



A Summary of
Modernizing America's
Tax Agency



Department of the Treasury
Internal Revenue Service

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By Charles O. Rossotti
Commissioner
Internal Revenue



Constructing the Internal Revenue Service building in Washington, D.C., 1930.

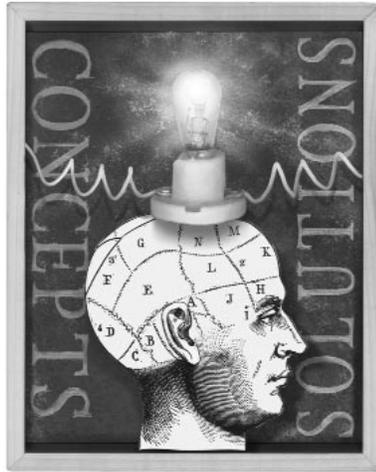


This document summarizes the key points of *Modernizing America's Tax Agency*. Because it is intended as an overview, it does not include detailed descriptions of strategies, measures, etc. Complete copies of *Modernizing America's Tax Agency* are available on the IRS intranet, or call the Office of Communications and Liaison at 202-622-7127.

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Introduction



“If the IRS succeeds, millions of American taxpayers and thousands of IRS employees will benefit for years to come through better service and an improved organization.”

The modern IRS was reorganized in 1952 to collect federal taxes according to the law, free of political or corrupt influence. In that sense, the IRS succeeded. Today, it collects \$1.7 trillion in tax revenue, and deals with more Americans than any other institution, public or private. Corruption cases are rare and vigorously investigated or prosecuted, and the IRS is insulated from political influence.

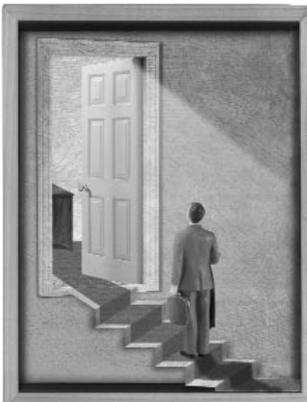
In the past few years, however, the IRS was the subject of intense scrutiny and criticism. A Presidential commission, Congress, and the Vice President's National Partnership for Reinventing Government looked closely into the way the IRS does its work. The overall finding was that the IRS is expected to do a far better job in serving the public based on a much better understanding of the taxpayers' point of view.

The IRS is responding to this challenge as an opportunity to rise to a new and much higher level of performance. This is not a simple task. It will require fundamental change in almost all aspects of the Agency. It will affect the way almost all employees work with taxpayers and with each other.

However, if the IRS succeeds, millions of American taxpayers and thousands of IRS employees will benefit for years to come through better service and an improved organization.

Modernizing America's Tax Agency provides an overview of the process of change the IRS is undertaking to meet the public's expectations.

Public Expectations & Mission



The public has a legitimate expectation that the IRS will do its job no less effectively than high-quality private or public sector organizations.

Last summer, the IRS Restructuring and Reform Act of 1998 (RRA '98) was enacted, incorporating Congress' actions on the many studies preceding it. The message was clear: the IRS must do a better job in meeting the needs of taxpayers.

As part of implementing Congress' mandate, the IRS created a new mission statement: "Provide America's taxpayers top quality service by helping them understand and meet their tax responsibilities and by applying the tax law with integrity and fairness to all."

Achieving this mission requires fundamental change in the IRS while retaining the essential elements that led to its success. This change is guided by best practices that are proven in the private and public sectors.

IRS Mission

Statement:

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

Goals & Benefits

To ultimately achieve its mission, the IRS formulated three strategic goals: service to *each* taxpayer, service to *all* taxpayers, and productivity through a quality work environment. They represent not only the IRS' goals, but how it judges its success.

Service to each taxpayer

Millions of taxpayers interact with the IRS every year. Each taxpayer deserves top quality service and treatment that is helpful based on a particular situation and needs. Transactions with the IRS should be easier, and communications clearer, reducing the chance of errors and the time and effort required by taxpayers. All taxpayers should be able to obtain information and have appropriate adjustments made to their accounts accurately, quickly and conveniently. And if a taxpayer faces an audit or collection action, or owes more taxes, he or she should be informed promptly and treated professionally and with full consideration of their rights.

