

Message to IRS Employees from Commissioner John Koskinen

Dear IRS Employees,

As I promised last month, I am following up with you to share some important new details about what the 2015 budget cuts will mean for you and your colleagues as well as the nation's taxpayers.

There is no way around the severity of these budget cuts without taking some difficult steps. Congress approved a \$10.9 billion budget for us, which means we must absorb a cut of \$346 million during the remaining nine months of the fiscal year. But that really amounts to a total reduction of about \$600 million when you count another \$250 million in mandated costs and inflation. This is the lowest level of funding since 2008, and the lowest since 1998 when inflation is considered.

To determine the full impact of this budget cut, our senior leadership and our financial team have been working since its enactment in December. We have also discussed the situation with NTEU during this period as we grappled with some very difficult choices that none of us want to make.

As I have said before, this year we are looking at a situation where realistically we have no choice but to do less with less. With that mind, we have made additional decisions to reflect the budget reduction.

Here are a few examples of what these cuts will mean this year:

1. Delays to critical IT investments of more than \$200 million. Impact: This will hurt taxpayer service and cost-efficiency efforts as well as reduce outside contractor support for critical projects.

- o This means that new taxpayer protections against identity theft will be delayed.

- o The Taxpayer Advocate Service won't be able to obtain a new case management system to oversee taxpayer hardship cases.

- o Aging IT systems will not be replaced, increasing the risk of downtime that affects taxpayer service and your ability to work effectively.

- o We will not be able to invest upfront money to gain future operational savings, such as moving to a shared cloud infrastructure and reducing data center space.

2. Enforcement cuts of more than \$160 million. Impact:

- o Fewer audit and collection cases. Reduced staffing in enforcement will result in at least 46,000 fewer individual and business audit closures and more than 280,000 fewer Automated Collection System and Field Collection case closures

- o As a result of the hiring freeze, we will lose about 1,800 enforcement personnel through attrition during FY 2015.

- o The reduced enforcement staffing for just FY 2015 means the government will lose at least \$2 billion in revenue that otherwise would have been collected.

3. Cuts in overtime and temporary staff hours by more than \$180 million. Impact:

- o Delays in refunds for some taxpayers. People who file paper tax returns could wait an extra week - or possibly longer - to see their refund. Taxpayers with errors or questions on their returns that require additional manual review will also face delays.

- o Increasing correspondence inventories. We realize there will be growing inventories in Accounts Management, and taxpayer correspondence will face lengthy delays.

- o Taxpayer service diminished further over the phone and in person. We now anticipate an even lower level of telephone service than before, which raises the real possibility that fewer than half of taxpayers trying to call us will actually reach us. During Fiscal Year 2014, 64 percent were able to get through. Those who do reach us will face extended wait times that are unacceptable to all of us.

4. Extending the hiring freeze through FY 2015. Impact: As a result of the hiring freeze and assuming normal attrition rates, we expect to lose

between 3,000 and 4,000 additional full-time employees. The total reduction in full-time staffing between FY 2010 and FY 2015 is expected to be between 16,000 and 17,000.

During this process, we tried to protect critical areas as much as we could. We will still work to deliver as smooth a filing season as possible. We will maintain IT systems critical to the filing season and tax enforcement. This commitment also includes providing appropriate training and technology support for you and your colleagues to help you do your job.

Even with all of these reductions, we still face a remaining budget shortfall. Unfortunately, this means at this time we need to plan for the possibility of a shutdown of IRS operations for two days later this fiscal year, which will involve furloughing employees on those days. We plan to work with NTEU regarding this possibility, and will fulfill our bargaining obligation with NTEU. This is an area of major concern for me and the entire IRS leadership team. Shutting down the IRS will be a last resort, but I want to be upfront with you about the problem. I know even a day's worth of pay makes a huge difference in household budgets and family situations. While we will continue to do the best we can to avoid this action, the cuts in the budget are so deep that we may have no other choice.

If this becomes necessary, our goal will be to minimize disruption to employees and our operations as well as taxpayers and the tax professional community. The timing for these dates would be late in the fiscal year, so between now and then we can do everything possible to avoid them.

I realize the importance of a possible shutdown. We will be engaging NTEU in negotiations shortly. Furthermore, we will continue to keep you updated on this in the weeks and months ahead.

The effect of these cuts will hurt taxpayers and our tax system. But I know firsthand the commitment and dedication you and your colleagues have to the nation and to taxpayers, and I know you will continue to do your best even as we are forced to do less than all of us want.

- John A. Koskinen