



# IRS Strategic Plan





## A message from the Commissioner

The Internal Revenue Service strives to maintain the fairest and most effective system of voluntary tax compliance in the world. The environment in which we operate is complex and constantly changing, and the IRS must change with it.

For example, accelerating globalization and the development of new business models challenge IRS efforts to ensure that all businesses pay the taxes they owe. The tax laws are increasingly complex, and the role of tax practitioners and other third parties in the system is expanding. The explosion in technology has raised taxpayer expectations for new ways to interact with the IRS – and has significantly increased security risks, requiring more vigilance.

Even in the face of these challenges, however, studies of international tax systems show that the U.S. tax system is extremely effective, and the IRS has a highly motivated workforce that clearly understands its mission. The IRS must continue to deliver this high level of performance both in how we serve taxpayers and in how we enforce the tax laws. The Strategic Plan 2009-2013 will guide the IRS in this work by emphasizing two overarching goals.

Our first goal is to improve service to taxpayers to make voluntary compliance easier. We will work harder to incorporate taxpayer perspectives, expedite resolution of taxpayer issues, and provide timely guidance to help all taxpayers pay their fair share of taxes. We will also strengthen our partnerships with tax practitioners, preparers, and other third parties in the system.

Our second and equally important goal is to enforce the law to ensure everyone meets their obligation to pay taxes. We will be timely in our enforcement actions and expand the approaches and tools we use in compliance activities. We will meet the challenges of globalization by improving our expertise and coordinating better with international organizations.

We need to excel at both service and enforcement to meet our mission: it isn't an either/or proposition. To succeed, we will support these goals by investing in two strategic foundations – our people and our technology. We will strive to make the IRS the best place to work in government. We will give our people the technology they need to improve efficiency, ensure privacy and security of data, and target the highest-risk areas of tax abuse and fraud.

I am pleased to present this plan for the long-term direction of the IRS. I am committed to making it a living document that people at all levels of our organization will use to guide their work on behalf of the American people.

**Douglas Shulman**

Commissioner of Internal Revenue





## Our Mission

Provide America's taxpayers top-quality service by helping them understand and meet their tax responsibilities and enforce the law with integrity and fairness to all



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<sup>1</sup> For certain measures, long-term performance targets have been established. See the Strategic Plan's measures Appendix at [http://www.irs.gov/pub//newsroom/long\\_term\\_measures.pdf](http://www.irs.gov/pub//newsroom/long_term_measures.pdf)



# Major trends affecting the IRS: 2009–2013

The Internal Revenue Service will face major societal, demographic and economic changes over the next 5 years. We will proactively address the challenges and opportunities created by these evolving trends.

## 1. Increasing complexity of tax administration

Each year the IRS must respond to new tax provisions from Congress and adjust to expiring ones. In 2007 alone, 41 provisions expired affecting a wide spectrum of taxpayers. The legislative mandates we face often have short implementation periods; these strain management capacity and demand substantial resources. For example, the 2008 economic stimulus package required us to issue rebate payments to over 116 million households at the same time as the tax filing season. Even as we face these challenges, we must efficiently administer the tax code despite its ever-increasing complexity. To be fair and timely in our response, we must be nimble in our staffing, have meaningful, just-in-time training models in place, and reinforce our commitment to acting quickly.

## 2. Growing human capital challenges

Thirty-one percent of the U.S. population is over the age of 50, up from 26 percent in 1980. By 2020, this will rise to 35 percent. More than half of IRS employees and managers are age 50 or older – and 39 percent of IRS executives and 20 percent of IRS managers are already eligible for retirement. Replacing these people will be challenging in an increasingly competitive environment for graduates, particularly in critical fields such as IT and accounting. The IRS must grow employees' and managers' skills and sophistication, even while more senior people retire. To succeed in the long term, the IRS must focus on attracting and developing skilled employees, even as the existing workforce ages and the agency continues to face stiff competition for new talent.

## 3. Explosion in electronic data, online interactions, and related security risks

Technologically savvy employees and taxpayers are demanding that government institutions provide them the same level of tools and online capabilities as best-in-class private-sector organizations.

As more people gain access to the Internet, and as IT systems become more interconnected, data security concerns rise. Safeguarding data and systems today is much more difficult than it was a few years ago.

Data vulnerability is exacerbated by the fact that criminals are increasingly focused on accessing personal financial information. In fact, attempts at identity theft and phishing (i.e., online scams to steal personal data) related to federal income taxes increased more than sevenfold in 2008.

We must become more technologically sophisticated to meet increased taxpayer expectations and maintain data security – modernizing our systems, improving our training, and continually enhancing our safeguards.

This year alone, the IRS has repelled more than 35 million unauthorized access attempts, with about one-third of this malicious activity originating from outside the country.

## 4. Accelerating globalization

U.S.-based corporations more than tripled their foreign profits between 1994 and 2004, from \$89 billion to \$298 billion, with 58 percent of that profit earned in low-tax or no-tax jurisdictions. Since 1990, the number of multinational corporations worldwide has grown by 20 times to 63,000. U.S. businesses now make wide use of offshoring and outsourcing – often through sophisticated and complex transfer pricing systems. The international community has created the International Financial Reporting Standards (IFRS), a new set of accounting standards that is becoming a popular alternative to the Generally Accepted Accounting Principles (GAAP).