*Service to each
taxpayer, service
to all taxpayers,
productivity
through a
quality work
environment*



Service to all taxpayers

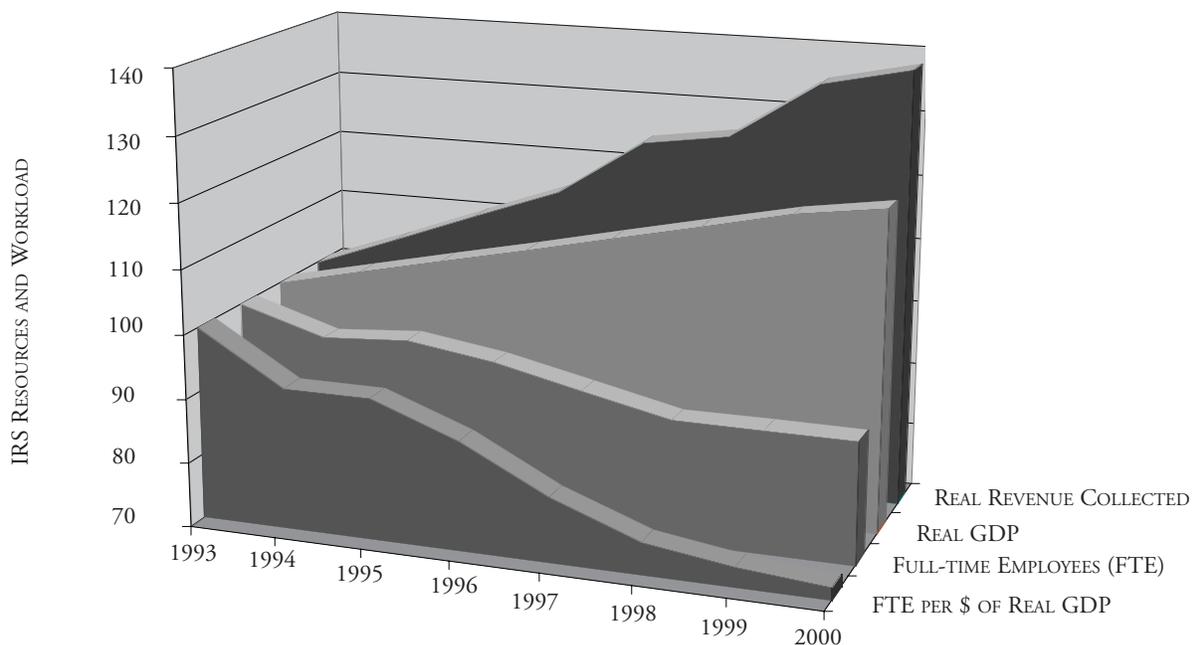
Compliance is vital to our nation's tax system. The IRS must apply the law with integrity and fairness to all taxpayers. Our tax system depends on each person who is voluntarily meeting his or her tax obligations to have confidence that his or her neighbor or competitor is also complying. Historically, the IRS emphasized direct enforcement revenue — taxes, penalties, or interest gained from taxpayers through IRS enforcement actions. However, there are other ways to increase compliance, such as better and more targeted taxpayer education, better reporting, voluntary agreements, improved regulations, and earlier intervention through notices and phone calls. We must develop better ways to measure compliance and create a way to measure business results, valuing not only the amount collected, but also the quality of service provided.



Productivity through a quality work environment

The IRS must provide all employees with high-quality technology tools, adequate training, effective management, and active engagement in the goals of the organization. At the same time, it is essential that employees who deal directly with customers “own” the goals of the organization, are given the support they need to provide good service, and are able to communicate with managers to discuss existing obstacles they feel stand in the way of good service.

IRS SHRINKS AS A FRACTION OF THE ECONOMY



One measure of productivity success will be to hold the IRS workforce approximately level, while handling the increased workload from a growing economy, and improving performance on the other two service goals. Should the IRS be able to accomplish this ambitious goal, it will increase productivity at a rate greater than the private financial sector, and it will continue to shrink the size of the Agency significantly in relation to the size of the economy.

