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For immediate release
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BUDGET CUTS MAY ELIMINATE CUSTOMER SERVICE AND COMPLIANCE GAINS, SAYS BOARD

(Washington, DC) The IRS Oversight Board argues the proposed across-the-board cut contained in the Senate version of the FY 2003 Omnibus Appropriations bill could virtually eliminate the gains the IRS has made in customer service over the past three years and could further erode the agency's performance. The House's version does not include the proposed across-the-board cut.*¹

At its January 28 meeting, the Board heard Todd Grams, IRS Chief Financial Officer, report that the proposed 2.9 percent across-the-board cut in IRS funding could translate into significant drops in customer service, including:

- 2.6 million phone calls from taxpayers will go unanswered
- 11 extra days will be needed to process taxpayer refunds
- 1.8 million pieces of correspondence will not receive timely responses
- 75,000 examinations and case closing will not be completed, including efforts to shut down abusive tax shelters, such as offshore credit card accounts

“The American public needs and deserves customer service and fairness when dealing with the tax system. This across-the-board cut for the IRS is counter to those needs,” said Nancy Killefer, Board Chair. “The Board does not want to see a downward spiral in customer service and compliance activities after the IRS has made great progress in the past three years. We believe the final version of the FY 2003 Omnibus Appropriations bill should not include the Senate's proposed across-the-board cut.”

Modernization Efforts Also Affected

The IRS efforts to modernize its business systems are also affected by budget reductions. The Business Systems Modernization (BSM) budget approved by both the House and Senate is likely to be reduced to \$380 million, so that \$70 million can be used to pay for the administrative costs of establishing the Health Care Tax Credit passed by Congress last year. In addition, OMB reprioritized funding for specific internal financial management projects, at the expense of other projects that can provide quicker and more efficient interactions between IRS and taxpayers, and significantly improving compliance with tax laws. The Board believes that sound internal financial management systems are vital, but this reprioritization ultimately will be at the expense of the needs of taxpayers.

* Currently, government spending is limited to FY2002 budget levels under a continuing resolution. The omnibus FY2003 appropriations bill has not been approved, while other costs unanticipated earlier in the budget process are also likely.

Concerns Regarding Offer-in-Compromise (OIC) Program

The Board voiced concerns about the IRS Offer-In-Compromise program, which was originally intended to help settle delinquent tax accounts. The Board is particularly concerned almost 80 percent of offers cannot be processed when first received.

“We need to get a better sense of where these offers are generated; we are concerned that the system is confusing and subject to abuse,” said Chair Killefer.

Several Board members visited the Brookhaven Service Center last week to learn more about the program. The Board met again with IRS representatives at its Tuesday meeting to explore options to improve the program, including taxpayer education, operational changes relating to documentation, and legislation.

National Taxpayer Advocate Annual Report

The Board met with the National Taxpayer Advocate Nina Olson, who discussed the National Taxpayer Advocate’s FY2002 Annual Report to Congress, released last month (available at www.irs.gov). Ms. Olson briefed the Board on specific issues facing taxpayers. The Board commended the National Taxpayer Advocate for her efforts.

Board Hosts Public Meeting

The IRS Oversight Board heard from representatives of sixteen organizations whose members work regularly with the IRS at a meeting held on January 27 in Washington, DC.

The purpose of the meeting was for Board members to hear from those who interact with the IRS regularly.

The Board agreed to pursue several items raised at the meeting. They include:

- Improving the Oversight Board’s understanding of the proposed extension to April 30 for taxpayers who e-file;
- Reviewing business cases for outsourcing proposals to determine if it is the correct approach for the IRS;
- Looking into the outcomes of various tax amnesty projects to see how effectively they work;
- Reviewing the success of the IRS National Account Manager program.

“This is an active Board. We want to know what’s working and what’s not at the IRS. We will continue to reach out to taxpayers and the tax community. We want to hear their concerns, and we will work with the IRS, the Administration and Congress to address them,” said Board Chair Killefer.

The Board’s next meeting will be held March 18 and 19, 2003, in Washington, DC.