rights (TBOR), www.TaxpayerAdvocate.irs.gov/taxpayer-rights. The rights contained in the TBOR are also codified in the Internal Revenue Code (IRC). See IRC § 7803(a)(3).
- 2 IRS response to TAS information request (Oct. 2, 2019). Data is re-based to FY 2010 using the Gross Domestic Product Chained Price Index (GDP Index). See Office of Management and Budget, *Fiscal Year 2020 Budget of the U.S. Government, Historical Tables*, Table 10.1 (showing year-to-year increases in the GDP index), <https://www.whitehouse.gov/omb/historical-tables/> (last visited Dec. 13, 2019).
- 3 For further discussion, see Most Serious Problem: *Customer Service Strategy: The IRS Needs to Develop a Comprehensive Customer Service Strategy That Puts Taxpayers First, Incorporates Research on Customer Needs and Preferences, and Focuses on Measurable Results*, *supra*.
- 4 For further discussion, see Most Serious Problem: *Information Technology Modernization: The IRS Modernization Plan's Goal to Improve the Taxpayer Experience Is Commendable, But the IRS Needs Additional Multi-Year Funding to Bring It to Fruition*, *supra*.

FIGURE 1.3.1⁵

Individual and Business Income Tax Returns, Fiscal Years 2010-2019

Between FYs 2010 and 2019, the number of income tax returns increased by about 9%

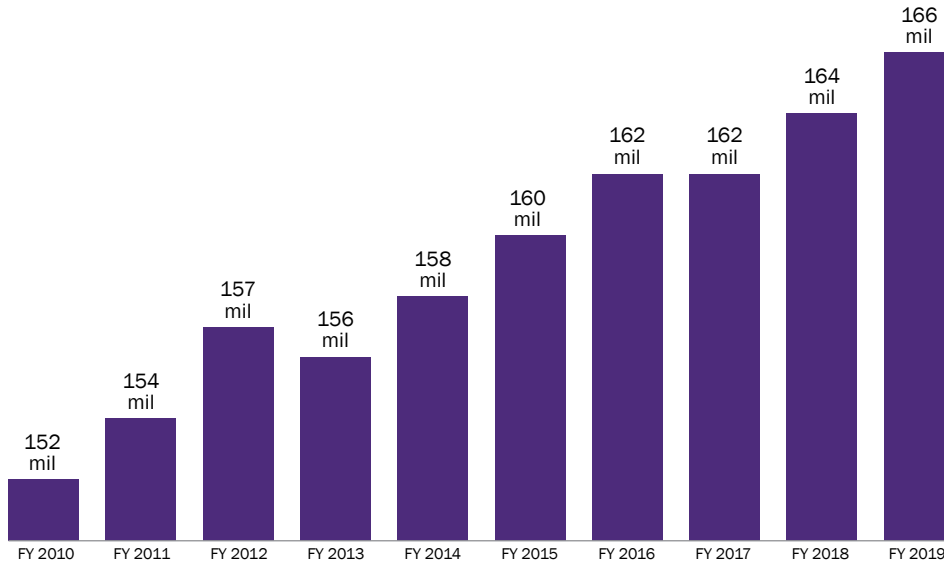
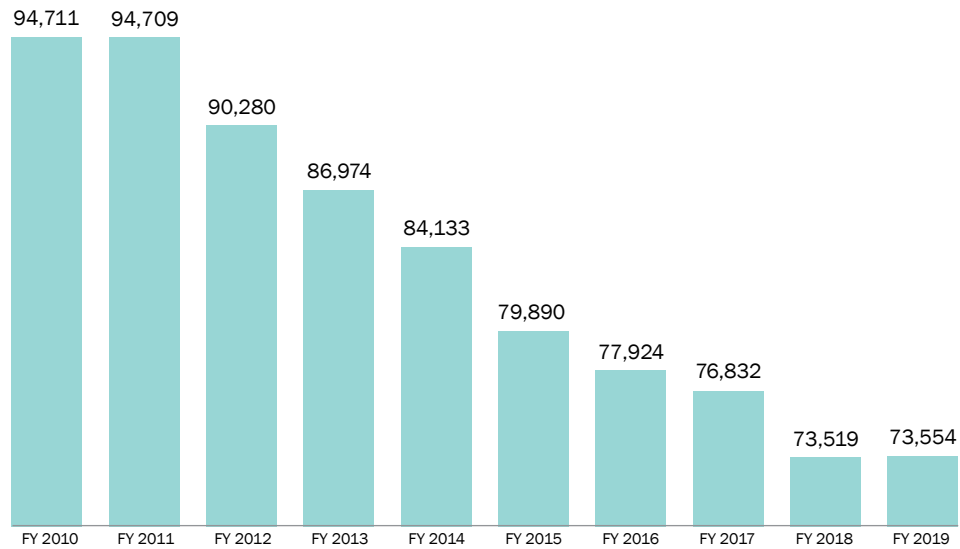


