



Testimony

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TAX ADMINISTRATION

IRS' 2000 Tax Filing Season and Fiscal Year 2001 Budget Request

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Tax Administration: IRS' 2000 Tax Filing Season and Fiscal Year 2001 Budget Request

Mr. Chairman and Members of the Subcommittee:

We are pleased to participate in the Subcommittee's inquiry into the status of the 2000 tax filing season and the fiscal year 2001 budget request for the Internal Revenue Service (IRS).

Our statement is based on (1) the preliminary results of our review of the 2000 tax filing season; (2) our review of IRS' fiscal year 2001 budget request and supporting documentation; and (3) past and ongoing reviews of various IRS activities, including those related to information systems and IRS' reorganization. Much of our analysis is based on data provided by IRS that we did not verify. However, those data generally came from management information systems that we have used in the past to assess IRS operations.

With respect to the 2000 filing season, our statement makes the following points:

- IRS made several important changes to its tax processing systems before the 2000 filing season, and those systems have operated without significant problems. Various data sources indicate that the systems are actually performing better than in 1999.
- The use of electronic filing continues to grow, which is partly attributable to various IRS initiatives to make electronic filing paperless and to better promote the program.
- Compared to last year, when IRS experienced serious problems, telephone service has improved, but it has yet to reach the level of service achieved in 1998. IRS officials cited two factors that have likely played a part in keeping the level of service below the 1998 level—a drop in productivity compared to 1998 and fewer staff dedicated to answer telephone calls.

IRS is requesting about \$8.986 billion for fiscal year 2001, an increase of about \$729.8 million, or 9 percent, over IRS' proposed operating level for fiscal year 2000. IRS is also requesting (1) a supplemental appropriation of \$39.8 million for fiscal year 2000, which is included in the proposed operating level for that year, and (2) an advance appropriation for fiscal year 2002 for its multiyear capital account. With respect to those requests, our statement makes the following points:

- The supplemental appropriation and a significant part of the increase for fiscal year 2001 is for an initiative that would increase staffing levels in several of IRS' program areas and which has budget implications for future years. While many aspects of the initiative seem appropriate, we are most

concerned about (1) IRS' ability to implement the initiative given its past history of being unable to fill enforcement positions funded by Congress and (2) that part of the initiative that would increase staffing for IRS' toll-free telephone assistance program. Congress should consider withholding approval of the requested increase for telephone service until IRS provides a more realistic estimate of the level of service it can expect to provide in fiscal year 2001.

- IRS' request includes \$1.58 billion for its Information Systems appropriation and \$494 million for its multiyear capital account, \$375 million of which would be an advance appropriation for fiscal year 2002. Because the \$494 million request is not adequately justified, Congress should consider denying the request and directing IRS to develop a credible and verifiable fiscal year 2001 budget request for the capital account that it can use in seeking, if necessary, a supplemental appropriation.
- IRS' includes \$182 million to cover expenses associated with its reorganization. Over the past year, IRS has developed detailed designs, selected management officials, and put in place management structures for several of its new operating units. IRS plans indicate that reorganization costs will peak in fiscal year 2001 and end in fiscal year 2003. Other costs associated with IRS' modernization, such as the costs of training and systems modernization, should continue well past 2003.
- IRS' budget request does not provide clear links between the resources being requested and expected results. We recognize that establishing such links is difficult and that agencies throughout the federal government are struggling with the same issue. As IRS proceeds with its reorganization and its efforts to develop new performance measures, it has an opportunity to make future budget requests more useful to Congress.

Preliminary Data on the 2000 Filing Season

At the Subcommittee's request, we are reviewing IRS' performance during the 2000 tax filing season. Our testimony focuses on three specific issues—the performance of IRS' processing systems and IRS' efforts to increase electronic filing and improve telephone service. Our preliminary results show that (1) computer systems for processing returns and remittances appear to be working well; (2) the number of individual income tax returns filed electronically has continued to increase; and (3) taxpayers have been better able to reach IRS by telephone than they were last year, although service has not yet reached the level IRS attained in 1998.

Tax Processing Systems Have Operated Without Significant Problems

Despite the potential for complications due to the replacement of critical equipment, consolidation of operations, and other Year 2000-related changes, IRS' tax processing systems have operated without any significant disruption of IRS' ability to process returns and issue refunds. In fact, various IRS performance measures and comments from IRS officials and a representative of the largest tax return preparation company indicate that IRS' tax processing systems have been performing better this year than in 1999. For example, as of March 10, 2000, the processing time for paper returns was at least 14 percent faster than at the same time last year. Also, according to IRS data as of that same date, IRS had experienced fewer system problems that caused work stoppages than in 1999 and was able to resolve these types of problems in less time than it took in 1999. According to the Commissioner of Internal Revenue, IRS' "smooth transition to Year 2000 can be directly attributed to our thorough planning and preparation."

In the last few years, IRS has been involved in three major system-related efforts that affect the processing of returns and remittances: (1) replacing service center return and remittance processing equipment, (2) consolidating the tax processing computer operations of IRS' 10 service centers to 2 computing centers, and (3) rewriting applications software to make systems Year 2000 compliant. The equipment replacement project was completed before the start of the 2000 filing season. The consolidation project is ongoing—five centers were consolidated before the start of the 2000 filing season, and the other five are scheduled for consolidation by the end of this year. IRS' efforts to make its computer systems Year 2000 compliant were also substantially completed before the start of the 2000 filing season.

For the past several years, IRS has been processing returns and remittances without any significant problems. However, considering the volume of tax returns and remittances that IRS has to process during a filing season and the need for IRS to annually reprogram its systems to accommodate tax law changes, some "glitches" are to be expected. In that regard, IRS has experienced some relatively minor problems this filing season. According to IRS, those problems affected a relatively small number of taxpayers, and prompt action was taken to address the problems once they were identified. For example:

- IRS reported that in the first week of January 2000, it issued about 440 balance due notices with erroneous due dates. The notices were sent to taxpayers owing more than \$100,000 and account for less than 1 percent of

the balance due notices issued during that week. According to IRS, it contacted all affected taxpayers and provided the correct payment dates.