The percentage of Americans' income originating from foreign sources doubled between 2001 and 2006.

Personal income tax returns also show the impact of globalization. The number of individual Americans paying taxes in another country increased by 30 percent between 2003 and 2005. As taxpayers expand into global markets, we must keep up with their ever-diversifying needs – assessing our international presence and developing the skills and relationships needed to ensure that taxpayers with income abroad pay the taxes they owe.

## 5. Expanding role of tax practitioners and other third parties in the tax system

Between 1993 and 2007, the percentage of taxpayers who prepared their own returns without outside assistance fell by more than two-thirds, from 41 percent to 13 percent. Use of paid preparers rose from 51 percent to 60 percent, and use of software soared from 8 percent to 27 percent. These trends show no signs of abating. Between 400,000 and 500,000 tax professionals – including Enrolled Agents, certified public accountants, and attorneys – now operate under the professional guidelines known as Circular 230, and there are others who are

Between 1993 and 2007, the share of taxpayers who prepared their own returns without a paid preparer or software fell by more than two-thirds, from 41 percent to 13 percent.

outside this regulatory regimen. The IRS must acknowledge the important role of these third-party practitioners in the tax system, and continue to serve them effectively while helping ensure that they meet professional standards and abide by the law.

## 6. Accelerating change in business models

The business models of tomorrow will be quite different from those of the past, making IRS interactions with business taxpayers more complicated. Already we are seeing a rapid rise in “pass-through” companies, which pass their profits through to their members or shareholders, who then pay the taxes on their individual returns. These companies include sole proprietorships, partnerships, S-corporations and LLCs. The growth rate of these business models is outpacing that of the traditional C-corporation, which, in contrast, pays corporate rather than individual taxes. Between 1998 and 2007, the annual growth rate for S-corporations and partnerships was 5.9 and 5.2 percent respectively, while C-corporations grew at just over 1 percent. These companies are not necessarily small businesses. Pass-through entities make up 64 percent of all large and mid-size businesses in the tax system. The IRS must maintain its effort to help taxpayers understand their obligations, continue its focus on identifying and closing tax schemes that develop with these new models, and ensure that taxpayers whose business models are served by different divisions of IRS receive seamless service.

By 2015, the IRS projects that 43 million individual returns will include business income, up from 38 million in 2007.



# Goal 1

## Improve service to make voluntary compliance easier

According to a recent study, nearly 84 percent of all taxes in the United States are calculated correctly and paid on time by taxpayers who report their income freely and voluntarily. Studies of international tax systems show that the U.S. system is the most efficient and effective in the world in generating compliance. We are committed to maintaining this record, even while addressing the societal, demographic, and economic trends noted above. We will make it easier for taxpayers to fulfill their civic responsibility to pay taxes by providing them with world-class service, taking proactive steps to better understand issues from the taxpayer's perspective, and reducing taxpayer burden.

### OBJECTIVE 1: Incorporate taxpayer perspectives to improve all service interactions

Every interaction the IRS has with a taxpayer must be seen from the taxpayer's point of view, regardless of whether or not we ultimately agree with the taxpayer's position. Taxpayers will be judging their interactions with the IRS and the government based on their most recent experiences with other world-class service organizations. This measure should be our standard too.

Before we implement major changes or introduce new services and processes, we will use techniques such as focus groups and surveys to understand taxpayer preferences across different segments. We will use increasingly sophisticated knowledge of these segments to provide easier access to information and services.

The IRS runs numerous programs to reach out to taxpayers with limited English proficiency. For example, the IRS produces Publication 4580, *Basic Tax Responsibility*, on audio CD and DVD in Spanish, Chinese, Vietnamese, Russian and Korean.

Whenever possible, we will also ask IRS employees and stakeholder groups to react to proposed, large-scale changes before we make them. We want the people affected by our service programs to have a strong voice in shaping them. In addition, we will roll out new programs in phases, allowing us to address issues before they become broader problems. We will also work hard to make our services accessible to all segments of the public – including, for example, first-time taxpayers, taxpayers with low English proficiency, or taxpayers with difficulty using or accessing computers.

*STRATEGY 1: Ensure that we make operational decisions only after considering the views of affected taxpayers*

*STRATEGY 2: Use focus groups, surveys, and other feedback methods before rolling out new services and processes*

*STRATEGY 3: Implement phased rollouts wherever possible, including beta-testing periods*

*STRATEGY 4: Facilitate participation in the tax system by all segments of the public*

## OBJECTIVE 2 : Expedite and improve issue resolution across all interactions with taxpayers, making it easier to navigate the IRS

When we resolve taxpayer issues in a timely and accurate manner, we enhance the taxpayer experience and make it easier for people to comply voluntarily with the law. This will be particularly important as tax laws continue to grow in complexity.

The IRS sends out 200 million notices and letters to taxpayers or their representatives each year. We will work to improve the content and delivery of these communications. In addition, we will continue to offer tools that encourage taxpayers to take an active role in finding solutions to their tax questions. We have deployed several such tools, including online payment agreements, pre-filing agreements, and private letter rulings, and we will develop new tools that allow resolution of issues at the earliest possible moment.

If a taxpayer deals with more than one business unit within the IRS, we need to coordinate well with each other to ensure that the hand-off is quick and trouble-free. To do this, the IRS will encourage and expect each of our employees to take ownership of the taxpayer's experience – for example, by staying on the telephone with a taxpayer until the taxpayer reaches the appropriate division. We will also align systems and procedures to help employees who are interacting with the same taxpayers.