FIGURE 1.3.2⁶

Average Full-Time Equivalent IRS Employees, Fiscal Years 2010-2019

Between FYs 2010 and 2019, the number of IRS employees decreased by more than 20%



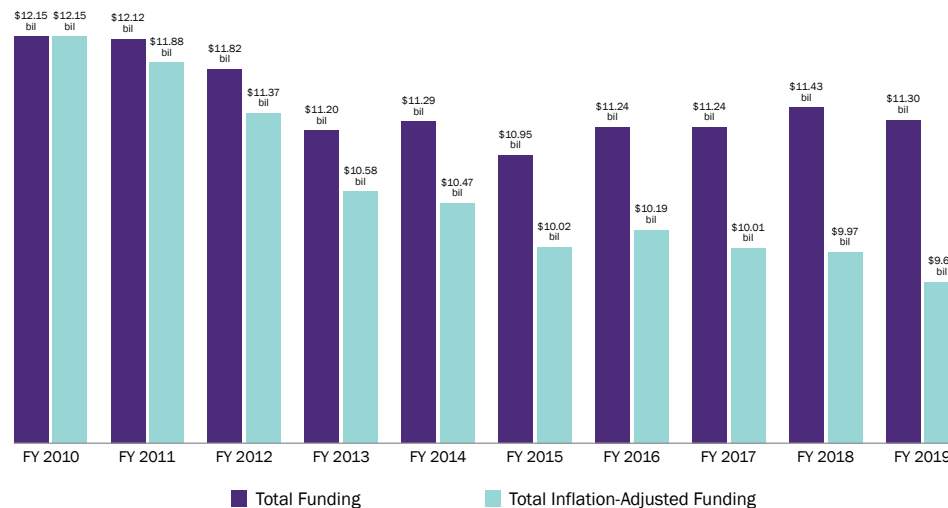
5 IRS, 2018 Data Book, Table 2, Numbers of Returns Filed by Type of Return & Fiscal Year: 2010-2018 (May 2019); IRS, Pub. 6292, Fiscal Year Return Projections by State: 2019–2026 3 (Sep. 20, 2019) (table 1).

6 IRS response to TAS information request (Oct. 2, 2019); IRS response to TAS fact check (Nov. 15, 2019) (excludes full-time equivalents (FTEs) attributable to overtime, terminal leave, and those funded by reimbursable agreements and private debt collection funds).

FIGURE 1.3.3⁷

IRS Funding in Nominal and Inflation-Adjusted 2010 Dollars

The IRS's inflation-adjusted appropriation has declined by more than 20% since FY 2010



In addition, legislative changes sometimes divert resources. For example, over the last decade the IRS spent more than \$2.6 billion to implement the Patient Protection and Affordable Care Act, more than \$500 million to implement the Foreign Account Tax Compliance Act, and more than \$600 million to implement the Tax Cuts and Jobs Act (TCJA).⁸ These responsibilities combine with a steadily increasing workload and a declining appropriation to make it nearly impossible for the IRS to provide good service.

High Quality Customer Service Is Important

The taxpayers who pay our nation's bills deserve high quality service. In 1998, Congress directed the IRS to “restate its mission to place a greater emphasis on serving the public and meeting taxpayers’ needs.”⁹ More recently, Congress enacted the Taxpayer Bill of Rights, which makes “quality service” a right, directed the IRS to make service a priority, and directed it to come up with a plan to improve service.¹⁰

Service is also a critical investment because it contributes to voluntary tax compliance. In FY 2018, the IRS collected nearly \$3.5 trillion on an appropriated budget of about \$11.43 billion, producing an overall return on investment (ROI) of more than 300:1.¹¹ Less than two percent of this revenue is

7 IRS response to TAS information request (Oct. 2, 2019). These budget figures include rescissions and supplemental funds. The inflation adjustment is computed using the GDP Index.

8 *Id.* Although Congress sometimes allocated supplemental funds to implement these changes (e.g., the TCJA), any such funding is included in the figures above.

9 IRS Restructuring and Reform Act of 1998 (RRA 98), Pub. L. No. 105-206, 112 Stat. 722, Title I, § 1002 (1998).

10 IRC § 7803(a)(3)(B) (providing the right to “quality service”). The Consolidated Appropriations Act, 2018 (Pub. L. No. 115-141, Division E, Title I, § 104) directed the IRS to make improvements to the “help line service a priority...” and section 1101 of the Taxpayer First Act (Pub. L. No. 116-25) required the Secretary of the Treasury to provide Congress with a comprehensive customer service strategy for the IRS.