- IRS' electronic filing system improperly rejected about 40,000 individual returns that claimed a child care credit or reported dependent care benefits from an employer. According to IRS officials, the problem began in mid-January and was corrected by February 10, 2000. According to a representative of the largest national tax return preparation company, most taxpayers filing through his company opted to resubmit their electronic return after IRS corrected the problem rather than submit a paper return. According to the representative, the problem resulted in only minor delays in taxpayers receiving their refunds.
- IRS' systems could not identify taxpayer accounts that were affected by a power of attorney designation. As a result, a few hundred refunds that should have been mailed to the third party were mailed directly to the taxpayer, and at least 81,000 notices or letters were delayed in being sent to third party representatives. In the event the notices related to unpaid tax liabilities and those tax liabilities are not paid on time, IRS may need to abate certain penalties and interest because of the error. According to IRS, it has corrected the system-related errors to avoid further problems.

Use of Electronic Filing Continues an Upward Trend

Pursuant to a provision in the IRS Restructuring and Reform Act of 1998 (RRA98), IRS has as its goal that 80 percent of all tax and information returns be filed electronically by 2007. Electronic filing has several advantages for taxpayers and IRS. For example, IRS acknowledges receipt of an electronic return, electronic filers receive their refunds faster, up-front checks in the electronic filing system help to ensure more accurate returns and thus reduce the number of taxpayer errors that IRS has to correct, and returns filed electronically bypass the error-prone manual procedures that IRS uses to process paper returns.

For the past several years, we have been tracking IRS' progress in getting individual income tax returns filed electronically. As noted in our report on the 1999 filing season, the number of electronically-filed individual income tax returns increased substantially between 1997 and 1999.¹ As shown in table 1, that upward trend is continuing.

¹Tax Administration: IRS' 1999 Tax Filing Season (GAO/GGD-00-37, Dec. 15, 1999).

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Table 1: Individual Income Tax Returns Received by IRS (in Thousands)

Filing type	1/1/98 to 3/13/98	1/1/99 to 3/12/99	Percent change: 1998 to 1999	1/1/00 to 3/10/00	Percent change: 1999 to 2000
Paper	31,936	30,168	-5.5%	27,817	-7.8%
Electronic					
Traditional ^a	13,649	15,853	16.1	18,404	16.1
On-line ^b	550	1,431	160.2	2,800	95.7
TeleFile ^c	4,598	4,353	-5.3	3,911	-10.2
Subtotal	18,797	21,637	15.1	25,115	16.1
Total	50,733	51,805	2.1%	52,932	2.2%

^aTraditional electronic filing involves the transmission of returns over communication lines through a third party, such as a tax return preparer or electronic return transmitter, to an IRS service center.

^bOn-line returns are prepared and transmitted by the taxpayer through an on-line intermediary using a personal computer and commercial software.

^cUnder TeleFile, certain taxpayers who are eligible to file a Form 1040EZ are allowed to file using a toll-free number on touch-tone telephones. Officials in IRS' Office of Electronic Tax Administration suggested that TeleFile use is down over the last 2 years because taxpayers who could have used TeleFile might have switched to on-line filing.

Source: IRS' Management Information System for Top Level Executives.

Efforts to Increase Electronic Filing

To encourage taxpayers to file electronically this filing season, IRS has, among other things, (1) expanded tests aimed at making electronic filing paperless, (2) allocated \$7 million to promote electronic filing, and (3) increased the types of forms that can be filed electronically.

A major criticism of the electronic filing program has been that it is not paperless—electronic filers had to send IRS a paper signature document (Form 8453) and, if they owed money, a check and payment voucher. According to IRS, feedback from the tax practitioner community indicated that making electronic filing paperless would significantly increase taxpayers' and tax preparers' willingness to file electronically.

IRS, in 1999, implemented two tests that provide alternatives to paper signature documents and two tests that provide electronic payment alternatives for taxpayers who owe money. For the 2000 filing season, IRS expanded each of those tests.

The two alternative signature tests waive the need for participating taxpayers to submit paper signature documents and copies of their Wage and Tax Statements (Forms W-2).² The first test allows certain tax

²These tests are consistent with a provision in RRA98, which required that IRS "develop procedures for the acceptance of signatures in digital or other electronic form" and that further authorized IRS to waive the requirement of a signature or provide for alternative methods of signing until such time as such procedures are in place. According to a cognizant IRS official, IRS can waive the submission of W-2s because there is no statutory requirement that these forms be attached to tax returns.

practitioners' clients who choose to file electronically to use a self-selected personal identification number instead of completing a signature document. IRS data show that about 500,000 taxpayers used this option in 1999. IRS increased the number of practitioners allowed to participate in the test from 8,100 in 1999 to 18,000 this year. IRS data show that about 3.95 million taxpayers had already used this option as of March 9, 2000—a significant increase over last year.

The second alternative signature test involves taxpayers who used tax preparation software to prepare their previous year's tax return. Instead of sending those taxpayers a paper tax package, IRS sends them a postcard with a unique customer number that they can use in lieu of mailing in a signature document, if they decide to again file through their computer. About 660,000 taxpayers used this option in 1999. IRS increased the number of taxpayers who could participate in the test from about 12 million in 1999 to about 16 million this year. According to IRS, about 778,000 taxpayers had used this option as of March 9, 2000.

IRS also expanded two tests involving alternative payment methods for taxpayers who owe money, both of which eliminate the need for taxpayers to send checks and payment vouchers. One test, involving the use of credit cards, was expanded to taxpayers who file Estimated Tax Payments (Form 1040ES) or an Extension of Time to File (Form 4868). IRS also did more to publicize this option's availability to paper filers. The other test, involving payments via direct debit, was expanded to include TeleFile users. As of March 10, 2000, according to IRS, 28,200 taxpayers had used one of these two payment alternatives, compared to 7,286 at the same time last year. Of those 28,200 taxpayers, 20,697 were electronic filers who paid by direct debit (including 6,367 TeleFile users) and 7,503 were an unknown combination of electronic and paper filers who used credit cards.

Another effort to increase electronic filing this year involved additional marketing of the electronic filing program. IRS allocated \$7 million to market individual electronic filing for the 2000 filing season, compared to \$5 million for 1999. This year's marketing effort includes expanded television and radio advertising, advertising in several magazines and newspapers, and the use of outdoor billboards. IRS officials from a regional office we visited told us that many more taxpayers have been coming into IRS walk-in sites to have their returns filed electronically, which the officials attributed, at least in part, to the increased marketing.

IRS also added five forms to the list of forms that can be filed electronically this year. Practitioner feedback to IRS indicated that

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providing the ability to electronically file additional forms, such as those used for averaging farm income or reporting passive activity gains, would allow practitioners to file more electronic returns because they had clients who were required to file those forms with their returns. IRS estimated that about 250,000 of these types of forms would be filed electronically in the 2000 filing season. As of March 16, 2000, about 9,800 had been filed.

