

The Environment

Last year(2000), 40 million Americans filed their tax returns electronically, 2 million short of the initial IRS goal. For tax year 2001, the IRS had set a target of 46 million electronic tax returns and expects to possibly surpass that goal because an increasing number of taxpayers may turn to electronic filing as a result of the anthrax mail scares.

Currently, IRS Commissioner Commissioner Charles O. Rossotti, is involved in the IRS's largest and most complex modernization effort in the past 50 years. The modernization is a direct result of the 1998 IRS Restructuring and Reform Act (RRA). The organizational realignments that are occurring reflect the IRS intent to increase the satisfaction of their customers and to provide the American taxpayer with top quality service and information.

This is no small chore in light of the IRS's customer base. They deal with more Americans than any other organization, public or private. They are also the largest creator of information in the federal government, and some say the world. They have been seen as one of the world's most efficient tax collection organizations. In tax year 2000, the IRS collected more than \$2 trillion in revenue. They processed 22.6 million tax returns, with a total cost to the taxpayer of 39-cents for each \$100 collected. This represents their lowest cost/collection ration since tax year 1954.(1)

To successfully implement the *e-file* program, IRS enlisted a complex group of stakeholders including the:

- US Public
- US Congress
- Department of Treasury
- ETA Advisory Board
- Council for Electronic Revenue Communication Advancement
- Private sector partners
- Tax Preparers
- Certified public accountants
- Professional accounting organizations
- Tax software publishers
- Tax statement electronic transmitters

Throughout the history of *e-file*, these stakeholder groups were more or less supportive of the program, depending on a range of external factors. Funding was seen as one of the largest impediments to getting the development and implementation accomplished. While Congress wanted a paperless government, it was not willing to allocate sufficient funding to meet all of the project needs.

With the passage of the RRA in 1998, the IRS was required to develop a strategic plan with measurable goals and objectives. To date, these goals have not been met on an annual basis. But IRS officials are confident that by 2007, the main goal of having 80% of all tax returns filed electronically will be satisfied.

- To the extent possible, insure that all returns prepared electronically can be also filed electronically for taxable years beginning after 2002
- To reduce the electronic transaction cost to less than \$2
- To achieve 99% integrity and accuracy in all transactions
- To achieve 90% taxpayer satisfaction
- To achieve 90% distributor satisfaction

The RRA of 1998 also put the Congressional seal on the creation of the Electronic Tax Administration (ETA), an organization seen as critical to the overall mission of the IRS. The Electronic Tax Administration, mandated by the IRS Restructuring and Reform Act of 1997, organizationally represents the two-way electronic exchange of information the IRS has with all taxpayers--individual or business, taxpayer representatives, tax practitioners, and other government entities. The ETA also provides a range of mechanisms for taxpayers, tax preparers, tax practitioners, and other partners in filing tax returns, making tax payments, exchanging correspondence with the customer groups, and in the retrieval of forms, publications, and other information from the IRS with a minimum reliance on paper. The agenda for ETA is a clear one--eliminate paper from the processing of tax returns, payment transactions, and information dissemination activities.

The IRS also has a culture that espouses ways of working. These are their guiding principles, which include:

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- Understand and solve problems from the taxpayer's point of view
 - Expect managers to be accountable -- knowledgeable and responsible
 - Align measures of performance to all organizational levels
 - Foster open, honest communication, and
 - Insist on total integrity

They also have articulated five critical areas where they need to implement change in order to continue to meet the needs of the taxpaying public. These include:

- Revamped business practices
- Customer focused operating divisions
- Management roles with clear responsibility
- Balanced measurement of performance
- New technology

The technical and social environments, as well as the legislative environment, have created conditions in the recent years to make the implementation and success of *e-file* more realistic. The technical and social factors are directly tied to Internet technology and the rapid diffusion of this phenomenon in the U.S. population. As the public becomes more comfortable with using the Internet, it is expected that they will move to the next stage of diffusion in transacting business on the Internet. This climate will be favorable to the *e-file* program. The laws are discussed below.

(1) Statistical information on the IRS activities is available at their website, www.irs.gov