11 IRS, 2018 Data Book, Table 1: Collections and Refunds, by Type of Tax (May 2019).

collected through direct enforcement action.¹² The remaining 98 percent is paid timely and voluntarily as a result of taxpayer service and the potential for enforcement.¹³

Because taxpayers pay both taxes and the costs of tax compliance, the government has a responsibility to answer their calls and letters and meet with them when necessary. As former Commissioner Rossotti observed:

Some critics argue that the IRS should solve its budget problem by reallocating resources from customer support to enforcement. In the IRS, customer support means answering letters, phone calls, and visits from taxpayers who are trying to pay the taxes they owe. Apart from the justifiable outrage it causes among honest taxpayers, I have never understood why anyone would think it is good business to fail to answer a phone call from someone who owed you money.¹⁴

Taxpayers Have Difficulty Reaching the IRS

When taxpayers contact the IRS, whether by phone, by letter, or in person, they often have difficulty reaching a person or getting a timely response.

- Enterprisewide, the IRS received about 99 million calls in FY 2019, but telephone assistors answered only about 29 percent of them — and only after those callers waited an average of 16.2 minutes on hold.¹⁵
- The IRS’s Accounts Management function received about 6.9 million pieces of correspondence from taxpayers during FY 2019, including letters responding to proposed adjustments and other notices.¹⁶ About 52.3 percent of the correspondence in open inventory had not been answered within the IRS’s timeframes (generally 45 days).¹⁷

12 Enforcement revenue accounted for \$59.4 billion (or 1.7 percent) of the \$3.5 trillion the IRS collected in FY 2018. Government Accountability Office (GAO), GAO-19-150, *IRS’s Fiscal Years 2018 and 2017 Financial Statements* 23 (Nov. 2018).

13 Some services (e.g., updating forms, establishing procedures, clarifying the rules, and accepting returns and payments) make it possible, or at least more convenient, for taxpayers to pay their taxes. When paying taxes is inconvenient, fewer are likely to pay voluntarily. Other services (e.g., reviewing and responding to certain submissions) make it possible for the IRS to assess and collect taxes using “enforcement” resources without violating procedural requirements. Still other services (e.g., access to the Taxpayer Advocate Service) probably also bring in revenue by improving goodwill and trust for the agency (or diminishing distrust) because trust is correlated with voluntary compliance. See, e.g., National Taxpayer Advocate 2012 Annual Report to Congress vol. 2, at 1-70 (*Factors Influencing Voluntary Compliance by Small Businesses: Preliminary Survey Results*).

14 Charles O. Rossotti, *Many Unhappy Returns: One Man’s Quest to Turn Around the Most Unpopular Organization in America* 285 (2005).

15 IRS, Joint Operations Center (JOC), Snapshot Reports: Enterprise Snapshot (week ending Sept. 30, 2019).

16 IRS, JOC, Adjustments Inventory Reports: FY 2019 July–September Fiscal Year Comparison (Oct. 19, 2019).

17 IRS, Customer Account Services, Weekly Enterprise Adjustments Inventory Report (week ending Sept. 28, 2019); Internal Revenue Manual (IRM) 1.4.16.4.9(2), Managing Inventory Timeliness and Quality (Dec.17, 2018) (defining “overage” correspondence).

- The IRS provided face-to-face assistance at 324 Taxpayer Assistance Center (TACs) to over 2.3 million taxpayers during fiscal year 2019.¹⁸ When taxpayers called to schedule a visit to a TAC, the IRS answered only about 57 percent of their calls in FY 2019.¹⁹

The IRS generally does not assist taxpayers who visit a TAC without an appointment.²⁰ In-person visits to a TAC declined by 38 percent in the first two full fiscal years after 2016 when the IRS adopted its appointment-only policy.²¹

Moreover, IRS employees may not be as well trained as they were in 2010.²² The IRS spent \$616 per employee on training in FY 2019, down from \$1,775 per employee in FY 2010.²³

Taxpayers Have Difficulty Responding to Compliance Contacts

Revenue Agents (RAs) and Revenue Officers (ROs) audit returns and collect tax in the field. While most taxpayers do not want to hear from RAs and ROs, they provide more personalized service than the IRS's automated systems.²⁴ However, the IRS employed 38.6 percent fewer RAs and 50.4 percent fewer ROs in FY 2019 than in FY 2010.²⁵ When the IRS relies instead on its automated systems, it is often

