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October 3, 2018

The Honorable Orrin Hatch
Chairman
The Honorable Ron Wyden
Ranking Member
Committee on Finance
United States Senate

The Honorable Kevin Brady
Chairman
Committee on Ways and Means
House of Representatives

Tax Administration: Status of IRS Future State Vision

Funding the federal government depends largely upon the Internal Revenue Service's (IRS) ability to collect taxes. This includes providing taxpayer services that make voluntary compliance easier, and enforcing tax laws to ensure compliance with tax responsibilities. For several years, we have recommended that IRS develop strategies to improve taxpayer services such as a long-term strategy for providing web-based services to taxpayers.¹ In 2014, during a period of budget reductions and aging information technology (IT) systems at IRS, IRS officials began discussing a new longer-term vision of tax administration that came to be known as the IRS Future State. Prior to the Future State, IRS had launched other initiatives to transform taxpayer services and IRS operations.²

You asked us to describe the changes that IRS plans under the Future State. In this report, we describe (1) the Future State, its objectives, and its history, and (2) the current status of the Future State. To answer these objectives, we reviewed IRS internal documents such as documents on the development of the Future State vision, and its relation to IRS's strategic planning process. We also reviewed IRS public documents about the Future State as well as IRS officials' speeches and congressional testimony. Additionally, we reviewed cost estimates and timeframes for implementing the Future State. Further, we interviewed IRS officials from the

¹GAO, *2015 Tax Filing Season: Deteriorating Taxpayer Service Underscores Need for a Comprehensive Strategy and Process Efficiencies*, [GAO-16-151](#) (Washington, D.C.: Dec. 16, 2015), *IRS Website: Long-Term Strategy Needed to Improve Interactive Services*, [GAO-13-435](#) (Washington, D.C.: Apr. 16, 2013), and *2011 Tax Filing: Processing Gains, but Taxpayer Assistance Could Be Enhanced by More Self-Service Tools*, [GAO-12-176](#) (Washington, D.C.: Dec. 15, 2011).

²In 2006, IRS developed the Taxpayer Assistance Blueprint (TAB) and added, in the following year, a 5-year plan for improving services. In a 2013 report to Congress, IRS reported that under the TAB, it had developed some online tools and other options for taxpayer self-service. In November 2013, IRS launched Service on Demand, which was an initiative to prioritize IRS efforts to better meet taxpayers' needs and preferences for interacting with IRS. In a fiscal year 2015 update to Congress on the TAB, IRS reported that the Service on Demand initiative had been folded into the IRS Concept of Operations Initiative, which evolved into the IRS Future State.

offices of the Deputy Commissioner for Services and Enforcement, Communications and Liaison, and other relevant offices.

We conducted this performance audit from November 2017 to October 2018 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Results in Brief

The Future State vision proposed a more interactive relationship between taxpayers and IRS to improve taxpayer service, enforcement, and operations. IRS launched the Future State vision in 2014 to respond to external and internal factors that were requiring changes to its current taxpayer services and operations, such as the increasing complexity of the federal tax system and evolving expectations of IRS services, according to IRS documents. IRS documents and officials said that IRS intended the Future State to leverage the latest technology to improve the entire taxpayer experience. To guide the vision, IRS developed six themes, such as “facilitate voluntary compliance by empowering taxpayers with secure innovative tools and support” and “drive more agility, efficiency, and effectiveness in IRS operations.” IRS officials described the Future State as a set of guiding principles rather than a plan to transform the agency.

The themes under the Future State vision are now being pursued as part of IRS’s strategic plan for fiscal years (FY) 2018 to 2022—issued in May 2018—and IRS has been phasing out the use of the term Future State. The six goals in the strategic plan essentially mirror the six Future State themes. IRS officials characterized this shift as more of a rebranding than a policy change because work that was part of the Future State vision will continue. IRS officials said it made sense to merge the Future State vision with its new strategic plan to create a single consistent IRS vision. In August 2018, IRS officials told us they were preparing public communications about the transition from the Future State vision to the new strategic plan and its implementation.

Future State Represented IRS’s Vision for Improving Taxpayer Service, Enforcement, and Operations

IRS documents and officials described the Future State as a vision for improving taxpayer service, enforcement, and operations. A key part of the vision was transforming how IRS interacts with taxpayers by providing taxpayers more service options for meeting their tax obligations. For example, taxpayers could choose to set up an online account through which they could interact with IRS similarly to how customers interact online with a bank or other financial services provider. While Future State documents and IRS officials noted the importance of expanding online taxpayer services, they also stated that the Future State would involve improvements to other taxpayer services, such as telephone, correspondence, and in-person communications.