Telephone Service Shows Some Improvement But Is Still Below 1998 Performance Level

An important indicator of how well the filing season is going is the ease with which taxpayers can reach IRS over the telephone to ask questions about the tax law or respond to a notice they received.³ In the few years before 1999, there had been a steady improvement in this indicator. That trend ended in 1999, when IRS experienced problems that significantly reduced taxpayers' ability to reach IRS by telephone. IRS addressed some of the problems that contributed to the service problems in 1999 and, as shown in table 2, service has improved this year. However, the level of service as of March 7, 2000, was still below the level achieved in 1998 partly because, according to IRS officials, the productivity of telephone assistants has declined compared to 1998 and fewer staff years have been dedicated to answering the telephone in 2000.

Table 2: Toll-Free Telephone Level of Service for the First 2 Months of the 2000, 1999, and 1998 Filing Seasons (in Millions)

	1/1/00 to 3/4/00	1/1/99 to 3/6/99	1/1/98 to 3/7/98
Telephone service			
(a) Calls answered	13.4	14.7	16.3
(b) Calls abandoned	3.9	4.6	3.8
(c) Subtotal—calls that got into IRS' system	17.4	19.3	20.2
(d) Busy signals	4.1	14.8	2.2
(e) Total call attempts	21.4	34.1	22.3
Level of service ^a	63%	43%	73%
Percentage of calls that received busy signals ^b	19%	44%	10%
Percentage of calls that got into IRS' system but were abandoned ^c	23%	24%	19%

Note 1: This table combines data on three of IRS' toll-free telephone lines--tax law assistance, account inquiry, and refund.

Note 2: Totals may not add and percentages may not compute due to rounding.

^aLevel of service is the number of calls answered divided by the total call attempts—computed in this table by dividing row (a) by row (e).

^bComputed in this table by dividing row (d) by row (e).

^cComputed in this table by dividing row (b) by row (c).

Source: GAO analysis of data in IRS' Weekly Customer Service Report.

³An equally important indicator is the quality of the response taxpayers get to their questions once they reach IRS. We had not done enough work at the time this statement was prepared to comment on IRS' performance in that respect.

The 63-percent level of service IRS had achieved as of March 4, 2000, was a significant increase compared to the 43-percent level of service achieved as of the same time last year. According to a cognizant IRS official, unlike last year when IRS faced many problems that affected access, there has been only one major problem this year that had a significant impact on the telephone system. In late January 2000, contract delays resulted in the bulk of over 1 million notices being mailed out over a 2-week period instead of being staggered over 7 weeks as intended. As taxpayers received the notices, there was an unexpected increase in the number of telephone calls that IRS was unprepared to answer. According to the official, the level of service decreased over about a 3-week period as a result of this unexpected demand, but then increased back to levels achieved before the erroneous mailing. In that regard, according to IRS data, the level of service was 67 percent for the week ended January 22, dropped to 44 and 48 percent the following 2 weeks, then rose to 66 percent the week ended February 12. For the most recent week for which data were available when we prepared this statement (the week ended March 4, 2000), the level of service had risen to 72 percent.⁴

IRS Addressed Some of the Problems That Contributed to Poor Telephone Service in 1999

As noted in our report on the 1999 filing season, despite several changes IRS made to improve its toll-free telephone operations, service actually declined in 1999.⁵ For the 2000 filing season, IRS has addressed some of the problems that contributed to that decrease; however, issues surrounding declining productivity and optimal staffing levels have not yet been resolved.

Before 1999, IRS used a messaging system to handle calls from taxpayers with questions on certain complex topics that were known to usually require long conversations. Taxpayers were asked to leave their name and telephone number with the expectation that someone in IRS would return their call within 2 to 3 days. Because of an expected increase in the productivity of its telephone assistants in 1999, IRS believed that it could answer all calls, even the more complex ones, as they came in. Thus, at the start of the 1999 filing season, IRS discontinued use of the messaging system. IRS subsequently reinstated the system when it realized that its expectations of increased productivity had not materialized and that the system's discontinuance had a negative effect on telephone access.

⁴According to IRS, at the "best in class" private sector companies, 85 percent of callers are connected to an assistor within 30 seconds.

⁵GAO/GGD-00-37.

IRS is continuing to use a messaging system this filing season. However, it modified the messaging procedure to improve management of the message workload. Now, instead of being routed to a voice messaging system, calls involving certain complex topics are routed to an assistor who adds the taxpayer's name, phone number, and question to a centralized database. IRS compliance staff nationwide can then access the database and return the taxpayer's call to answer the question.

Inadequate staffing plans and work schedules for IRS' 24 call sites also contributed to the reduced level of telephone service in 1999. Those plans and schedules were created using faulty productivity assumptions and demand data and were not completed until just before the start of the 1999 filing season. According to cognizant officials, IRS improved the timeliness and accuracy of its work schedules this year, allowing them more time for planning and providing the ability to better match staffing at sites with call volumes.

Because it assumed that it would have adequate staffing for the 1999 filing season, IRS initially decided not to use a feature of the telephone system, known as selected expanded access (SEA), that gives taxpayers access to automated services when they would have otherwise received a busy signal because of high call volume. If the service the taxpayer desires is not available through automation, the only option is to hang up and call back later. In response to high levels of busy signals and resulting low accessibility in the early part of the 1999 filing season, IRS began using SEA in early February 1999. This year, IRS has used SEA from the start of the filing season. IRS' use of SEA is most likely reflected in the reduction of about 10.7 million busy signals during the first 2 months of the 2000 filing season compared to the same period in 1999. What is not clear is to what extent the automated information satisfactorily answers the taxpayer's question. We will be following up on taxpayer use of SEA as we continue our review of the filing season.

Decline in Productivity and Fewer Staff May Be Keeping Telephone Service Below 1998 Levels

Although the 63-percent level of service as of March 4, 2000, was a significant increase over the 43-percent rate achieved as of the same time last filing season, it was still about 10 percentage points lower than in 1998. IRS officials cited two factors that have likely played a part in keeping the level of service below the 1998 level—a drop in productivity compared to 1998 and fewer staff dedicated to answer telephone calls.

According to IRS officials, productivity—the rate at which assistors answer telephone calls—is down considerably from 1998. Although they speculate that some of the decline may be due to their emphasis on

assistors taking as long as necessary to fully resolve a taxpayer's question or problem, IRS does not conclusively know what factors have contributed to the productivity decline and whether this has resulted in better or worse service. IRS has undertaken two studies to determine the reasons for declining productivity and what, if any, corrective action should be taken. We will monitor the results of those two studies as we continue our review.