Lastly, we can be more efficient in our use of information. We will seek innovative ways to simplify or eliminate processes that unnecessarily burden taxpayer or IRS resources. We will expect every employee, manager, and executive to find ways we can reduce or eliminate waste.

*STRATEGY 1: Streamline processing of taxpayer data and transactions*

*STRATEGY 2: Ensure seamless taxpayer service by fostering employee ownership of taxpayer issues*

The IRS launched the Online Payment Agreement program to provide an easy way for taxpayers to voluntarily resolve tax liabilities. It offers them an online, interactive payment agreement process that reduces the need for contact with a customer service representative and eliminates paper processing. Almost 50,000 taxpayers and their representatives have used this system to arrange payment of more than \$175 million.

*STRATEGY 3: Create explicit opportunities for taxpayers to proactively resolve issues at the earliest possible moment*

*STRATEGY 4: Systematically review written taxpayer communications to ensure effectiveness*

*STRATEGY 5: Continuously improve processes to reduce taxpayer burden and capture opportunities to eliminate waste*

## OBJECTIVE 3: Provide taxpayers with targeted, timely guidance and outreach

By reducing the time and effort required for taxpayers to understand their tax obligations, we will reduce taxpayers' compliance burden and decrease the likelihood that the IRS will need to employ more costly interventions later.

The Earned Income Tax Credit (EITC) is available to low-income workers who meet certain criteria. Each year, despite expansive communications and education efforts, many taxpayers fail to claim the credit. Recently, the IRS implemented a new process of reviewing tax returns weekly to identify taxpayers who appear to be eligible for the credit but who did not claim it. We send these taxpayers a letter and ask them to provide a few pieces of information to allow us to re-process their return and ensure they receive the benefit of this credit.

With a complicated and ever-changing tax code and an increasingly diverse taxpayer population, the IRS must work diligently to ensure that we explain and interpret the law as clearly and concisely as possible.

The IRS is continually working to expand our understanding of what taxpayers need and want. For example, we recently performed a statistical analysis to forecast how taxpayers value changes in the performance of our service channels. Over the next 5 years, we will ramp up our research on what taxpayers need and want – and how they act accordingly.

As we add new ways for taxpayers to receive assistance, we must also give them information to select the option that best meets their needs. Our initial efforts will focus on those groups that are under-represented in the use of existing IRS service channels. We will use a variety of outreach methods, including media coverage and collaboration with other public and private organizations that serve these groups.

*STRATEGY 1: Utilize data and feedback from taxpayers and practitioners to issue clear, concise guidance on the most important tax questions*

*STRATEGY 2: Develop a more sophisticated understanding of taxpayer segments to allow for targeted communication to taxpayers*

*STRATEGY 3: Actively communicate service options that bring value to taxpayers and the IRS, to increase awareness and use of them*

## OBJECTIVE 4: Strengthen partnerships with tax practitioners, tax preparers, and other third parties in order to ensure effective tax administration

Third parties – including tax preparers and software companies – provide 87 percent of individual taxpayers with their first line of interaction with the IRS. If these third parties can provide taxpayers with accurate, complete, and timely advice, then taxpayers will have an easier time complying with their obligations.

Tax professionals, a critical part of the tax system, outnumber IRS employees 10 to 1. A survey of tax professionals serving small businesses and self-employed taxpayers identified their top service priorities: resolving the notices their clients receive from the IRS and acquiring pre-filing client account information from the IRS. To increase the quality of our service to tax partners, we will create dedicated issue resolution teams, establish centralized points of contact for practitioners, and expand e-service options.

In addition, we will enhance our systems so that we can quickly identify and disseminate the most frequent errors to the practitioner community. As a result, we can educate more practitioners on topics where they have knowledge gaps, so they can self-correct and prevent unintended errors.

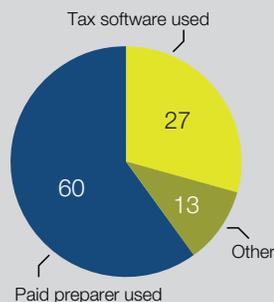
IRS offers a suite of e-services to better equip tax professionals and other third parties to meet their compliance responsibilities. For example, in the last 3 years IRS processed more than 315 million bulk Taxpayer Identification Number matching requests that enable practitioners to validate the accuracy of Social Security numbers. In addition, more than 29 million requests for transcripts were processed electronically to assist with a host of tax matters.

Source:  
Compliance Data  
Warehouse (CDW),  
Office of Research;  
Statistics of Income,  
Research, Analysis,  
and Statistics

### Distribution of tax returns by preparer

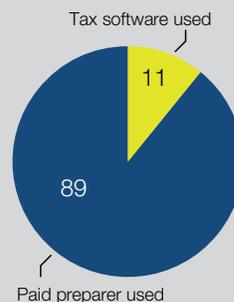
Individual tax returns filed for 2007

100% = 135 million



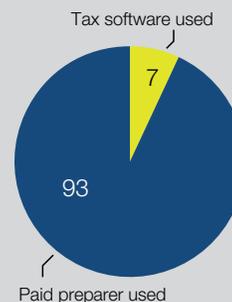
Tax returns filed by corporations in 2007

100% = 1.8 million



Tax returns filed by flow-through entities in 2006

100% = 6.4 million



Lastly, we will continue to work closely with tax software manufacturers to ensure that their customers – both preparers and taxpayers – have access to the most accurate tax information possible.