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- 18 See *IRS Oversight: TIGTA: Hearing Before the Subcomm. on Financial Services and General Government of the H. Comm. on Appropriations*, 116th Cong. (Sept. 26, 2019) (statement of J. Russell George, Treasury Inspector General for Tax Administration (TIGTA)) (“Although the IRS reports having 358 TACs for the 2019 Filing Season, 33 TACs were not open because they had not been staffed as of April 15, 2019”); W&I, *Business Performance Review 16* (Nov. 7, 2019) (number of taxpayers). As of October 2019, 34 TACs were unstaffed. IRS response to TAS fact check (Nov. 14, 2019).
- 19 IRS, JOC, Snapshot Reports: Enterprise Snapshot, IRS Enterprise Total (week ending Sept. 30, 2019).
- 20 GAO, GAO-18-471, *2018 Tax Filing Season: IRS Managed Processing Challenges and Enhanced Its Management of Tax Law Changes* 15 (Sept. 2018), <https://www.gao.gov/assets/700/694403.pdf>. In FY 2019, the IRS assisted about 270,000 taxpayers who did not have appointments. Wage and Investment (W&I), *Business Performance Review 16* (Nov. 7, 2019). Appointments are not required to drop off non-cash payments or current-year 1040-series returns, or to obtain forms or publications. See IRM 21.1.1.3(18), *Customer Service Representative (CSR) Duties* (Oct. 1, 2018).
- 21 IRS response to TAS fact check (Nov. 14, 2019). Over half of the taxpayers calling to make a TAC appointment in FY 2018 had their questions answered by the IRS employee on the appointment line and no longer needed an appointment. GAO, GAO-18-471, *2018 Tax Filing Season: IRS Managed Processing Challenges and Enhanced Its Management of Tax Law Changes* 15 (Sept. 2018). Nonetheless, this policy makes it more difficult for taxpayers to visit in person and some probably give up in frustration.
- 22 In light of Congress' focus on service, on October 1, 2019 the IRS reversed a policy adopted in 2014 that sharply limited the period within which the IRS could answer tax law questions on the phones and in the TACs. Email from W&I to TAS (Sept. 30, 2019). For a more detailed discussion on telephone and TAC service, see, e.g., National Taxpayer Advocate 2017 Annual Report to Congress 22-35 (Most Serious Problem: *Telephones: The IRS Needs to Modernize the Way It Serves Taxpayers Over the Telephone, Which Should Become an Essential Part of an Omnichannel Customer Service Environment*); National Taxpayer Advocate 2017 Annual Report to Congress 117-127 (Most Serious Problem: *Taxpayer Assistance Centers (TACs): Cuts to IRS Walk-In Sites Have Left the IRS With a Substantially Reduced Community Presence and Have Impaired the Ability of Taxpayers to Receive In-Person Assistance*); National Taxpayer Advocate 2018 Annual Report to Congress 19 (Most Serious Problem: *Tax Law Questions: The IRS's Failure to Answer the Right Tax Law Questions at the Right Time Harms Taxpayers, Erodes Taxpayer Rights, and Undermines Confidence in the IRS*). IRS employees will need to be trained to answer more questions.
- 23 IRS response to TAS information request (Oct. 2, 2019); IRS response to TAS fact check (Nov. 15, 2019) (providing employee and training figures, which TAS used to compute training dollars per employee). For further discussion of training issues, see National Taxpayer Advocate 2017 Annual Report to Congress 84-92 (Most Serious Problem: *Employee Training: Changes to and Reductions in Employee Training Hinder the IRS's Ability to Provide Top Quality Service to Taxpayers*).
- 24 Providing personalized service to taxpayers who are subject to compliance contacts is consistent with the National Taxpayer Advocate's recommendation that the IRS provide personalized service to taxpayers in situations where they are likely to have the most anxiety. See National Taxpayer Advocate Fiscal Year 2020 Objectives Report to Congress 1-14 (Introduction: *The National Taxpayer Advocate's Remarks on the Role of Trust and Taxpayer Advocate Service in Fostering Tax Compliance*).
- 25 IRS response to TAS information request (Oct. 2, 2019) (between FY 2010 and 2019 the average number of ROs declined from 6,042 to 2,995 and the average number of RAs declined from 13,879 to 8,526).

difficult for it to address the resulting calls, letters, and visits from taxpayers — so difficult, in fact, that the IRS sometimes curtails its enforcement efforts.²⁶ For example:

- The Automated Collection System (ACS) stopped issuing systemic levies between January 2016 and July 2018 because the IRS did not have sufficient resources to answer the resulting calls.²⁷
- Due to resource constraints between FYs 2013 and 2017, the IRS virtually stopped using its authority to automatically create a substitute return for certain businesses that had failed to file.²⁸ Although the Treasury Inspector General for Tax Administration (TIGTA) recommended the IRS reinstate the program, the IRS said it was concerned about “any downstream effects that will result from the reallocation of resources.”²⁹ The IRS may have been concerned about answering the resulting calls and letters.

Customer service suffers the most, however, when the IRS makes automated compliance contacts even if it does not have the resources to adequately address the downstream consequences. For example:

- The IRS has recently been delaying more refunds to ensure they are not fraudulent (using the Return Integrity Verification Operation (RIVO)), draining service resources.³⁰ In calendar year (CY) 2019, RIVO delayed more than seven times as many refunds as in 2017 (*i.e.*, increasing from 219,210 to 1,650,999),³¹ resulting in a five-fold increase in taxpayers asking TAS for help (from 16,432 in CY 2017 to 89,584 in CY 2019).³² Overall TAS’s FY 2019 receipts rose by 11 percent as compared with FY 2018 (240,777 compared with 216,792).³³ As a result, the FY 2019 median cycle time for TAS cases increased by 12.2 percent (55 days vs. 49 days in the prior year).³⁴
- Between FYs 2018 and 2019, ACS levies increased by 114 percent (from 200,024 to 427,596) and its lien filings increased by 93 percent (from 184,368 to 356,609),³⁵ even though the IRS did not have the resources to provide adequate phone service to those it contacted. Only about ten percent of the calls to its lien lines reached a telephone assistor, and those that got through waited on hold for an average of 58.1 minutes in FY 2019, as shown in Figure 1.3.4.