Another factor that may be keeping level of service during this filing season from reaching the level achieved in 1998 is the decision to reduce the staff dedicated to providing toll-free telephone assistance. For fiscal year 2000, IRS allocated fewer positions to provide telephone service and shifted the remaining positions to non-telephone work, such as responding to taxpayer correspondence and contacting taxpayers who owe taxes. Cognizant officials said that when a disproportionate number of staff are diverted to any one type of service, the other services suffer with large and aged inventories. They added that the resources and demand for telephone and correspondence assistance are highly interrelated because taxpayers who have not received a timely response to their correspondence call IRS, thus increasing telephone demand.

IRS' Fiscal Year 2001 Budget Request

For fiscal year 2001, IRS is requesting \$8.986 billion and 100,133 full-time equivalent (FTE) positions, including \$145 million and 2,082 FTEs to be funded outside the discretionary spending caps for the Earned Income Tax Credit compliance initiative.⁶ As shown in appendixes I and II, that request is about 9 percent more than IRS' proposed operating level for fiscal year 2000 (\$8.256 billion) and is the net result of several increases and decreases, including increases for (1) an initiative called "Staffing Tax Administration for Balance and Equity" (STABLE), (2) information systems and technology investments, and (3) organizational modernization.⁷

In analyzing the request for STABLE, it became apparent that several portions of IRS' request do not contain clear links between the resources being requested and expected results. Given IRS' ongoing reorganization and its efforts to develop new or revised performance measures, we

⁶Fiscal year 2001 will be the fourth year of funding for this 5-year initiative.

⁷In our report on IRS' fiscal year 1999 financial statements, Financial Audit: IRS' Fiscal Year 1999 Financial Statements (GAO/AIMD-00-76, Feb. 29, 2000), we discussed certain issues related to IRS' budget, such as concerns about IRS's ability to ensure compliance with the laws governing its use of budget authority and IRS' controls over property and equipment. We are not discussing those issues in this testimony.

believe that IRS has an opportunity to make future budget requests more useful to Congress.

IRS Requests Funds to Stabilize Its Workforce

IRS is requesting \$144 million and 1,633 additional FTEs to stabilize and strengthen tax compliance and customer service programs in fiscal year 2001. IRS has also proposed a supplemental fiscal year 2000 appropriation of \$39.8 million for this initiative, collectively known as STABLE, to allow it to hire some of the new staff in fiscal year 2000. According to IRS, approval of the supplemental appropriation would allow IRS to train those new hires in fiscal year 2000, thus maximizing their impact in fiscal year 2001.

As shown in table 3, the STABLE initiative includes staffing increases for several IRS program areas.

Table 3: FTEs Requested for STABLE Initiative

Budget activity	FTEs			Total
	Fiscal year 2000 supplemental	Fiscal year 2001 annualization	Fiscal year 2001 initiative	
Submission Processing	50	150	208	408
Telephone and Correspondence				
Toll Free	63	189	248	500
Automated Collection System	75	225	150	450
Document Matching				
Underreporter	40	120	40	200
Combined Annual Wage Reporting	10	30	64	104
Examination	11	33	778	822
Collection				
Field Collection	0	0	50	50
Walk-In	48	142	43	233
Tax Exempt and Government Entities	4	12	52	68
Total FTEs	301	901	1,633	2,835

Note: The FTEs shown in the column headed "Fiscal year 2000 supplemental" reflect IRS' assumption that the persons hired under the supplemental appropriation will be coming on board around July 1, 2000, and thus will be working for only 3 months of the fiscal year. Thus, for example, the 50 FTEs for Submission Processing in that column represent 200 persons working for 3 months in fiscal year 2000. Because those 200 persons would be expected to work a full year in 2001, the number of FTEs needed that year would be 200—or 150 more than provided for in the fiscal year 2000 supplemental. That 150 increase is reflected in the column headed "Fiscal year 2001 annualization." The same rationale applies to the other numbers in that column.

Source: IRS' Fiscal Year 2001 Congressional Justification.

Before discussing specific parts of this initiative, we have two overall comments.

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- Because IRS' request for fiscal year 2001 assumes that many of the new staff will not be brought on board until April 1, 2001, the number of FTEs associated with STABLE in fiscal year 2001 reflects the fact that many of the new staff will not be working the entire fiscal year. Because they will be working full time the following year, the number of FTEs associated with STABLE will increase to 4,003 in fiscal year 2002, according to IRS. Thus, if Congress funds the initiative and IRS implements it as intended, IRS can be expected to seek a further increase in fiscal year 2002 to fund the additional staffing costs associated with this growth in FTEs.
 - However, there is ample precedent to question whether IRS will be able to implement STABLE as intended. Many times in the past, IRS has not filled enforcement positions that were funded by Congress because shortfalls in other areas caused IRS to use those funds elsewhere. In that regard, IRS' budget justification says that, for fiscal year 2000, it has had to "adjust projected spending on personnel, operational support, and other support costs," which "required that we not fill 2,339 FTE devoted to tax law enforcement in the [fiscal year] 2000 President's Budget."

In responding to our second overall comment, IRS' Budget Office said the following:

"We agree that for the past few years we have had to divert labor resources to fund unfunded mandatory items such as telecommunications and contracts, as well as reduce the number of FTE due to an unfunded labor shortfall. This could happen again if we do not receive our full [fiscal year] 2001 budget request. However, as currently submitted, our [fiscal year] 2001 budget is balanced and will allow us to fund all requested FTE. If fully funded we expect to be able to recruit and fill all of the requested positions."

The rest of our discussion of STABLE focuses on those elements related to (1) telephone service, (2) submission processing (3) examination, (4) collection, and (5) the underreporter program.

Telephone Service

STABLE includes 500 additional FTEs for IRS' toll-free telephone service. With the additional staffing, according to the budget request, IRS plans to provide a 60-percent level of service for toll-free assistance in fiscal year 2001 and reduce its dependence on revenue agent detailees from Examination.

Of the 500 FTEs being requested for toll-free telephone service, 200 will be used to free Examination staff from having to support customer service activities. In effect, IRS will be hiring Customer Service staff to replace Examination staff who have been detailed to answer the phone. Since the net effect of those 200 FTEs is not to increase the resources available to answer the telephone but rather to increase the resources available to do

examinations, we will discuss that part of the request in the next section. The other 300 FTEs would actually increase the number of resources devoted to answering the telephone.