*STRATEGY 1: Enable partners to better serve their customers by providing faster issue resolution and tailored service*

*STRATEGY 2: Treat partners as the “first line of compliance” by providing them with the tools and information to encourage taxpayer compliance and prevent mistakes*



# Goal 2

## Enforce the law to ensure everyone meets their obligation to pay taxes

Although the vast majority of American citizens fulfill their civic duty to pay their taxes, the country continues to have a sizeable “tax gap” – the difference between what is owed in taxes each year and what is paid voluntarily and on time. Because the IRS cannot audit its way to full compliance, a multi-pronged approach is required. We owe it to all the citizens who meet their civic responsibility to pay taxes to be vigorous in pursuing individuals who are not paying what they owe.

We will focus on our current enforcement initiatives while seeking other innovative solutions to reduce the tax gap more effectively. We can hone our enforcement techniques by adding new tools, such as additional information reporting, soft notices and self-correction to our more traditional enforcement tools. We must also resolve enforcement issues at the earliest moment possible. This provides clarity and certainty to taxpayers, and frees up our resources to focus on the next important issues.

### OBJECTIVE 1: Proactively enforce the law in a timely manner while respecting taxpayer rights and minimizing taxpayer burden

The IRS must act quickly to initiate compliance contacts, complete audits, and collect past-due taxes to reduce the burden on both the agency and taxpayers. Applying the law in a timely manner provides taxpayers with certainty earlier in the process and the opportunity to rectify noncompliance as soon as possible. In turn, this reduces overall costs to taxpayers by lowering penalties and interest and enables the IRS to recover a greater portion of the taxes owed. Improvements in our enforcement program will continue to be firmly grounded in a culture of respect for taxpayer rights and with sensitivity to the burdens imposed by enforcement activities.

The proliferation of tax avoidance schemes is a special challenge. New schemes arise every tax cycle and can spread faster as technology makes it easier to propagate them. We will address tax avoidance schemes through prompt and decisive action, combined with educational activities for taxpayers and practitioners. We will leverage technology, communications, and collaboration among IRS offices and with other government agencies to quickly identify and confront emerging schemes.

To succeed, we must become faster at processing information, identifying areas of noncompliance, and applying the appropriate enforcement tools in a timely manner. Third-party reports such as W-2s and 1099s already play a central role in effective enforcement. In cases where there is regular third-party reporting and withholding, the compliance rate is nearly 99 percent. Where there is little or no reporting, the compliance rates drop off steeply.

The IRS will continue to use the information we already receive, and support proposals to increase information reporting while mitigating burden to the public. With the authority of recently enacted legislation, the IRS will use new third-party information reported on credit card reimbursements to businesses. The IRS will also use third-party reporting of security sales to inform its compliance programs.

***STRATEGY 1: Proactively identify and promptly address areas of tax avoidance to minimize their corrosive effects and deter future activity***

***STRATEGY 2: Build and employ just-in-time enforcement capabilities***

***STRATEGY 3: Improve compliance by leveraging third-party reporting information***

***STRATEGY 4: Strengthen partnerships across government to gather and share additional information***

***STRATEGY 5: Streamline processes to increase the timeliness of enforcement***

The IRS implemented an early detection program by quickly reviewing W-2 filings and identifying instances where individuals appear to have significantly under-withheld. The IRS then sends notices to alert both the employer and taxpayer. In a pilot program, taxpayers receiving the notice increased their withholding more than five-fold. They were also 59 percent less likely to file a tax return with a balance due.

## OBJECTIVE 2 : Expand enforcement approaches and tools

Alternative treatments provide taxpayers an opportunity to resolve compliance issues outside of traditional enforcement processes. For instance, we notify low-income taxpayers seeking the EITC when they may have claimed a dependent in error. Soft notices (which are letters to taxpayers) and other non-audit contacts seek to educate, encourage self-correction, and provide us with information we need to resolve account issues, while minimizing taxpayer burden and IRS expense.

In addition, the IRS will explore opportunities to improve the incentives for taxpayers to submit external audit results and take the necessary corrective action. We have piloted this successfully with large corporate taxpayers and will seek to expand the program.

The IRS conducted a test that focused on cases where third-party information did not match the information filed on the individual tax returns. In the pilot, taxpayers were sent a notice and asked to self-correct to avoid the traditional compliance treatment. More than 70 percent of the taxpayers in the test filed an amended return for the year in question and/or did not repeat the underreporting behavior in the subsequent year.

*STRATEGY 1: Expand the use of alternative taxpayer treatments, including soft notices and other non-audit contacts*

*STRATEGY 2: Review and enhance current notice regimen*

*STRATEGY 3: Provide and expand incentives for taxpayers to conduct independent external audits*

*STRATEGY 4: Increase self-correction opportunities for taxpayers*

## OBJECTIVE 3: Meet the challenges of international tax administration

Recognizing the tax administration challenges presented by the explosive growth in cross-border transactions, the IRS joined with its counterparts in the United Kingdom, Australia, Canada and Japan to establish the Joint International Tax Shelter Information Centre (JITSIC). More recently, China has joined as an observer. This effort co-locates highly technical personnel from all countries to conduct bilateral exchanges of information on potentially abusive tax shelter transactions. An example of this group's success was the detection of an abusive scheme that improperly generated a foreign tax credit by large multinational corporations. It is highly unlikely that these transactions would have been uncovered and understood without JITSIC.