26 For further discussion of various error correction procedures (called “unreal” audits) and refund verification procedures, see, e.g., National Taxpayer Advocate 2017 Annual Report to Congress 49-63 (Most Serious Problem: *Audit Rates: The IRS Is Conducting Significant Types and Amounts of Compliance Activities That It Does Not Deem to Be Traditional Audits, Thereby Underreporting the Extent of Its Compliance Activity and Return on Investment, and Circumventing Taxpayer Protections*); Most Serious Problem: *Processing Delays: Refund Fraud Filters Continue to Delay Taxpayer Refunds for Legitimately Filed Returns, Potentially Causing Financial Hardship*, *infra*.

27 See TIGTA, Ref. No. 2018-30-068, *Fiscal Year 2018 Statutory Review Of Compliance With Legal Guidelines When Issuing Levies 7-8* (Sept. 7, 2018).

28 TIGTA, Ref. No. 2019-30-069, *Billions of Dollars of Nonfiler Employment Taxes Went Unassessed in the Automated 6020(b) Program Due Primarily to Resource Limitations 3* (Sept. 16, 2019) (noting “A6020(b) program closures decreased by 92 percent, from 261,582 in FY 2013 to 21,746 in FY 2017. This was caused by a reduction in the FTEs assigned to the program of 84 percent, from 12.11 FTEs in FY 2013 to 1.88 FTEs in FY 2017.”).

29 *Id.* at 12.

30 Over the past three years, the IRS’s refund fraud filters have had false positive rates over 50 percent. W&I, *Business Performance Review 13* (Aug. 14, 2019); W&I, *Business Performance Review 16* (Nov. 8, 2018).

31 IRS response to TAS fact check (Nov. 22, 2019) (data as of Sept. 4, 2019). These figures include non-identity theft cases, those flagged using filters and business rules, and systemically released refunds. *Id.*

32 Taxpayer Advocate Management Information System (TAMIS) (Nov. 1, 2019) (data as of Oct. 1, 2018, and Oct. 1, 2019).

33 *Id.*

34 *Id.*

35 IRS response to TAS fact check (Nov. 15, 2019); Collection Activity Report NO-5000-25, *Lien Source* (Oct. 11, 2018 and Oct. 8, 2019); Collection Activity Report NO-5000-24, *Levies and Seizures Source* (Oct. 2, 2018 and Oct. 1, 2019).

Even small increases in enforcement can have a significant effect on service. Between FYs 2018 and 2019, when Congress increased the IRS appropriation for enforcement by \$50.6 million and increased the appropriation for taxpayer service by \$44 million, it was more difficult for taxpayers to speak to an assistor on nearly all the lines shown in Figure 1.3.4 that taxpayers call to respond to compliance contacts.³⁶

FIGURE 1.3.4, IRS Telephone Service in Response to Compliance Contacts in FYs 2018 and 2019³⁷

Telephone Line	FY	Dialed Attempts	Calls Answered by an Assistor (Number)	Calls Answered by an Assistor (Percent)	Average Speed of Answer
Automated Collection System (ACS)	2018	4,447,277	2,275,544	51.17%	19.3 min
	2019	5,655,228	2,186,446	38.66%	31.2 min
Installment Agreement/ Balance Due	2018	7,622,022	3,646,674	47.84%	27.5 min
	2019	9,270,239	2,425,539	26.16%	44.5 min
Lien Processing	2018	383,142	85,095	22.21%	59.5 min
	2019	543,987	55,403	10.18%	58.1 min
National Taxpayer Advocate ³⁸	2018	681,738	382,471	56.10%	3.2 min
	2019	960,412	412,633	42.96%	8.8 min
W&I Individual Customer Response	2018	6,120,135	2,691,633	43.98%	7.1 min
	2019	5,882,801	2,025,034	34.42%	12.5 min
Self-Employed Individual Customer Response	2018	3,591,304	1,527,195	42.52%	7.9 min
	2019	3,323,552	1,149,108	34.57%	12.7 min
Business Customer Response	2018	2,418,631	1,544,569	63.86%	12.2 min
	2019	2,377,677	1,113,337	46.82%	20.0 min
Automated Underreporter (AUR)	2018	2,540,241	1,037,719	40.85%	21.2 min
	2019	1,756,130	648,536	36.93%	23.8 min
SB/SE Exam	2018	468,569	165,968	35.42%	22.2 min
	2019	317,737	108,069	34.01%	28.2 min
W&I Exam	2018	1,440,366	458,333	31.82%	31.5 min
	2019	1,098,142	330,394	30.09%	34.7 min