Guiding Principles

Achieving the IRS' strategic goals will require change at every level of the organization, from front-line employees to top managers. During this process, it is helpful to articulate principles that guide our actions. These five guiding principles are a link between our goals and the actions we take to achieve them.



1

Understand the customer's point of view and use this understanding to prevent and solve problems and provide quality service.

2

Enable managers to be accountable, with the knowledge, responsibility and authority to take action to solve problems and achieve IRS goals.

3

Align the organization and each employee's performance to support the IRS' overall strategic goals.

4

Foster open, honest communication. Acknowledge and address problems and use them as learning tools.

5

Insist on total integrity. We must perform our duties in accordance with the public interest.

Business Practices & Strategies

Modernizing the IRS is a massive undertaking and will take years to complete, and depends upon changes in the organization and technology. In order to succeed, the IRS must also incorporate its strategic goals into the way it operates. We must adopt proven business practices while working within the parameters of public service. To do so, we are finding and putting into action ways to:

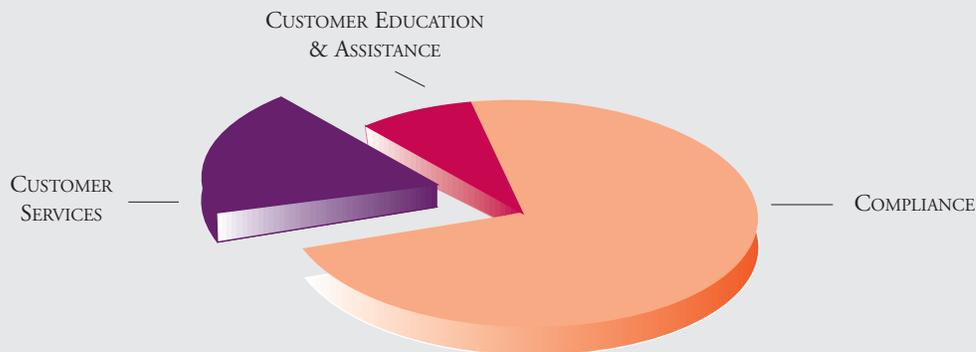
- Prevent taxpayer problems or address them as early as possible.
- Improve communications with taxpayers, from rewriting confusing forms to making it easier to get help over the phone.
- Implement the expansion of taxpayer rights mandated in RRA '98, which provides a wide range of protections and procedural safeguards designed to ensure fairness to taxpayers.
- Broaden the use of electronic tax administration to improve productivity for the IRS by reducing errors, speeding refunds, and reducing labor costs.
- Augment IRS resources through effective partnerships with organizations that are actively involved in tax administration and deal regularly with taxpayers.

The IRS made significant changes in 1998 to provide better service to taxpayers, and more is planned for 1999.

These include:

- Expanding hours of phone service to 24 hours per day, seven days per week.
- Improving scheduling and routing of phone calls to increase the chances of getting through.
- Providing Saturday hours at 250 walk-in sites throughout the country.
- Rewriting notices to make them clearer and simpler.
- Offering easy access to forms, publications, and answers to frequently asked questions over the IRS Web site.
- Tailoring solutions to address specific taxpayer needs and problems.
- Applying compliance resources more effectively and efficiently.
- Integrating compliance strategies.

IRS ACTIVITIES: PREVENTING PROBLEMS



The balance of IRS resources is heavily weighted to intervene after problems occur while relatively little is devoted to preventing problems. However, there are many opportunities to improve service, compliance and productivity by dealing with problems and systemic noncompliance early on.