Taxpayers with international activities – including individuals, businesses, and tax-exempt organizations – are growing in number and variety. With businesses that have multiple domestic and global-tiered entities, for example, it is often difficult for a taxing authority to determine the full scope and resulting impact of any particular transaction. Different jurisdictions impose varying legal requirements on multinational enterprises, leading to complex business structures. In addition, the percentage of Americans' income originating from foreign sources doubled between 2001 and 2006.

The IRS must invest to meet the challenges of international tax administration. We will train employees to identify and understand issues in a complex and cross-border international environment. Even basic issues, such as the correct reporting of income, might require our employees to understand returns prepared under the International Financial Reporting Standards. We will continue to develop deep expertise on specific international enforcement topics, such as how to treat transfer pricing, and will support our people with the systems and processes needed to analyze data related to international enforcement efforts.

The IRS will also continue to work with other nations to coordinate and cooperate on enforcement issues. We will increase the effectiveness of tax treaties with partner nations and international organizations and participate in cooperative efforts to identify tax issues.

We will carefully study the risks associated with international financial activities and identify priorities for increased enforcement resources. We will explore innovative enforcement strategies that

keep pace with the realities of a globalized tax environment, including convening issue management teams and conducting strong, issue-based risk assessments to target the areas of most significant risk.

*STRATEGY 1: Expand employee knowledge and awareness of international tax issues*

*STRATEGY 2: Develop deep expertise and capabilities in key international issue areas*

*STRATEGY 3: Enhance coordination with treaty partners and international organizations*

*STRATEGY 4: Aggressively target areas of significant risk*

## OBJECTIVE 4: Allocate compliance resources using a data-driven approach to target existing and emerging high-risk areas

It is essential that the IRS continue to direct resources toward enforcement activities that have the greatest overall impact on compliance. The IRS has already made significant advancements in efficient enforcement of the law. In 2007, we collected \$12.60 for every dollar spent on enforcement.

By enhancing our case-selection processes, the IRS will focus its enforcement tools on activities that pose the highest risk of noncompliance. We will make extensive use of our research capabilities to inform our efforts. The IRS will sustain its focus on taxpayer populations where complexity creates opportunities for noncompliance, such as flow-through entities, high-income individuals and corporations. We will also continue to investigate those who create and promote tax schemes to ensure that we aggressively address and deter noncompliance.

False claims for tax refunds continue to be a significant risk for fraud. We will focus resources on criminal investigations involving existing and emerging high-risk areas, developing the necessary personnel and technological resources to identify, investigate, prosecute, and publicize the convictions of taxpayers participating in this criminal activity.

*STRATEGY 1: Identify high-risk transactions and taxpayers by revising and enhancing case selection procedures*

*STRATEGY 2: Continue focus on corporations, high-income individuals, business income, and flow-through entities*

*STRATEGY 3: Identify and pursue promoters of tax schemes*

*STRATEGY 4: Improve filing compliance by implementing a comprehensive non-filer program*

*STRATEGY 5: Increase focus on criminal investigations of existing and emerging high-risk areas*

Large corporate taxpayers are required to report separately certain financial transactions to the IRS – more than 100,000 transactions every year. The IRS uses this data to focus its resources on areas of highest risk and to detect issues sooner in the audit process.

## OBJECTIVE 5: Continue focused oversight of the tax-exempt sector

More than \$15 trillion in assets are currently controlled by tax-exempt organizations or held in tax-exempt retirement programs and financial instruments. The massive size of this sector requires us to provide more careful oversight and advisory support than ever before.

Tax-exempt and government entities often find it difficult to navigate the complicated, specialized and changing tax rules that apply to them. The IRS will provide guidance and information to help tax-exempt and government entities understand their responsibilities and comply with the law. We will also discourage those who abuse tax-exempt status by actively seeking them out and addressing wrongdoing, making it clear that violations carry a high risk of meaningful punishment.

The 489 non-profit hospitals covered by a recent IRS study represent approximately \$88 billion in annual revenues, and a similar amount of total assets. The study provides valuable insights into how they provide community benefit and meet the standards required under the law.

Certain segments of the tax-exempt sector, such as hospitals and universities, are especially large, complex and growing. For example, university endowments grew by 17 percent to \$411 billion in 2007, with the largest nearing \$35 billion. Due to their size and complexity, and consequent risk to the tax base, the IRS will continue to monitor compliance and enforce the rules applicable to universities, hospitals and other major segments of the tax-exempt community.

**STRATEGY 1:** *Provide outreach and guidance to ensure widespread adherence to the requirements for tax-exempt status*

**STRATEGY 2:** *Proactively address misuse of tax-exempt organizations and/or tax-exempt status*

**STRATEGY 3:** *Maintain focus on universities, hospitals and other major segments of the tax-exempt community*

## OBJECTIVE 6: Ensure that all tax practitioners, tax preparers, and other third parties in the tax system adhere to professional standards and follow the law

With preparers numbering approximately 1 million, their actions have an enormous impact on our ability to administer the tax laws effectively.