IRS developed the following six themes to guide the Future State vision:

1. facilitate voluntary compliance by empowering taxpayers with secure innovative tools and support,
2. understand non-compliant taxpayer behavior and develop approaches to deter and change it,
3. leverage and collaborate with external stakeholders,

4. cultivate a well-equipped, diverse, skilled and flexible workforce,
5. select highest value work using data analytics and a robust feedback loop, and
6. drive more agility, efficiency and effectiveness in IRS operations.

IRS documents and officials stated that the six themes were intended to align with both IRS's and the Department of the Treasury's strategic goals.

To help explain the Future State vision, in February 2016, IRS published on its website examples of how four different types of taxpayers—an individual taxpayer, a small business, a large business, and a state or local government—might interact with IRS under the Future State.³ For example, the individual taxpayer could create an online account at IRS.gov and receive personalized notifications and guidance from IRS. The individual taxpayer could also access his or her online account to make a change or fix a problem on his or her return with limited interaction with IRS employees.

IRS documents stated that IRS launched the Future State vision to respond to external and internal factors that were requiring changes to its current taxpayer service and compliance operations. These factors included the increasing complexity of the Federal tax system, and evolving taxpayer expectations of IRS services. According to IRS documents and officials, taxpayers increasingly expect to be able to interact with IRS similarly to how they can interact online with financial institutions such as banks, brokers, and lenders. IRS documents also cited recent declines in IRS budgets as a reason behind the Future State vision.⁴ In speeches and congressional testimony describing the Future State vision throughout 2015 and 2016, then IRS Commissioner John Koskinen also said that providing taxpayers with more online service options could help reduce IRS costs. In its FY 2018-2022 Strategic Plan, IRS estimated that it costs \$42 to interact with a taxpayer over the phone, \$57 through mail correspondence, and \$68 at a Taxpayer Assistance Center, whereas it costs \$0.20 per digital interaction.

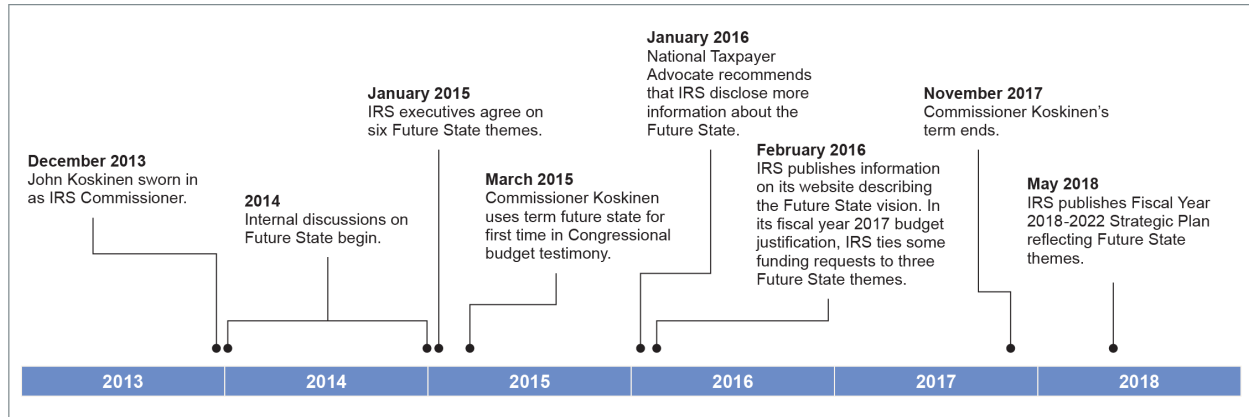
As we previously reported, IRS began the effort to develop the Future State vision in 2014 (see figure 1 for a timeline illustrating key milestones for the IRS Future State).⁵

³The four options are accessible on IRS's website at <https://www.irs.gov/newsroom/future-state-and-irs-activities>, accessed Feb. 6, 2018.

⁴As we have reported in our reviews of IRS's annual filing season and budget requests, IRS has experienced significantly diminished IRS budgetary and human resources. GAO, *2016 Filing Season: IRS Improved Telephone Service but Needs to Better Assist Identity Theft Victims and Prevent Release of Fraudulent Refunds*, [GAO-17-186](#) (Washington, D.C.: Jan. 31, 2017), and *IRS 2017 Budget: IRS Could Improve Presentation of Budget Data in Its Congressional Justification*, [GAO-16-695](#) (Washington, D.C.: July 21, 2016).

⁵[GAO-16-695](#).