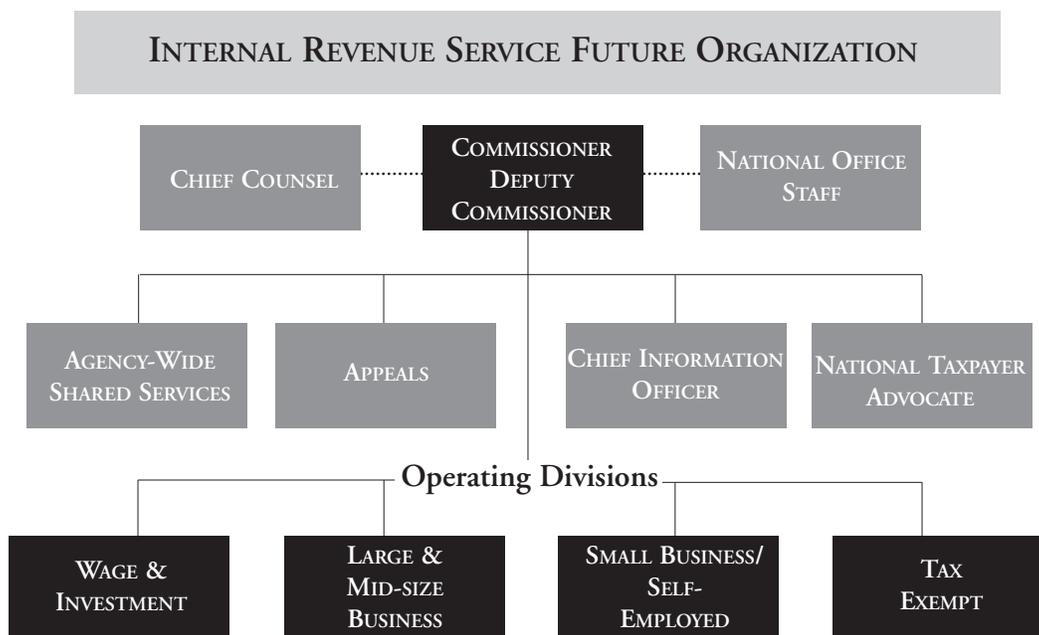
Organization & Management

The IRS' current structure does not meet taxpayers' needs. It is comprised of 33 districts and 10 service centers that administer the entire tax code for every kind of taxpayer in a defined geographical area. Four regions and a national office oversee these units. There are eight intermediate levels of staff and managers between a front-line employee and a Deputy Commissioner. This cumbersome structure, together with an inadequate technology base, is one of the principal obstacles to modernizing the IRS.

The new IRS will be modeled after organizations that serve different types of customers through divisions designed to meet their needs, such as those in the financial sector. Work is already underway to reorganize the Agency into four busi-

ness units, each charged with full responsibility for serving a group of taxpayers with similar needs. These four divisions will be: Wage & Income, Large & Mid-size Business, Small Business/Self-Employed and Tax-Exempt.

These divisions will be supported by three Agency-wide service organizations that provide legal guidance, technical assistance, and other important services. Nationwide organizations, specifically Appeals and the Taxpayer Advocate, will provide independent assistance for taxpayers. The national office will assume an overall role of setting broad policy, reviewing plans and goals of the business units, and developing major improvement initiatives.



Note: Placement of Criminal Investigation pending completion of Webster review.

Information Technology



It is paramount that the IRS modernize its information technology systems. The Agency depends upon its information technology to do business, and nearly every

employee uses the IRS computer system every day.

The IRS inventory of technology is large and diverse. It includes 84 mainframe computers, approximately 1,500 mid-range computers, and over 100,000 personal computers. These computers run over 18,000 software applications and 50 million lines of IRS-maintained computer code. There are three major wide area data networks and 1,182 local area networks. The IRS voice network processes 143 million phone calls per year.

The large and fragmented nature of the IRS technology inventory creates many problems. Service is expensive and often of poor quality; implementing changes and improvements take time; and controlling and securing data is difficult.

In addition, the IRS core data system that maintains taxpayers' accounts is fundamentally deficient. Developed in the 1960s, it consists of a series of very large tape files — virtually unheard of in today's technology. It is updated once a week, based on input from other systems. The entire process takes three days.

Every day, some records are extracted and placed on an on-line system, the Integrated Data Retrieval System (IDRS), and are accessible at IRS service centers by most customer service representatives and other employees.

This situation results in delays and an inability to synchronize data for days at a time. For example, a taxpayer could call in response to a notice with a correction to an account, but the adjustment might not take effect for up to 16 days.

Other problems with the system include:

- an archaic design and rarely-used language that severely limits the system.
- incompatible systems that have been adapted to specific needs.
- difficulty to accommodate some tax law changes in an efficient way due to the system's sequential nature.