As we focus on providing service to tax preparers, we will also expect cooperation from them. The IRS will implement a coordinated, servicewide plan to ensure a consistent and appropriate approach to preparer noncompliance.

When preparers fail to follow the law, they not only contribute to the tax gap, they erode public confidence in the tax system and create serious consequences for the taxpayers they represent. For those preparers and practitioners who engage in misconduct and illegal activity, the IRS will apply the most effective penalties available. We will expand our analytical capabilities to identify and prioritize areas of noncompliance and abuse associated with third parties. Using these new capabilities, we will design specific outreach and enforcement efforts.

To ensure compliance by paid return preparers and in an effort to protect clients, the IRS monitors and conducts due diligence audits on preparers who file questionable returns.

***STRATEGY 1: Develop and implement a coordinated preparer plan across the IRS and the preparer community***

***STRATEGY 2: Administer a fair, diligent, and effective system of sanctions and penalties for those who fail to follow the law***

***STRATEGY 3: Leverage research to identify fraudulent return preparers and other areas of abuse and noncompliance by return preparers***





# Strategic foundations

## Invest for high performance

To achieve our service and enforcement goals, we must invest in two strategic foundations — our people and our technology. The IRS employees of today are our most valuable asset in effective tax administration, but we face several major challenges such as large numbers of retirements and competition with both the public and private sectors for critical talent. Five years from now, we must have the leadership and workforce ready for the next 15 years at the IRS. We must create long, productive, and rewarding IRS careers and encourage every employee to mentor and support others.

We must also provide our employees with the world-class technology systems they need for effective tax administration in the 21st century. The IRS once had the most advanced systems for tax administration in the world; we need to invest further in modern technologies to satisfy taxpayer expectations and improve our ability to meet the demands of an increasingly fast-paced and interconnected world.

### OBJECTIVE 1: Make the IRS the best place to work in government

Our employees are the most important asset of the IRS. Without a high-quality, dedicated workforce, we cannot tackle the challenges posed by an increasingly complex external environment. To develop current employees and build our workforce with qualified new people, we will systematically examine and improve the ways we recruit, train, evaluate and reward employees of all tenures and positions.

Like many government agencies, the IRS has a maturing workforce and a need for people ready and able to replace those retiring from critical positions. By 2010, 52 percent of IRS Senior Executive Service employees will be eligible for retirement. We also face a shortage of qualified candidates for vital roles, such as accounting and IT, and stiff competition for people from the private sector. These challenges require us to do more to recruit the best candidates and prepare a new generation of driven, creative, and energetic employees and managers to lead the organization through a challenging future.

IRS employees must rely not only on their own skills but also on the skills of others across the Service. We will need strong collaboration and teamwork to foster and spread the innovative ideas necessary to meet our challenges. We will look to our managers and executives, as well as our frontline employees, to reinforce teamwork and collaborative leadership in their everyday actions.

Our management team will work hard to maintain and improve high satisfaction and engagement among our employees. Simply put, we will make the IRS the best place to work in government.

***STRATEGY 1: Attract and retain outstanding, diverse talent throughout the IRS***

***STRATEGY 2: Increase employee engagement***

***STRATEGY 3: Identify, develop, invest in, and reward top-quality managers***

***STRATEGY 4: Reinforce a culture of diversity, teamwork, equal opportunity, and collaborative leadership***

Through the Tuition Assistance Program (TAP), the IRS helped 4,200 employees take courses in accounting and information technology, or pursue other career and personal development opportunities.

## OBJECTIVE 2: Build and deploy advanced information technology systems, processes, and tools to improve IRS efficiency and productivity

Every day, IRS information technology affects taxpayers and employees. IT facilitates the processing of 250 million tax returns each year. It allows IRS service representatives to give taxpayers quick answers to their questions and enables swift detection of potential violations. To ensure that we are equipped to meet the challenges of tax administration in the future, we must continue our commitment to implementing advanced technological systems, processes and tools.

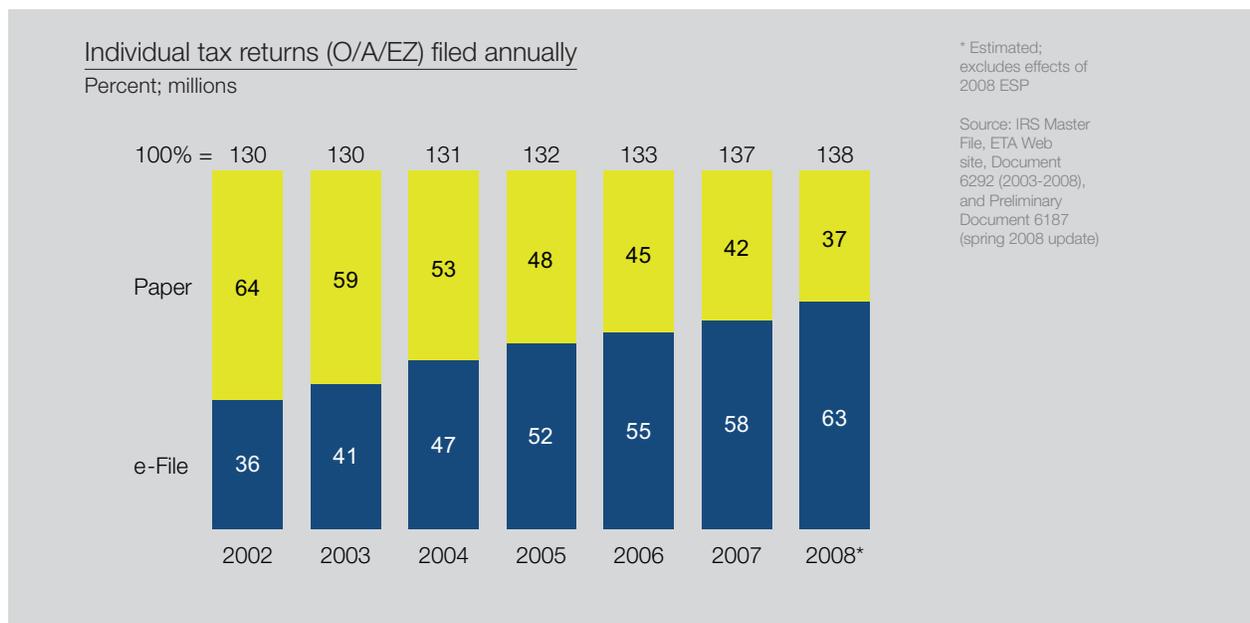
In fiscal year 2008, the IRS processed more than 39 million inquiries through its "Where's My Refund?" Web site.

