U.S. GOVERNMENT ACCOUNTABILITY OFFICE

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The Honorable John Boozman
Chairman
The Honorable Christopher Coons
Ranking Member
Subcommittee on Financial Services and
General Government
Committee on Appropriations
United States Senate

Internal Revenue Service: Preliminary Observations on the Fiscal Year 2017 Budget Request and 2016 Filing Season Performance

This letter transmits briefing slides in response to your request for information based on our ongoing reviews of the fiscal year 2017 budget request for the Internal Revenue Service (IRS) and the 2016 tax filing season. See the enclosed briefing slides which include the information used to brief your staff February 24, 2016, and were subsequently updated.

You asked us to provide preliminary information on the President's fiscal year 2017 budget request for IRS and on IRS's 2016 filing season performance. Our briefing objectives were to describe trends in IRS's (1) budget and operations from fiscal year 2011 through the fiscal year 2017 request, including IRS efforts to strategically manage its budget, and (2) performance in providing taxpayer service during the 2016 filing season to date compared to prior years and interim performance of IRS's processing of individual income tax returns.

To describe trends in IRS's budget and operations from fiscal year 2011 through the President's fiscal year 2017 request, we reviewed the President's budget request and IRS's congressional justifications for fiscal years 2011 through 2017 as well as IRS planning documents. This time frame was selected to provide 5 years of full-year data in addition to current year and requested levels. We also included data from fiscal years 2000 to 2016 appropriations adjusted for inflation for context and interviewed IRS budget and operations officials. To describe trends in IRS's performance in providing taxpayer service and processing tax returns, we reviewed IRS filing season performance data for fiscal years 2011 to 2015 and 2016 data through mid-February. We also interviewed IRS officials and industry partners, including major tax preparation and software firms who interact with IRS, on key aspects of the 2016 filing season performance and challenges. To assess data reliability, we reviewed IRS data and documentation, assessed documentation for data limitations, and compared those results to our data reliability standards. We determined that the data presented in this report are sufficiently reliable for our purposes.

We conducted this performance audit from January to March 2016 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

In summary, we found the following:

- IRS's fiscal year 2016 appropriation increased by $290 million to $11.2 billion over fiscal year 2015 but is about $900 million (7 percent) lower than fiscal year 2011. IRS allocated the funds across 3 appropriation accounts: Taxpayer Services ($176.8 million), Operations Support ($108.2 million), and Enforcement ($4.9 million). For fiscal year 2017, the President requested $12.3 billion in appropriations, about a $1 billion increase (9 percent) over fiscal year 2016 enacted levels. This includes $515 million in a program integrity cap adjustment. Absent legislative approval to spend above the cap, the request is $11.8 billion, a 5 percent increase. However, IRS also may allocate other budgetary resources, such as user fee revenue. In fiscal year 2015, transfers of user fees ($454 million) accounted for 3.8 percent of total available resources ($11,976 million). Full-time equivalents funded with annual appropriations declined by 12,000 (13 percent) between fiscal years 2011 and 2016. After years of taking short-term actions such as limiting hiring and curtailing overtime, IRS is taking steps to strategically manage its resources by identifying priorities in formulating its 2017 budget request. Further, we have open recommendations to IRS—including 10 priority recommendations—that would help IRS better manage operations and improve taxpayer service. Implementing these recommendations is a key step in reducing the $385 billion net tax gap, as well as in strengthening tax administration and service to taxpayers.

- Processing of individual income tax returns in 2016 has gone relatively smoothly through mid-February and IRS anticipates improved taxpayer service due, in part, to additional funding. Specifically, IRS projects that the percentage of callers seeking live assistance who receive it (level of service) will increase from about 38 percent for fiscal year 2015 to 47 percent for fiscal year 2016—including 65 percent for the filing season. IRS also projects that average telephone wait time will improve from about 31 minutes in fiscal year 2015 to about 26 minutes in fiscal year 2016. However, this will still be about twice as long as the wait times in fiscal year 2011. Nevertheless, IRS has provided improved telephone service through mid-February compared to the same time last year—level of service was 76 percent (a 33 percentage point increase) while the average wait time dropped to 9 minutes (an improvement of about 70 percent). Importantly, improved customer service, including for telephones, can increase voluntary tax compliance. IRS took steps in 2016—including detailing staff from enforcement to customer service and providing overtime—to help improve service. Finally, IRS is leveraging industry partners to combat identity theft refund fraud and improve cybersecurity efforts to protect taxpayer information.

Agency Comments

We provided a draft of this report to the Commissioner of Internal Revenue for review and comment. IRS provided technical comments which were incorporated as appropriate.

If you or your staff have any questions about this report, please contact us at (202) 512-9110 or mctiguej@gao.gov or lucasjudyj@gao.gov. Contact points for our offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff members who made major contributions to this report were Tom Gilbert, Assistant Director; Joanna Stamatiades, Assistant Director; James Cook; Laurie King; Melissa King; Erin Saunders Rath; and Elwood White.

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Enclosure

Powerpoint Briefing Slides available as an accessible PDF attached in this portfolio.