Although we asked IRS for documentation further justifying this proposed staffing increase, IRS did not provide sufficient detail on how it determined the size of the staff increase or how such an increase would affect service. In addition, IRS cannot project the level of service it can expect from its current staffing, much less the level of service it can expect from more staff. In that regard, IRS has shown that it may be able to provide better service with even fewer staff than before. As we discussed earlier, the level of service during the current filing season has improved significantly over last year—63 percent as of March 4, 2000, compared to 43 percent at the same time in 1999—even though IRS allocated fewer staff to toll-free service this year.

Although we agree that IRS needs to improve its toll-free telephone service, we do not believe that IRS has provided adequate justification for increasing the number of FTEs devoted to that service. Although IRS' stated goal (a 60-percent level of service) may have seemed reasonable at the time the fiscal year 2001 budget was prepared, it appears clear, based on the preliminary results of this year's filing season, that IRS does not need additional staff to achieve that level of service.

Matter for Consideration by Congress

We believe that Congress should consider withholding approval of this part of the STABLE request until IRS provides a revised estimate of the level of telephone service it can expect to provide in fiscal year 2001 with the increased staffing and clearly demonstrates that the revised estimate considers (1) the service level achieved this filing season, (2) reasonable expectations for further improvements in management and processes, and (3) any planned technological changes.

Submission Processing

The STABLE initiative includes 408 additional FTEs that IRS says will be used to transcribe data from 18 million Schedules K-1 filed on paper.⁸ According to IRS, these paper schedules, together with those filed electronically, represent in excess of \$500 billion in total income. IRS says that processing of these documents will allow IRS, as part of its document matching program, to reconcile K-1 data with information reported on individual tax returns.

⁸Schedules K-1 provide information on income (or losses) distributed by business entities to individual partners, beneficiaries, and shareholders.

IRS' plan is consistent with a recommendation we made in 1995—namely that IRS devise ways to enter all Schedules K-1 onto the computer so they can be used in the document matching program and for other compliance programs.⁹ We presented cost/benefit information in the report and said that IRS could reduce the cost of transcribing this information if it could encourage more partnerships to file the schedules electronically. At that time, only 1.7 million of the total 17.3 million K-1s were filed electronically. IRS has made progress in that regard—about 4 million are now processed electronically and IRS is projecting about 11 million by 2001.

It should be noted that the transcription of K-1 data starting in fiscal year 2001 could significantly increase IRS' document matching workload starting in fiscal year 2002. It remains to be seen what IRS is able to do with that increased workload since, as discussed later, IRS is currently unable to investigate many of the discrepancies identified by its document matching program. Thus, the increased matching workload resulting from the processing of K-1 data could affect IRS' budget request for fiscal year 2002.

Examination

STABLE would increase Examination staffing in two ways. First, as discussed earlier, the telephone service portion of STABLE includes 200 FTEs to free up Examination staff who have been detailed in the past to help the Customer Service function answer taxpayers' questions. Second, the Examination portion of STABLE includes 822 FTEs, which would allow IRS to hire additional staff for the Examination function. IRS says that the staffing increase will lead to an increase in audit coverage for high-income individuals (those with taxable income of more than \$100,000) from 0.76 percent to 1.10 percent. We have no way of knowing what an appropriate level of audit coverage would be. Assuming 1.10 percent is a reasonable goal, the question becomes whether IRS needs additional staff to achieve that goal or whether it can be achieved by using existing resources more efficiently.

Because there was insufficient information in IRS' budget justification to address that question, we obtained additional data from IRS. The data we received showed that

- the number of revenue agent FTEs has declined by about 17 percent between fiscal year 1995 and fiscal year 1999, with a further decline of 4 percent expected in fiscal year 2000;

⁹Tax Administration: IRS' Partnership Compliance Activities (GAO/GGD-95-151, June 16, 1995).

- between fiscal years 1995 and 1999, the number of returns filed by high-income individuals and corporations (the type of returns generally audited by revenue agents) increased by about 36 percent;
- primarily because of an increase in the amount of FTEs spent in training and helping Customer Service, the percent of revenue agent FTEs spent doing examinations (known as direct examination time) decreased from 53.9 percent in fiscal year 1997 to 45.2 percent in fiscal year 1999; and
- time spent per examination case has increased due to such factors as (1) changes in the mix of work; (2) the learning curve associated with new laptop computers; (3) the stops and starts associated with details to Customer Service; and (4) various new documentation, taxpayer notification, and other requirements associated with implementation of RRA98.

Although direct examination time and time per case could improve as details to Customer Service become less necessary and staff become more familiar with the provisions of RRA98 and although other increases in efficiency are surely possible, we find it hard to argue against increasing Examination staff in light of the 21-percent decline in revenue agent staffing since fiscal year 1995 while the number of filed returns in categories audited by revenue agents has been increasing at an even greater rate.

Collection

STABLE includes 283 additional FTEs for IRS' Collection activity—50 for the Field Collection function and 233 for the walk-in program. According to IRS, much of this initiative is designed to address (1) declining staffing levels among revenue officers, (2) a downward trend in collection case closures, and (3) substantial increases in the time required per case due to provisions of RRA98.

IRS' budget request did not contain details on the downward trends in revenue officer staffing and case closures or the upward trend in case times. We pursued those issues with IRS and obtained the following information:

- Revenue officer FTEs declined from about 8,130 in fiscal year 1995 to about 6,480 in fiscal year 1999—a drop of 20 percent—and have continued to decline this year.
- The number of tax delinquent accounts and tax delinquency investigations closed by the Field Collection function decreased by 30 percent and 49 percent, respectively, between fiscal years 1997 and 1999.
- The Collection function is expected to spend about 1,400 FTEs in fiscal year 2001 administering various provisions of RRA98, which, according to

IRS, more than offsets the productivity gains associated with the recently completed national roll-out of the Integrated Collection System.

In addition to the decline in overall staffing levels, some revenue officer FTEs have been used to provide assistance at IRS walk-in sites. According to data obtained from IRS, the number of revenue officer FTEs devoted to that effort increased from 289 in fiscal year 1998 to 542 in fiscal year 1999. According to IRS, of the 233 FTEs being requested for the walk-in program under STABLE, 200 are intended to allow IRS to reduce this reliance on revenue officer help. We agree in principle with the desirability of replacing revenue officer detailees with persons hired and trained specifically to provide customer service. Doing so should not only allow the revenue officers to concentrate on collection case work but also improve customer service. A person who has been hired and trained for a customer service position should be able to better assist taxpayers than a person who has been hired and trained to collect taxes.