The core technology systems that the IRS uses to manage taxpayer data and facilitate our service and enforcement work were ground-breaking when first created. However, they have not kept pace with rapid innovations in technology and the explosion in online interaction. This limits the new capabilities the IRS can deliver to our employees and taxpayers. We will continue our commitment to overcoming these limitations by investing in modern systems and a common architecture, delivering significant benefits to taxpayers, employees, and our partners in tax administration. As we modernize, we will ensure that our systems and procedures reflect the high priority that we place on security of taxpayer data. We will also address internal control deficiencies that exist in our legacy systems as we update them. In our drive to greater efficiency, we will improve our procurement capabilities, eliminate application redundancies, and pursue server virtualization and IT-enabled alternative work options.

Americans have become accustomed to completing their financial transactions online and now expect to connect with the government online as well. To meet

these expectations, we will make our online tools simpler and more intuitive. We will help taxpayers get answers to their questions in fewer steps. By leveraging our understanding of taxpayers, we will make IRS.gov more user-friendly and more effective at anticipating and providing for taxpayer needs.

During the 2008 filing season, more than 60 percent of individual filings were received through IRS e-file. In addition to benefiting taxpayers, e-file has allowed us to integrate data more effectively, making it easier for us to process returns and make follow-up contacts. We will continue to expand the number of forms and other materials that taxpayers can use electronically. Similarly, we will explore options for online service transactions, such as following up on written notices or finding answers to tax law questions.



**STRATEGY 1:** *Deliver modernized systems designed to store and manage taxpayer data, strengthen enforcement efforts, and meet service expectations of taxpayers and tax practitioners*

**STRATEGY 2:** *Continually monitor the technology portfolio to ensure it supports core operating needs, upgrading physical infrastructure when appropriate*

**STRATEGY 3:** *Capture efficiencies through new technologies*

**STRATEGY 4:** *Expand online tools and services*

## OBJECTIVE 3: Use data and research across the organization to make informed decisions and allocate resources

The IRS manages one of the most complex accounting operations in the world – receiving, processing, and acting on billions of pieces of data every tax season. Today we use this data to refine our understanding of taxpayers, better target our enforcement efforts, and measure our effectiveness. We will expand our use of data and research to strengthen our decision-making processes, placing special emphasis on improving taxpayer services and enforcement activities.

***STRATEGY 1: Develop improved research-driven methods and tools to detect and combat noncompliance and improve resource allocation***

***STRATEGY 2: Maintain an ongoing research program to determine evolving taxpayer and partner service needs, preferences, and behaviors***

## OBJECTIVE 4: Ensure the privacy and security of data and safety and security of employees

The IRS must confront both physical and electronic threats to maintain the public's trust. We must secure both our people and systems to ensure that our operations run smoothly and continuously.

Taxpayers are legally obligated to report information to the IRS, and we are obligated to protect that information. With increasing amounts of data processed, we will redouble our efforts to detect and prevent security threats. By securing infrastructure, data, and applications, we will manage access to taxpayer information so that we may provide quality and timely service while protecting taxpayers' information.

Every laptop at the IRS is equipped with sophisticated disk encryption software to protect against unauthorized use of sensitive data.

The safety and security of our more than 100,000 employees and their environment is of paramount importance. We will continuously explore ways to reduce the security risks to employees.

***STRATEGY 1: Promote public confidence and trust through the prevention and detection of security threats and the protection of personally identifiable information***

***STRATEGY 2: Implement measures to maintain a safe and secure workplace***



# How we will measure our performance

Because the IRS is a large, complex, performance-oriented organization, we track hundreds of metrics to ensure that we are operating effectively at all levels of the organization.

At the highest level, we have chosen a handful of measures that will help us make certain that the agency is truly making progress toward our long-term goals.<sup>1</sup>

## Voluntary Compliance Rate

We will measure the amount of tax that is paid voluntarily and in a timely manner as a percentage of the corresponding estimate of true tax liability. This compliance rate reflects the impact of non-filing, under-reporting, and underpayment combined.

## American Customer Satisfaction Index (ACSI)

We will monitor the American Customer Satisfaction Index score related to the electronic and paper filing processes for the individual income tax.