36 IRS response to TAS information request (Oct. 2, 2019) (showing between FYs 2018 and 2019 the post-transfer allocation to enforcement increased from \$4.6270 billion to \$4.6776 billion and the allocation to service increased from \$2.512554 billion to \$2.556554 billion). The IRS CFO's figures reported in this discussion (and in Figure 1.3.5) do not match the Treasury Department's public figures because the CFO's figures show enacted budgetary authority net of any inter-appropriation transfers and rescissions, and including supplemental funds with the appropriation into which they were transferred.

37 IRS, JOC, Snapshot Reports: Enterprise Snapshot, IRS Enterprise Total (week ending, Sept. 30, 2019). This table focuses on number and percentage of calls answered by an assistor. Some taxpayers hang up quickly and others are routed to a recording and disconnected. Both types of callers are excluded from the denominator when the IRS computes its "level of service" (LOS) metric, even though most people probably call the IRS because they want to speak to a person. *Id.*

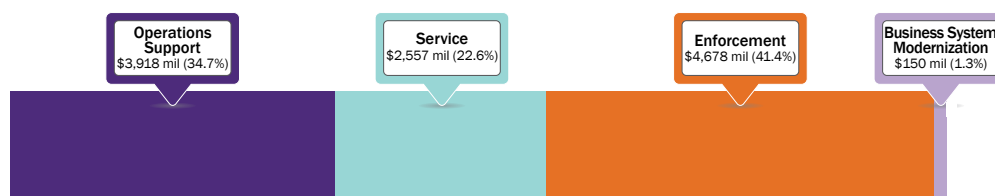
38 The National Taxpayer Advocate line is staffed by the IRS. Several of the lines (e.g., the National Taxpayer Advocate and the Customer Response lines) receive calls in response to compliance contacts as well as other calls.

Enforcement Can Deplete Resources for Service

Congress funds the IRS’s service and enforcement accounts separately, as shown in Figure 1.3.5. However, enforcement contacts deplete service resources. In response to compliance contacts, taxpayers call the IRS, write letters, and ask TAS for assistance. Thus, any increase in funding for enforcement not coupled with an increase in funding for services is likely to make it more difficult for taxpayers to communicate with the IRS.

FIGURE 1.3.5³⁹

Components of IRS’s FY 2019 Budget (in Millions)



For the same reason, a “program integrity cap” (PIC) adjustment can deplete resources for service. The Administration’s FY 2020 budget proposed to increase the baseline funding for enforcement by about five percent while reducing funding for taxpayer services by about seven percent.⁴⁰ To increase enforcement funding, it proposed an additional \$362 million using a PIC adjustment — an exception to the spending cap rules. This exception applies only where additional enforcement expenditures will generate an ROI of greater than 1:1 (*i.e.*, the additional expenditures will increase federal revenue on a net basis).⁴¹ Under the proposal, PIC adjustments would increase funding for enforcement by \$15 billion over the next ten years.⁴²

These adjustments cannot increase funding for services, even though the proposal acknowledges (for purposes of computing the ROI) that enforcement initiatives consume service resources.⁴³ Yet issuing guidance; updating forms and publications; conducting outreach and education; assisting taxpayers, tax preparers, and tax software providers; and otherwise administering the tax filing season are absolute prerequisites for tax compliance. Thus, the ROI for many of these service activities is probably greater than the ROI for enforcement actions.

Even when used to address specific compliance problems, services can have a greater ROI than enforcement. For example, it is sometimes more cost effective for the IRS to send out soft letters or

³⁹ IRS response to TAS information request (Oct. 2, 2019). These percentages would be slightly different if the numbers were not rounded.

⁴⁰ Department of Treasury and IRS, *Congressional Budget Justification and Annual Performance Report and Plan FY 2020 IRS-89*, <https://home.treasury.gov/system/files/266/02-IRS-FY-2020-CJ.pdf> (last visited Dec. 13, 2019).

⁴¹ Department of Treasury and IRS, *Congressional Budget Justification and Annual Performance Report and Plan FY 2020 IRS-89*; Office of Management and Budget, *Budget of the United States Government: Analytical Perspectives, Supplemental Materials, Fiscal Year 2020 134*, <https://www.whitehouse.gov/omb/analytical-perspectives/> (last visited Dec. 13, 2019).