Unlike the 200 FTEs discussed above, which would increase the staffing devoted to collecting taxes, the other 33 FTEs being requested for the walk-in program would increase the number of FTEs devoted to providing walk-in assistance. IRS' budget request provides little information that can help Congress evaluate the need for additional walk-in staff. IRS says that funding of its request will "increase the level of customer service." However, although IRS has efforts underway to measure such service indicators as wait time and quality, its budget currently includes no such measure. In fact, one measure in IRS' budget request (customer satisfaction with walk-in assistance) indicates that service might already be at an acceptable level. According to that measure, customers gave the walk-in program a satisfaction rating of 6.4 on a scale of 1 to 7, with 7 meaning "very satisfied." That rating is the highest of all the customer satisfaction ratings reported in IRS' budget request.

Information we received from IRS' Budget Office indicated that the additional walk-in staff would allow IRS to enhance the accessibility of its walk-in assistance by expanding the hours of service at walk-in offices and expanding efforts to help taxpayers (through such nontraditional outlets as shopping malls and taxmobiles) who cannot easily reach a walk-in office. However, the budget request does not reflect any impact from that expanded service. In fact, the request shows that IRS expects 10.0 million walk-in contacts in fiscal year 2001—the same number as in 1999 and 2000.

Underreporter Program

STABLE also includes 200 FTEs for additional document matching within IRS' Underreporter Program. IRS' budget justification contains no

performance measures related to the Underreporter Program that can be used to help assess the reasonableness of this request. In our report on IRS' fiscal year 1999 financial statements, however, we presented the following information on IRS' performance in this area.¹⁰

"For tax year 1996 [the most recent year for which substantially complete matching program results were available], IRS' matching program for individual taxpayers screened about 155 million individual income tax returns and found that about 12 million (8 percent) had potential underreported taxes due totaling at least \$15 billion. However, IRS investigated only about 3.1 million (26 percent) of these returns, accounting for estimated underreported taxes due of about \$5.2 billion (35 percent). . . According to IRS, resource constraints precluded them from investigating more of these discrepancies and the related estimated underreported taxes due."

**Fiscal Year 2001
Information Technology
Budget Request:
Observations and
Suggestions**

Beginning in 1995, we reported on serious and pervasive information technology (IT) management and technical weaknesses at IRS and made recommendations for correcting them.¹¹ To minimize the risk of IRS investing in systems before the recommendations were fully implemented, we suggested in 1996 that Congress limit IRS' IT spending to cost effective activities that (1) support ongoing operations and maintenance; (2) correct pervasive management and technical weaknesses, such as a lack of requisite systems life cycle discipline; (3) are small, represent low technical risk, and can be delivered in a relatively short time frame; or (4) involve deploying already developed systems that have been fully tested, are not premature given the lack of a complete systems architecture, and produce a proven, verifiable business value.¹² Since 1996, we have reported on IRS' progress in implementing our recommendations and reviewed IRS' annual budget requests to ensure their consistency with IRS' IT management capability and these spending categories.¹³ While IRS has made progress over the last 4 years in addressing our recommendations, it has yet to fully implement them, and thus they remain operative in assessing IRS' fiscal year 2001 IT budget request.

¹⁰GAO/AIMD-00-76.

¹¹Tax Systems Modernization: Management and Technical Weaknesses Must Be Corrected If Modernization Is to Succeed (GAO/AIMD-95-156, July 26, 1995).

¹²Tax Systems Modernization: Actions Underway But IRS Has Not Yet Corrected Management and Technical Weaknesses (GAO/AIMD-96-106, June 7, 1996).

¹³Tax Administration: IRS' Fiscal Year 2000 Budget Request and 1999 Tax Filing Season (GAO/T-GGD/AIMD-99-140, Apr. 13, 1999); Tax Administration: IRS' Fiscal Year 1999 Budget Request and Fiscal Year 1998 Filing Season (GAO/T-GGD/AIMD-98-114, Mar. 31, 1998); Tax Administration: IRS' Fiscal Year 1997 Spending, 1997 Filing Season, and Fiscal Year 1998 Budget Request (GAO/T-GGD/AIMD-97-66, Mar. 18, 1997); Tax Administration: IRS' Fiscal Year 1996 and 1997 Budget Issues and the 1996 Filing Season (GAO/T-GGD-96-99, Mar. 28, 1996).

Statement

Tax Administration: IRS' 2000 Tax Filing Season and Fiscal Year 2001 Budget Request

For fiscal year 2001, IRS' Information Systems appropriation request is \$1.58 billion and includes 7,531 FTEs. Of the \$1.58 billion, \$1.54 billion is to fund the operation and maintenance of existing systems. The remaining \$40 million is for what IRS terms "Business Line Investments." The investments are intended to add new capabilities to five operational systems and develop three new systems that, according to IRS officials, address business needs that are unique to some of IRS' newly formed operating divisions and are not related to, or dependent upon, IRS' core business systems modernization program.

In addition to the \$1.58 billion, IRS is requesting \$119 million for fiscal year 2001—and an advance appropriation of \$375 million for fiscal year 2002—for IRS' multiyear capital account that is intended to fund contractor costs associated with IRS' core business systems modernization program. This account, referred to as the Information Technology Investments Account (ITIA), currently contains \$438 million in appropriated, but unobligated, funds.¹⁴

Pursuant to legislation,¹⁵ funds from the ITIA are not available to IRS for obligation until IRS and Treasury submit to Congress for approval an expenditure plan that (1) implements the IRS Modernization Blueprint; (2) meets Office of Management and Budget (OMB) investment guidelines; (3) is reviewed and approved by IRS' Investment Review Board,¹⁶ OMB, and Treasury's IRS Management Board and is reviewed by us; (4) meets requirements of IRS' life cycle program; and (5) is in compliance with acquisition rules, requirements, guidelines, and systems acquisition management practices of the federal government. In May 1999, IRS submitted its first expenditure plan, seeking to spend about \$35 million for modernization initiatives through October 31, 1999. We reported to Congress that the plan was an appropriate first step toward successful modernization, but that the key to success for IRS would be to effectively implement the plan.¹⁷ Subsequently, the relevant appropriations subcommittees agreed to IRS' obligation of \$35 million from the ITIA.