## e-File Rate

We will measure the percentage of all major tax returns filed electronically by individuals, businesses and tax-exempt entities. “Major” tax returns are those in which filers account for income, expenses and/or tax liabilities.

## Taxpayer Satisfaction with IRS Services

We will administer surveys across all types of service to assess whether the taxpayer’s issue was resolved in a reasonable amount of time.

## Enforcement Contacts

We will track all enforcement contacts including audits, notices, and “Automated Under-Reporter” to arrive at a more complete measure of coverage rate.

## Non-Revenue Enforcement Activity

We will track our enforcement activities that promote compliance yet do not primarily focus on increasing tax revenue (e.g., tax-exempt compliance programs or Bank Secrecy Act activities).

<sup>1</sup> For certain measures, long-term performance targets have been established. See the Strategic Plan’s measures Appendix at [http://www.irs.gov/pub//newsroom/long\\_term\\_measures.pdf](http://www.irs.gov/pub//newsroom/long_term_measures.pdf)

## Non-Filers

We will analyze and estimate the number of individuals who do not file income tax returns, but have an obligation to do so.

## Taxpayer Perception of Fairness of IRS Enforcement

We will administer surveys to taxpayers who were subject to an enforcement action to assess whether they were treated fairly.

## Employee Engagement

We will use the annual employee survey to measure employee satisfaction and engagement.

## Effectiveness of Recruitment – Average Time to Fill a Job

We will measure the average time it takes to fill a job from an applicant's point of view.

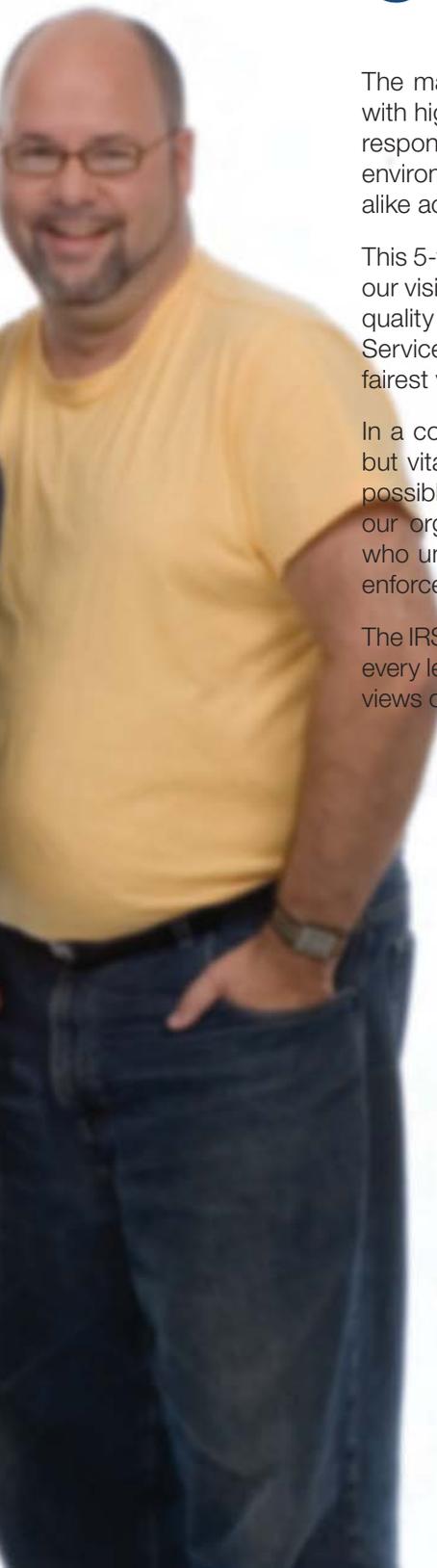
## New Hire Retention Rate

We will measure our success at retaining the employees that we hire.

## Modernization – Timely Data

We will measure the timeliness of data delivery to IRS service and enforcement personnel.





# Conclusion

The mandate to collect taxes comes with a tremendous responsibility to operate with high levels of integrity, fairness and competence. The IRS eagerly accepts this responsibility. We also believe that increased transparency is the key to creating an environment of trust, respect, and cooperation, where tax authorities and taxpayers alike accept elevated levels of responsibility.

This 5-year strategic plan is designed to help us create this environment and achieve our vision of strengthening America's voluntary compliance tax system through top-quality service and enforcement. We believe this will allow the Internal Revenue Service to maintain and enhance our unique position as the most effective and fairest voluntary compliance tax system in the world.

In a complex and ever-changing global environment, our mission remains simple, but vital. We will do everything in our power to make it as seamless and easy as possible for taxpayers who are trying to pay the right amount of taxes to navigate our organization, get their questions answered, and pay their taxes. For those who understand their tax obligation but fail to comply, we will have an aggressive enforcement program that provides swift and appropriate consequences.

The IRS will use this plan as the foundation of operational discussions and decisions at every level of our organization. We invite taxpayers to consider this plan, offer us their views on what we seek to accomplish, and let us know how well we are doing.

# IRS Employee Images



Eric Swindell, St. Croix, Virgin Islands  
 Shawn Gogas, Washington, DC  
 Erika Watts, Chamblee, GA  
 Maria Jaramillo, Los Angeles, CA  
 Nureldeen Storey, King of Prussia, PA



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