⁴² *Id.*

⁴³ Department of Treasury and IRS, *Congressional Budget Justification and Annual Performance Report and Plan FY 2020 IRS-93* (noting that increasing audit coverage increases downstream costs for TAS and W&I).

issue guidance to help the vast majority of taxpayers who are willing to comply voluntarily (based on statistics cited above), so that it can reserve its costly enforcement efforts for those few who do not respond by complying. The IRS's Large Business and International Division has launched a series of tax compliance “campaigns” that reflect its view that enforcement is not always the best treatment stream.⁴⁴ Accordingly, increased funding for the IRS's enforcement account could waste resources, degrade service to taxpayers, and violate the *right to privacy* (i.e., the right to expect that enforcement “will be no more intrusive than necessary”), unless coupled with appropriate increases to its service account.

For similar reasons, any increase in funding for enforcement or service should be coupled with proportionate increases in operations support so that the IRS can afford the infrastructure needed to support those operations. Operations support includes, among other things, “rent payments; facilities services; printing; postage; physical security; headquarters and other IRS-wide administration activities....”⁴⁵ The IRS cannot hire employees for its enforcement or service functions if it cannot afford the infrastructure to support them. For example, in FY 2019, the IRS had such critical information technology (IT) needs, which could only be funded out of operations support, that it requested to transfer appropriations from enforcement to operations support.⁴⁶

Modern Technology Could Improve Service⁴⁷

According to the Government Accountability Office (GAO), the IRS has “inaccurate tax records ... [which] place an undue burden on taxpayers who may be compelled to respond to IRS inquiries caused by errors in their accounts” due to the IRS's systemic limitations.⁴⁸ In addition, the IRS stores account information for individuals and businesses on its Individual Master File (IMF) and Business Master File (BMF) information systems, both of which were established in the 1960s.⁴⁹ They are the oldest systems in the federal government.⁵⁰

An IRS system crash, attributed to equipment supporting the IMF, prevented taxpayers from submitting tax returns and payments electronically and prompted the IRS to extend the April 17, 2018, filing deadline.⁵¹ The IRS has been taking steps to replace the core components of the IMF with a system known as the Customer Account Data Engine 2 (CADE 2).⁵² However, funding for IRS technology upgrades — provided through the Business Systems Modernization (BSM) account — has been very limited. Congress reduced BSM funding by 48.3 percent between FY 2017 (\$290 million) and FY 2019

44 See, e.g., IRS, IRS Announces Rollout of 11 Large Business and International Compliance Campaigns (Nov. 3, 2017), <https://www.irs.gov/businesses/large-business-and-international-compliance-campaigns> (citing the initial rollout on Jan. 31, 2017).

45 Department of Treasury and IRS, *Congressional Budget Justification and Annual Performance Report and Plan FY 2020* IRS-20.

46 IRS response to TAS fact check (Nov. 15, 2019).

47 For a more detailed discussion, see Most Serious Problem: *Information Technology Modernization: The IRS Modernization Plan's Goal to Improve the Taxpayer Experience Is Commendable, But the IRS Needs Additional Multi-Year Funding to Bring It to Fruition*, *supra*.

48 GAO, GAO-19-150, *IRS's Fiscal Years 2018 and 2017 Financial Statements* 11 (Nov. 2018).

49 GAO, GAO-16-468, *Information Technology: Federal Agencies Need to Address Aging Legacy Systems* 28-30 (May 2016).

50 *Id.*

51 See Aaron Boyd & Frank Konkel, *IRS' 60-Year-Old IT System Failed on Tax Day Due to New Hardware*, NEXTGOV (Apr. 19, 2018) (citing an IRS official), <https://www.nextgov.com/it-modernization/2018/04/irs-60-year-old-it-system-failed-tax-day-due-new-hardware/147598>.

52 IRS response to TAS fact check (Nov. 15, 2019) (clarifying that if resources are available as planned, the strategy for replacing the IMF “will be developed by 2021 and subsequently independently validated. CADE 2, which is currently in the second of three transition states to completion, will replace only the core components of the IMF.”).

(\$150 million) and it constituted just 1.3 percent of the agency’s overall appropriation in FY 2019, even though the IRS says the success of its modernization plan depends on receiving funding that is “available for multiple fiscal years at somewhat predictable intervals.”⁵³

FIGURE 1.3.6, Business System Modernization Appropriation, FYs 2017–2019⁵⁴

Fiscal Year	BSM Funding	Total IRS Funding	BSM as Percentage of Total IRS Funding
2017	\$290 M	\$11.24 B	2.6%
2018	\$110 M	\$11.43 B	1.0%
2019	\$150 M	\$11.30 B	1.3%

Modern technology would not only enable the IRS to become more efficient but also would improve taxpayer service. Consider the following examples:

Customer Callback Technology Could Reduce Time Wasted on Hold. A customer callback system would enable callers to request a call back from the IRS so they would not have to wait on hold.⁵⁵ While the IRS recently tested its callback technology for the balance due line (technically one “application” on the line), it was used for such a small number of calls that the technology did not significantly reduce the time that taxpayers spent on hold.⁵⁶ The IRS should fully implement customer callback on all of its major lines as soon as possible.

