Treasury Inspector General for Tax Administration

Inspections and Evaluations

Highlights

Highlights of Report Number: 2010-IE-R002 to the Internal Revenue Service Commissioner.

WHY TIGTA DID THIS STUDY

This project was initiated to determine whether the goals of the Internal Revenue Service (IRS) Restructuring and Reform Act of 1998 (RRA 98) have been substantially achieved by the IRS. The RRA 98 was broadly scoped legislation with the goal to transform the IRS into a modern financial services organization. This transformation was to be accomplished by providing taxpayers customer service similar to private sector financial institutions, including electronic access to their accounts. The IRS transformation was a massive undertaking that required changes to virtually every aspect of the organization.

IMPACT ON TAXPAYERS

The RRA 98 required the IRS to change its organizational culture, restructure, modernize, and improve taxpayer protection and rights. With a new mission focused on taxpayer service, the IRS shifted its emphasis from an enforcement first culture to a more customer service-oriented culture, made progress in modernizing its business processes and computer systems, and provided taxpayers with greater protections and rights. As a result, taxpayers receive more professional and courteous services to assist them in complying with the tax law.

WHAT TIGTA RECOMMENDED

TIGTA made no recommendations in this report concerning implementation of the RRA 98. Management had no comment on the draft report.

Issued on March 1, 2010

THE INTERNAL REVENUE SERVICE RESTRUCTURING AND REFORM ACT OF 1998 WAS SUBSTANTIALLY IMPLEMENTED BUT CHALLENGES REMAIN

WHAT TIGTA FOUND

TIGTA found that first, the IRS reorganized from a geographically based organization to a customer-based organization structure with four operating divisions, each charged with complete responsibility for serving taxpayers with similar needs. Second, a new mission statement focusing on taxpayer service was developed. To align with the new mission, organizational performance measures were changed to the three equally weighted measures of business results, customer service, and employee satisfaction. In addition, the IRS implemented safeguards to ensure enforcement statistics are no longer used as a basis for employee evaluations.

Third, efforts to modernize computer systems and business processes were also undertaken. With technology changes, the IRS made return filing easier by offering expanded electronic filing, created an extensive Web site with a broad range of information, and installed a state-of-the-art telephone routing system to more effectively and efficiently answer taxpayer calls. In addition, 71 taxpayer protections and rights required by the RRA 98 were engineered into operational processes and procedures. Finally, the IRS emphasized employee engagement throughout the change process. There was a consistent upward trend in employee job satisfaction survey results that indicates that the IRS is providing a quality work environment.

While the IRS has made significant strides in transforming into a modern financial services organization, major challenges remain. The Business Systems Modernization effort remains a work in process. In addition, there are human capital management challenges for issues such as replacing an aging workforce, developing a comprehensive employee skills gap assessment, measuring the effectiveness of training, and implementing a performance-based pay system. Finally, in the compliance arena, estimating noncompliance and effectively addressing repeat offenders are continuing challenges.

The IRS has provided many testimonies to Congress on actions that can be taken to reduce the tax gap, and developed, with the Department of the Treasury, a tax gap reduction plan. The strategy is predicated on being successful in several of the improvement areas identified in the RRA 98 and the IRS Restructuring Commission.

READ THE FULL REPORT

To view the report, including the scope, methodology, and full IRS response, go to:

http://www.treas.gov/tigta/iereports/2010reports/2010ier002fr.pdf