¹⁴Of the \$438 million, \$227 million is to expire on September 30, 2000, and the remaining \$211 million is to expire on September 30, 2002.

¹⁵The fiscal year 1998 Treasury and General Government Appropriations Act (P.L. 105-61) and the fiscal year 1999 Omnibus Consolidated and Emergency Supplemental Appropriations Act (P.L. 105-277).

¹⁶According to IRS, the Investment Review Board has been replaced by the Core Business Systems Executive Steering Committee, which is chaired by the Commissioner of Internal Revenue.

¹⁷Tax Systems Modernization: Results of Review of IRS' Initial Expenditure Plan (GAO/AIMD/GGD-99-206, June 15, 1999).

IRS was unable to finalize its second expenditure plan before the original \$35 million was obligated and on December 14, 1999, it requested approval to obligate \$33 million from the ITIA as a “stopgap” measure until the next expenditure plan was submitted. In briefings to the relevant appropriations subcommittees and IRS, we reported our concerns about IRS’ lack of progress in completing and implementing an enterprise systems architecture and system development life cycle and the risks associated with IRS’ plans to develop selected systems without these critical management controls in place. In approving IRS’ \$33 million request, the appropriation subcommittees directed IRS to, among other things, (1) expedite completion and implementation of the architecture and system life cycle methodology and (2) explain in future expenditure plans how IRS plans to manage the risk of performing detailed design or development work if the architecture is not completed or the life cycle is not implemented.

In response to these and other concerns raised by the appropriations committees, OMB, and us, IRS has reassessed its plans and is in the process of restructuring its modernization program to scale-back its new system development efforts until it first puts in place the requisite modernization management capability, including developing its enterprise architecture and implementing its system life cycle methodology. In early March 2000, IRS submitted its second expenditure plan to Congress seeking approval to obligate \$176 million of the \$438 million currently in the ITIA.

**Fiscal Year 2001 Information
Systems Budget Request
Appears Consistent With
Established Spending Categories**

The vast majority (97 percent) of IRS’ fiscal year 2001 request of \$1.58 billion for its Information Systems appropriation appears in line with the aforementioned spending categories. Specifically, \$1.54 billion is being requested to operate and maintain existing information systems that support day-to-day tax administration functions and activities. The remaining 3 percent, or \$40 million, is for eight relatively small “Business Line Investments” that are to enhance existing operational systems and develop new ones. Specifically, five investments, estimated at about \$13 million, are to add capabilities to operational systems, such as the Integrated Case Processing System and the Chief Counsel Case Management System. The other three investments, estimated at about \$27 million, are to develop new systems for some of IRS’ new operating divisions.

For example, one of these investments—referred to by IRS as the Near Term Electronic Filing and Electronic Fraud Detection System project—is for the Wage and Investment Income Division and the Small Business and

Fiscal Years 2001 and 2002 ITIA
Requests Are Not Adequately
Justified

Self Employed Division. This system is to provide the capability to accept additional tax forms and schedules that IRS is currently not capable of receiving electronically. According to IRS, the system will support IRS' goal of enabling more taxpayers to file their tax forms and schedules electronically.

Key provisions of the Clinger-Cohen Act, the Government Performance and Results Act, and OMB Circular No. A-11 and supporting memoranda, require that, before requesting multiyear funding for capital asset acquisitions, agencies develop accurate, complete cost data and perform thorough analyses to justify the business need for the investments. For example, agencies must show that needed investments (1) support a critical agency mission; (2) are justified by life cycle cost-benefit analysis (i.e., business case); and (3) have cost, schedule, and performance goals.

IRS' Chief Information Officer (CIO) acknowledged that IRS has not yet performed the above-cited analyses to justify its fiscal year 2001 investment account request of \$119 million and its fiscal year 2002 advance request of \$375 million. Instead, IRS officials told us that the funding requests for both years were based on a \$300 million average annual rate of spending, which, according to the CIO, was derived 6 months ago based on full contractor staffing of the maximum number of projects that IRS assumed its human capital capacity would allow it to manage effectively at one time. However, the reliability of this estimate is questionable because we were not provided any verifiable documentation supporting the above-described estimating approach, and the estimate is not based on a complete definition of what IRS' fiscal year 2001 and 2002 investments will be. Moreover, even using the above-described rationale for how the 2001 and 2002 funding requests were derived, the estimate is likely overstated for two reasons. First, IRS has recently reassessed its human capital capacity to manage projects and has determined that the number of projects it can effectively oversee needed to be scaled back, which in turn has reduced contractor staffing needs. Second, the \$300 million estimate represented the upper bound of IRS' funding requirements for a given year, according to the CIO.

Matter for Consideration by
Congress

We suggest that Congress consider denying the \$119 million requested for fiscal year 2001 and the \$375 million requested for fiscal year 2002, and that it direct IRS to develop a credible and verifiable fiscal year 2001 ITIA budget request (i.e., a request that is based on defined modernization requirements and formal estimating methods) and to seek, if necessary, a supplemental appropriation for this amount in time to meet its fiscal year 2001 needs. Neither of these congressional actions should affect continuity

of the modernization because (1) IRS' own plans for obligating available ITIA funds will leave \$51 million in the account for the remainder of fiscal year 2000,¹⁸ and \$211 million to cover funding needs in fiscal year 2001, even if IRS does not receive a supplemental, and (2) IRS can still request funding for fiscal year 2002 in its fiscal year 2002 budget submission, when it should be in a better position to reliably estimate its funding needs.

IRS' Reorganization Effort Is Continuing

IRS has requested \$182 million to cover reorganization expenses—\$140 million in base funding from the fiscal year 2000 budget plus an additional \$42 million requested for fiscal year 2001. According to IRS, reorganization costs will peak in fiscal year 2001, decline in 2002, and end in 2003. This funding pattern is consistent with IRS' plan for implementing the reorganization, which shows a significant amount of activity in fiscal year 2001 with lesser amounts continuing into 2003. Other costs associated with IRS' modernization, such as the costs associated with training staff and upgrading IRS' computer systems, should continue well past 2003.

Over the past year, IRS has made progress in shifting to the new organizational structure. IRS has selected the Commissioners and Deputy Commissioners for each of the four operating divisions and has put in place management structures for several new units, including the Taxpayer Advocate Service and the Tax Exempt and Government Entities Division. The two largest operating divisions, those serving individual taxpayers and small businesses, are expected to become operational this fall, but key aspects of the organizational designs are to be phased in over the following 2 years. Plans for the Wage and Investment Income Division, for example, include new compliance approaches that IRS plans to implement or pilot test in fiscal year 2002.