Given this situation, the IRS must replace nearly its entire inventory of computer applications and convert every taxpayer's data to new systems.

Modernizing IRS Systems

Rebuilding the IRS systems is like redesigning and rebuilding New York City, complete with rebuilding all the subways, utility lines, surface transportation and tall buildings, without delaying or injuring any residents or businesses and while accommodating ongoing growth and changes in the daily pattern of living and working. A project like this simply cannot be implemented or designed in detail all at once.

The first step is to establish an overall architecture for the new system that will accommodate all essential tax administration functions according to modern standards.

This architecture must be accomplished by defining a sequence of targeted and manageable projects, known as “releases.” During this process, the new and old systems must co-exist and exchange data accurately until data is gradually converted from the old system to the new one.

Building bridges between the “legacy” systems and modern ones requires managing the old while planning the new. It will require a larger, not smaller, staff to update accounts and accom-

modate changes, such as tax law changes.

Meanwhile, the IRS must address the Y2K problem, which now is a top priority at the Agency.

Work has begun in modernizing the IRS information systems:

- In October 1998, managing essentially all information systems was centralized under the Chief Information Officer.
- In December 1998, the IRS awarded a PRIME contract to Computer Sciences Corporation and a team of leading technology and consulting firms to be a major partner in managing the modernization of the IRS’ core business and technology systems.
- Also in December, the IRS established a Core Business Systems Executive Steering Committee chaired by the Commissioner and including top executives to provide overall management of the process.



Performance Measures



The techniques that an organization uses to measure its performance go to the heart of what the organization really values. In the IRS, as elsewhere, what the organization values is communicated through a variety of means, both explicit and implicit, including what behavior is rewarded, ignored or punished. For years, enforcement revenue — the number of liens placed, levies imposed, even properties seized — has been the primary measure of success at the IRS, and sometimes caused poor treatment of taxpayers.

To provide top quality service from the taxpayer's point of view, the IRS is developing a new balanced approach to measure performance as an organization. It concentrates on balancing customer and employee satisfaction and business results — determined by both quantity and quality.

MEASURING PERFORMANCE AT THE IRS

*Measures that measure what we really want.
Balanced measures derived from three corporate goals.
Measures aligned at all organizational levels.*

GOALS	MEASURES		
	<u>Top Level Organization</u>	<u>Operating Organization</u>	<u>Front-line Employees</u>
Service to each taxpayer	Customer satisfaction	Satisfaction with particular service	Service to taxpayers
Service to all taxpayers	Compliance	Quality & quantity of cases	Case quality & time management
Productivity through a quality work environment	Employee satisfaction	Employee satisfaction	Contributions to improving service

Conclusion

Modernizing America's Tax Agency sets forth major changes to achieve our mission and goals. These changes are comprehensive and encompass a wide range of topics, from business practices to information technology. This ambitious plan requires careful planning and thoughtful implementation. Moreover, it requires an understanding of the IRS' current status, and its direction.

As we build the new IRS, unanticipated problems will arise, plans or milestones may have to be changed, and operational errors will occur. When these events occur, time and money will be needed to address them. Given the current situation at the IRS, however, there is no low-risk plan. We must continue to move forward, and we are.

The IRS is already at work to provide service to each taxpayer, service to all taxpayers, and productivity through a quality work environment. By the end of 1999, the IRS will:

- Address the Y2K computer problem.
- Implement taxpayer rights provisions of RRA '98.
- Complete the 1999 filing season implementing high-priority service improvements, and plan for more for the year 2000.
- Introduce new balanced measures of performance for most operational field functions.
- Complete the blueprints for the new organization.
- Recruit and set up management teams for the first two operating divisions and shared services unit, and begin operational implementation.
- Recruit heads of remaining operating divisions.
- Complete revised strategic plan for technology modernization and begin implementation of initial releases

We've closed one chapter in the IRS' long history and begun another very positive one. We can take charge of our future, and we can provide our taxpayers with the best product we can — the best service for America's taxpayers — maybe not tomorrow, but in the next few years. With the help of many people who genuinely want to make the IRS serve the public better, I believe we can succeed.





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