INTERNAL REVENUE SERVICE

Assessment of Fiscal Year 2004 Budget Request and 2003 Filing Season Performance to Date

Why GAO Did This Study

The Internal Revenue Service (IRS) is responsible for collecting virtually all of the funds that pay for the federal government. For 2003, IRS expects to process 130 million individual income tax returns, issue 99 million refunds, receive 100 million telephone calls, and assist 4 million taxpayers face-to-face at IRS and volunteer offices. Most of these interactions with taxpayers occur during the January through April tax filing season.

GAO was asked by the Subcommittee to assess the likelihood of IRS allocating more resources to a key priority, compliance; whether proposed spending on computer systems is justified; and filing season performance.

What GAO Recommends

GAO is not making any recommendations. However, as GAO noted last year, until IRS incorporates best practices in preparing its information systems budget, it will not be able to ensure that the information system operations and maintenance request is adequately supported.
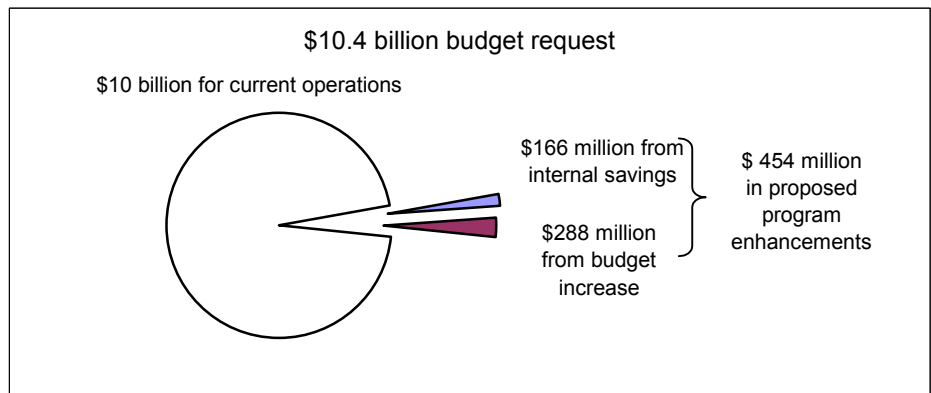
What GAO Found

IRS is requesting $10.4 billion and 101,043 FTEs, a dollar increase of about 5 percent over the fiscal year 2003 request. The 2004 budget request, like other recent requests, identifies compliance as one of IRS's top priorities for additional resources. As shown below, IRS intends to fund some program enhancements from the requested budget increase and internal savings. Several factors, including lowered savings projections since the budget request was prepared, raise questions about IRS's ability to achieve all the savings and shift resources to compliance as planned. IRS's recent history raises the same questions, in part, because unbudgeted expenses, such as pay raises, have absorbed budget increases.

IRS is requesting $2.1 billion in information technology. This includes $429 million for the agency's multiyear capital account that funds contractor costs for the Business Systems Modernization program, and $1.67 billion for information systems, primarily for operations and maintenance. In response to GAO's recommendation last year, IRS has begun to implement an information technology management process patterned after its systems modernization program. Until the process is fully implemented, IRS will have limited ability to develop supportable information systems budget requests.

IRS's 2003 filing season performance has improved over last year. For example, IRS's telephone access has improved and the Web site has seen increased use. Such improvements represent a payoff from IRS's ongoing systems modernization investments and wider management improvements.

Although IRS has not succeeded in reallocating staff to one of its priority needs, compliance, there will likely be increased potential for such reallocation as modernization proceeds. This will present Congress, in its oversight and appropriations roles, with significant opportunities to weigh in on IRS's overall strategy for better accomplishing its mission.

IRS's Proposed Funding for Program Enhancements

$10.4 billion budget request

$10 billion for current operations

$166 million from internal savings

$288 million from budget increase

$ 454 million in proposed program enhancements

Source: IRS data.