Figure 1. Key Milestones Related to the History of the Internal Revenue Service (IRS) Future State



Source: GAO analysis of IRS Future State history. | GAO-19-108R

During this process, IRS senior leaders determined that the 19 strategic objectives listed in the FY 2014-2017 IRS Strategic Plan were too broad a set of priorities for the IRS Future State vision. In January 2015, the senior executives agreed on the six themes to support the Future State vision. Two months later, then IRS Commissioner John Koskinen used the term future state in testimony before House and Senate appropriations subcommittees on the IRS’s fiscal year 2016 budget request.⁶ Commissioner Koskinen continued to publicize the Future State vision in public speeches throughout 2015. In January 2016, the National Taxpayer Advocate recommended that IRS make more information about its Future State plans public and seek comments from taxpayers, practitioners, and others.⁷ In February 2016, IRS published documents on its website describing the Future State vision.⁸ Additionally, a 2016 presentation published on IRS’s website entitled, “IRS Future State – The Path Traveled and the Road Ahead,” outlined the next steps for developing new technical capabilities needed to realize the Future State vision.⁹ One of these next steps was further development of online services.¹⁰

In response to our request for information about the total estimated costs of the Future State, IRS officials provided us internal cost estimates for some Future State-related projects. IRS grouped these projects into two categories. The first category of projects was intended to “transform the tax experience” and was estimated to cost \$75 million annually from fiscal years

⁶The term future state did not appear in the official IRS congressional budget justification supporting its fiscal year 2016 budget request about which Commissioner Koskinen testified in March 2015. That term did not appear in IRS’s annual budget requests until in February 2016 when it appeared in the fiscal year 2017 budget justification.

⁷National Taxpayer Advocate, *Annual Report to Congress, Volume 1, 2015*, Jan. 6, 2016.

⁸IRS, *A Proposal for Taxpayers’ Future Interaction with the IRS*, accessed February 6, 2018, <https://www.irs.gov/pub/newsroom/FSTaxpayerInteraction.pdf>.

⁹While IRS outlined some next steps, it did not develop a complete plan for how to implement the Future State.

¹⁰As of August 2018, the IRS website (<https://www.irs.gov/payments/view-your-tax-account>) states that taxpayers can use an online account to view a payoff amount, balance owed by year, payment history, and some information from a taxpayer’s most current original return.

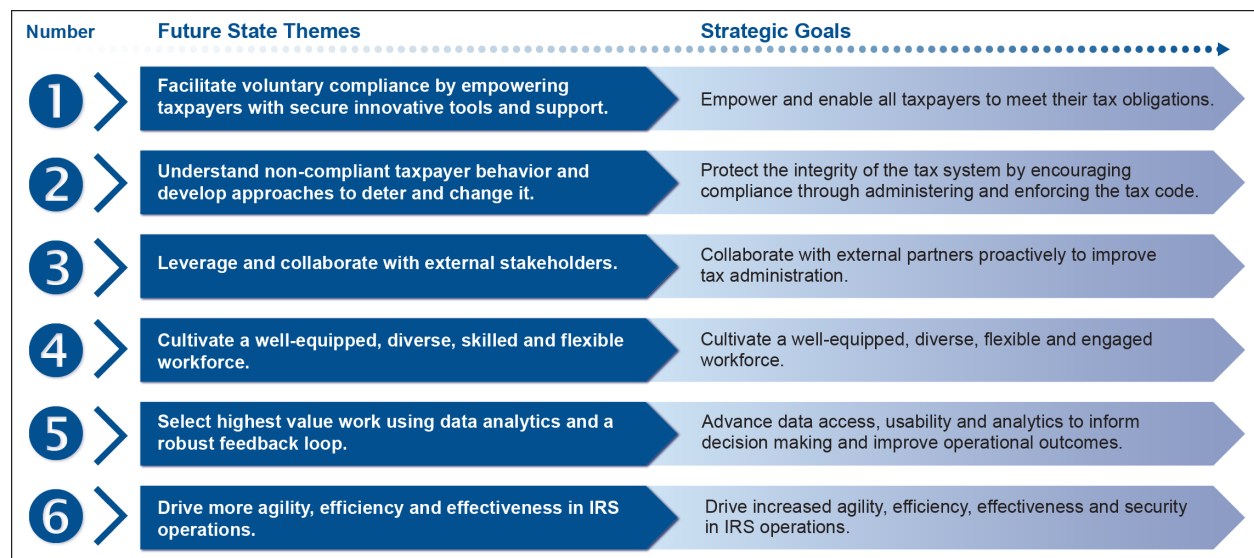
2019 to 2023. The second category of projects to “modernize IRS operations” was estimated to cost \$445 million annually from fiscal year 2019 to 2023.¹¹

IRS Has Merged Future State Themes into Its FY 2018-2022 Strategic Plan

IRS officials told us that the themes under the Future State vision are now being pursued as part of IRS’s FY 2018-2022 Strategic Plan, which IRS issued in May 2018, and that IRS has been phasing out the use of the term Future State.¹² IRS officials stated that the decision to make this transition resulted from a general consensus among senior IRS leaders that evolved through multiple conversations during the fall of 2017. IRS officials also said that IRS has a number of planning and reorganization efforts ongoing and it made sense to merge the Future State vision with its new strategic plan to create a single, consistent IRS vision.