E-Filing of Amended Tax Returns Could Reduce Burden. Taxpayers are expected to file approximately 3.9 million amended returns for 2018 — all on paper.⁵⁷ Allowing taxpayers to e-file amended returns would reduce filing burdens and speed up corrections and refunds. It could also reduce processing costs and follow-up calls, and help the IRS address potentially erroneous refunds.⁵⁸ This \$5.6 million upgrade could save the IRS \$79.4 million over five years in processing costs alone.⁵⁹

An Integrated Case Management System Could Reduce Processing Times and Expand Information Available Through Online Accounts. The IMF and BMF contain account information, whereas case management systems generally track case-related information within each IRS function or process (e.g., the status of the case and the basis for any determination by the function). The IRS has about 60 case management

53 IRS Pub. 5336, IRS Integrated Modernization Business Plan 15 (Apr. 2019).

54 IRS response to TAS information request (Oct. 2, 2019).

55 Department of Treasury and IRS, *Congressional Budget Justification and Annual Performance Report and Plan FY 2020* IRS-5 (“The technologies provided for in the plan, such as customer callback and online notifications, will simplify taxpayer interactions with the IRS across all service channels and expedite return processing times, allowing taxpayers to comply and receive refunds faster”).

56 IRS Pub. 5336, IRS Integrated Modernization Business Plan 20 (Apr. 2019). As shown on Figure 1.3.4, customer service representatives (CSRs) answered only 26.16 percent of the calls to the balance due application after taxpayers waited on hold for an average of 44.5 minutes in FY 2019. The IRS plans to implement customer callback on four more applications by the second quarter of 2020 and on up to 15 total applications by the third quarter of 2021. IRS Integrated Modernization Business Plan, Treasury Monthly Briefing (Oct. 24, 2019). A lack of funding could derail these plans.

57 See, e.g., IRS, Electronic Tax Administration Advisory Committee, Publication 3115, Annual Report to Congress (June 2019), <https://www.irs.gov/pub/irs-pdf/p3415.pdf>.

58 See TIGTA, Ref. No. 2019-40-042, *Actions Have Not Been Taken to Improve Amended Tax Return Review Procedures to Reduce Erroneous and Fraudulent Refunds* 1 (July 2019).

59 *Id.* at 1 and 9.

systems that are not fully integrated with each other.⁶⁰ Each function's employees must transcribe or import information from other electronic systems into their own case management systems, and then mail or fax files and supporting documents to other functions (*e.g.*, quality review, Appeals, and Counsel).

These workarounds can lead to delays, lost files, and data security risks. A single integrated system could improve efficiency and reduce such delays, losses, and risks. Particularly when combined with upgrades to IMF and BMF (and/or CADE 2), an integrated system would expand the information that IRS employees could provide to taxpayers when they call the IRS or visit a TAC. Such upgrades could also expand what taxpayers could access directly through their online accounts.

CONCLUSION

In FY 2018, U.S. taxpayers paid \$3.5 trillion to finance the operations of the federal government. The IRS, as the federal government's "accounts receivable" department, collected those funds on an appropriated budget of approximately \$11.43 billion, producing an ROI of over 300:1. Both to improve service and to enhance its ability to collect taxes, the IRS requires additional funding. In particular, it requires additional funding to ensure taxpayers can reach an IRS employee more easily. It also requires additional funding to modernize its aging IT systems, which will help employees to both assist taxpayers and collect revenue.

RECOMMENDATIONS

Legislative Recommendations to Congress

The National Taxpayer Advocate recommends that Congress:

1. Provide the IRS with sufficient additional funding to improve taxpayer service and modernize its IT systems over a predictable multi-year period.⁶¹
2. Ensure that any increase in funding for enforcement (including program integrity cap adjustments) is coupled with a commensurate increase in funding for service and operations support so that taxpayers seeking to respond to the IRS can do so easily.⁶²

60 See National Taxpayer Advocate 2018 Annual Report to Congress 351-358 (Legislative Recommendation: *IT Modernization: Provide the IRS with Additional Dedicated, Multi-Year Funding to Replace Its Antiquated Core IT Systems Pursuant to a Plan that Sets Forth Specific Goals and Metrics and Is Evaluated Annually by an Independent Third Party*); National Taxpayer Advocate Fiscal Year 2019 Objectives Report to Congress 47-51 (Area of Focus: *The IRS's Enterprise Case Management Project Shows Promise, But to Achieve 21st Century Tax Administration, the IRS Needs an Overarching Information Technology Strategy With Proper Multi-Year Funding*).

61 For more detailed recommendations, see National Taxpayer Advocate 2020 Purple Book, *Compilation of Legislative Recommendations to Strengthen Taxpayer Rights and Improve Tax Administration* 6-8 (*Provide The IRS With Sufficient Funding to Meet Taxpayer Needs and Improve Federal Tax Compliance*).

62 *Id.*