In our testimony on IRS' fiscal year 2000 budget request, we commented that IRS did not separately identify an amount for the Office of the Taxpayer Advocate, but instead included it within the Telephone and Correspondence budget activity in the Processing, Assistance, and Management appropriation.¹⁹ We suggested that congressional oversight of the Advocate's Office and IRS' efforts to solve taxpayer problems would be further enhanced and any concerns about the Advocate Office's independence would be further mitigated if funding for that Office was separately identified in IRS' budget. IRS created a separate budget activity

¹⁸ This \$51 million, if not obligated by September 30, 2000, will expire.

¹⁹ GAO/T-GGD/AIMD-99-140.

for the Taxpayer Advocate Service in fiscal year 2000, which it has included in its fiscal year 2001 budget request.

In that same testimony, we discussed how IRS' budget request commingles resources for enforcement and assistance. The Telephone and Correspondence budget activity, for example, includes resources for several forms of assistance, such as answering telephone calls and correspondence, as well as several enforcement activities, such as audits handled through correspondence and attempts to collect overdue taxes via the telephone. When we raised the same issue in our report on IRS' fiscal year 1999 financial statements, IRS said that it would be addressing the issue in its new organizational structure.²⁰

Fiscal Year 2001 Budget Request Not Clearly Linked to Performance

As noted in our earlier discussion of STABLE, several portions of IRS' budget request do not contain a clear link between the resources being requested and expected results. As we have noted in the past, the Government Performance and Results Act of 1993 aims for a closer and clearer link between the process of allocating resources and the expected results to be achieved with those resources.²¹ We further noted that an agency's performance goals are of little value to congressional appropriation decisions without a connection to the resources that an agency is requesting.²²

While we recognize that it is not easy to clearly link budget levels and performance results, we believe that IRS could do a better job of making that connection. For example, IRS' request does not clearly link the various budgetary inputs that affect toll-free level of service with IRS' goal in that area. What the budget shows is a request for about \$1 billion for the Telephone and Correspondence activity and a performance goal of 60-percent level of service associated with that budget activity. What is unclear from the budget is (1) that much of the Telephone and Correspondence request is not for toll-free telephone service; (2) that some of the resources requested for other activities, such as Examination and Information Systems, are for toll-free telephone service; and (3) the projected level of service IRS can expect from its current staffing.

²⁰GAO/AIMD-00-76.

²¹Performance Budgeting: Fiscal Year 2000 Progress in Linking Plans With Budgets (GAO/AIMD-99-239R, July 30, 1999).

²²Performance Budgeting: Initial Agency Experiences Provide a Foundation to Assess Future Directions (GAO/T-AIMD/GGD-99-216, July 1, 1999).

Statement

Tax Administration: IRS' 2000 Tax Filing Season and Fiscal Year 2001 Budget Request

IRS is in the process of implementing a major reorganization. That reorganization and any related budget restructuring, along with IRS' ongoing efforts to develop new or revised performance measures, could provide an opportunity to make future budget requests more useful to Congress by more clearly linking requested resource levels with the achievement of performance goals.

That concludes my statement. We welcome any questions that you may have.

IRS' Fiscal Year 2001 Budget Request Compared With Proposed Fiscal Year 2000 Operating Level

Dollars in thousands						
Budget activity	FY 2000		FY 2001		Percent change	
	Dollars	FTEs	Dollars	FTEs	In dollars	In FTEs
Submission Processing	\$930,325	15,682	\$1,036,818	16,040	11.45	2.28
Telephone and Correspondence	932,190	20,480	1,026,742	21,291	10.14	3.96
Taxpayer Advocate Service	133,145	2,294	141,095	2,294	5.97	0.00
Document Matching	59,036	1,437	73,023	1,690	23.69	17.61
Management Services	609,771	6,694	686,155	6,694	12.53	0.00
Rent and Utilities	695,579	67	735,666	67	5.76	0.00
Subtotal: Processing, Assistance, and Management Appropriation	\$3,360,046	46,654	3,699,499	48,076	10.10	3.05
Criminal Investigation	384,549	3,750	399,065	3,750	3.77	0.00
Examination	1,772,371	22,089	1,885,882	22,900	6.40	3.67
Collection	676,676	10,548	721,547	10,785	6.63	2.25
Tax Exempt/Government Entities	156,600	2,102	168,654	2,166	7.70	3.04
Statistics of Income	28,390	471	29,696	471	4.60	0.00
Chief Counsel	225,059	2,378	234,176	2,372	4.05	-0.25
Subtotal: Tax Law Enforcement Appropriation	\$3,243,645	41,338	3,439,020	42,444	6.02	2.68
Operations and Maintenance	1,258,155	7,292	1,543,565	7,531	22.68	3.28
Year 2000	250,426	239	0	0	NA	NA
Investments	0	0	40,000	0	NA	NA
Subtotal: Information Systems Appropriation	\$1,508,581	7,531	1,583,565	7,531	4.97	0.00
Information Technology Investments	0	0	119,000	0	NA	NA
Earned Income Credit (outside caps)	\$144,000	2,082	\$145,000	2,082	0.69	0.00
Total	\$8,256,272	97,605	\$8,986,084	100,133	8.84	2.59

Source: IRS' Fiscal Year 2001 Congressional Justification.

Comparison of IRS' Fiscal Year 2000 Proposed Operating Level and Fiscal Year 2001 Total Budget Request

Dollars in thousands		
	Subtotal	Total
Fiscal year 2000 proposed operating level (includes Earned Income Tax Credit appropriation)	\$8,256,272	
Decreases for fiscal year 2001		
Information Systems (non-recur)	(\$ 50,897)	
Transfer of resources to Treasury Inspector General for Tax Administration	(732)	
Subtotal-decreases	(\$51,629)	
Increases for fiscal year 2001		
Adjustments necessary to maintain current levels	347,596	
Program annualization	40,736	
Staffing Tax Administration for Balance and Equity	144,071	
Electronic Tax Administration	3,000	
Operational support contracts	43,631	
Organizational modernization	42,407	
Business line investments	40,000	
Information Technology Investment Account	119,000	
Earned Income Tax Credit compliance initiative	1,000	
Subtotal-increases	781,441	
Fiscal year 2001 budget request		\$8,986,084
Difference between fiscal year 2000 operating level and fiscal year 2001 budget request		\$729,812

Source: IRS' Fiscal Year 2001 Congressional Justification.

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