IRS officials characterized this shift as more of a rebranding than a policy change because work that was part of the Future State vision will continue. This includes work that began before the Future State was announced and work that would have begun even in the absence of the Future State vision. IRS officials said that the six Future State themes were the basis for the six strategic goals in the FY 2018-2022 Strategic Plan. As shown in figure 2 below, the goals in the strategic plan essentially mirror the Future State themes.

Figure 2. Internal Revenue Service (IRS) Future State Themes and Fiscal Year 2018-2022 Strategic Goals



Source: IRS Future State documents and IRS Fiscal Year 2018-2022 Strategic Plan. | GAO-19-108R

Upon release of its FY 2018-2022 Strategic Plan, IRS revised its Future State webpage to note that the strategic plan would guide the implementation of the Future State vision’s six themes. It is not yet clear how this implementation will occur and when it will be completed because IRS

¹¹IRS did not estimate the total cost to realize the Future State. Rather, IRS linked additional funding requests for its fiscal 2017 budget to three of the six Future State themes. IRS officials told us that classifying their requested budget amounts by the themes was difficult to develop and created confusion among appropriations committees’ staff. As a result, in budget requests for fiscal years 2018 and 2019, IRS did not refer to the Future State or link requested increases in funding to it.

¹²IRS, *Strategic Plan, FY 2018-2022* (May 23, 2018). The Future State was initially developed between the issuance of two strategic plans (the FY 2014-2017 plan and the FY 2018-2022 plan).

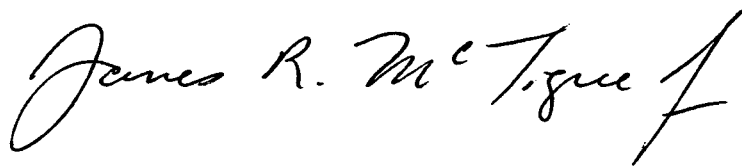
only recently transitioned to its new strategic plan. In August 2018, IRS announced to all employees that IRS would generally discontinue using the term Future State, but that the goals of the Future State vision would continue as part of the strategic plan. IRS officials told us in August 2018 that they were preparing additional public communications about the transition from the Future State to the new strategic plan and its implementation.

Agency Comments

We provided a draft of this report to the Acting Commissioner of Internal Revenue. We have reprinted IRS's comments in their entirety in enclosure I.

We are sending copies of this report to the Chairmen and Ranking Members of other Senate and House committees and subcommittees that have appropriation, authorization, and oversight responsibilities for IRS. We will also send copies of the report to the Commissioner of Internal Revenue and other interested parties. In addition, this report will be available at no charge on the GAO website at <http://www.gao.gov>.

If you and your staff have any questions, please contact me at (202) 512-9110 or McTigueJ@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Major contributors to this report were Tom Short (Assistant Director), Mark Kehoe (Analyst in Charge), Patrick Netherclift, and Alexander Ray. Other contributors to this report were Carole J. Cimitile, David Dornisch, James Andrew Howard, Paul Middleton, Sabine Paul, Harold Podell, Bradley Roach, Robert Robinson, Stewart Small, and Sarah E. Veale.

A handwritten signature in black ink that reads "James R. McTigue, Jr." with a stylized flourish at the end.

James R. McTigue, Jr.
Director, Strategic Issues

Enclosure

Enclosure I: Comments from the Internal Revenue Service



DEPUTY COMMISSIONER

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

September 14, 2018

James R. McTigue, Jr.
Director, Strategic Issues
U.S. Government Accountability Office
441 G Street, N.W.
Washington, D.C. 20548

Dear Mr. McTigue:

Thank you for the opportunity to review the draft report titled *Tax Administration: Status of IRS Future State Vision*. As we deliver our FY 2018-22 Strategic Plan, we remain committed to the Future State vision to improve voluntary compliance by developing new and more effective ways to interact with taxpayers, tax professionals and other stakeholders. We look forward to working with our various partners to advance this vision for IRS's service and enforcement activities.

If you have any questions, I can be reached at (202) 317-4263.

Sincerely,

A handwritten signature in blue ink, appearing to read "Kirsten B. Wielobob".

Kirsten B. Wielobob
Deputy Commissioner for
Services and Enforcement

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