Transformation at the IRS

Commissioner Charles Rossotti slackened his pace, then paused to consider the legacies of his predecessors, whose portraits lined the walls of 1111 Constitution Avenue. The Internal Revenue Service (IRS) collected the money that ran the government of the United States; it provided the fuel for the country's engine and had, throughout its history, frequently been the source of passionate debate. Internal revenue had funded and supported everything from war, public education, and civil engineering of roads to foreign aid and space exploration. When Rossotti arrived in October 1997, the agency's systems had been terribly outdated and service levels strikingly low compared with those of private-sector industries. Observed Rossotti, now three years into his five-year term:

> Through the 1980s and 1990s, America's tax agency was the subject of a growing chorus of criticism, from a presidential commission, several congressional committees, and the vice president's National Partnership for Reinventing Government, as well as the public. Tax forms were difficult to follow, and answers to questions about them were hard to come by; some taxpayers felt their rights too often were ignored, or trampled, by agency field personnel; tax collection and compliance in many areas were spotty or worse.[1]

Change was needed badly. Rossotti recalled:

> When I first came in I asked somebody to compile all of the studies they could find and to list the recommendations for improvement that had been made. There were over 5,000 recommendations suggested that were specific line items. But even before we stopped counting I realized that while incremental improvement was important, there had to be bigger, more sweeping change.

Change at the IRS was not just a good idea, it was mandated by law. In 1996 U.S. President Bill Clinton charged a presidential commission to examine the IRS and its service operations. Its findings were presented to Congress in 1997, and many of its recommendations written into law as the Restructuring and Reform Act in 1998 (RRA98), marking the beginning of a massive transformation. The IRS was henceforward to focus on serving its customers as opposed to merely collecting taxes. Good, consistent service was the objective of an organizational, cultural, and technological overhaul. Rossotti wanted to prove to Congress, the loyal employees of the IRS, and the American people that the agency could function as a well-managed private-sector service organization.

[1] Charles O. Rossotti, *Customer-izing the IRS*, Strategy and Business, Second Quarter 2001, p. 106.

Professors Amy C. Edmondson and Frances X. Frei and Research Associate Corey Hajim prepared this case. HBS cases are developed solely as the basis for class discussion. Cases are not intended to serve as endorsements, sources of primary data, or illustrations of effective or ineffective

By 2001, Rossotti had overseen a major structural reorganization from geographic to market-based service. New call-routing technology was installed to improve customer service via telephone. Employees seemed to be embracing a "new" IRS, one in which many managers had been forced to compete for new positions. Progress had been made, but there was still much to do and questions remained. Transforming an organization as large and complex as the IRS was no easy task, and Rossotti pondered whether his many decisions to date had been the best ones. As he reached his office at the end of the hallway, he wondered what sort of legacy would be associated with his portrait.

History

The history of taxation in the United States was a colorful one (**Exhibit 1** provides a timeline). The British first imposed a tax upon its colonies in 1764, a stamp tax on American trade goods subsequently extended to items including molasses, sugar, and other imports. The tax was repealed save for the infamous tax on tea, which motivated the Sons of Liberty, disguised as Native Americans, to board British ships and dump more than 300 crates into Boston Harbor. More than an act of protest, it sparked revolution, the beginning of the colonies' fight for independence from Britain. "To Parliament, it [the tea tax] represented the preservation of what Britain considered an inalienable right to impose taxes, and its fiscal will, upon its unruly colonies," wrote Shelley Davis. "To colonial revolutionaries the tea tax symbolized ongoing foreign oppression, the last straw in a despised system of unjust extortion—a direct threat to personal and national liberty."[2]

The United States, once established as an independent nation, was not immune from the necessity of taxation. Without revenue the government would be unable to pay for its activities, hence, Article I, Section VIII of the U.S. Constitution, which states: "Congress shall have the power to lay and collect taxes, duties, imposts and excises, to pay debts and provide for the common defense and general welfare of the United States."

Whether imposed by the British or the U.S. Congress, taxes would remain a contentious issue. On September 11, 1791, anger over a tax on whiskey resulted in the tarring and feathering of excise collector Robert Johnson in Washington County in Massachusetts. These and other acts of defiance, constituting what was referred to as the Whiskey Rebellion, were quashed in 1794 by 12,000 militia sent by President George Washington. The income tax, first established in 1861 and determined to be unconstitutional in 1872, was reinstated and repealed several times. As to their use as an economic driver and moral authority, taxes have remained a source of argument. But as Benjamin Franklin remarked in 1789: "Nothing is certain in life, but death and taxes."

driver and moral authority, taxes have remained a source of argument. But as Benjamin Franklin remarked in 1789: "Nothing is certain in life, but death and taxes."

In 2001, the IRS easily qualified as one of the largest organizations in the world, with more than 100,000 employees, a budget in excess of $8 billion, and revenues of almost $2 trillion. Front-line employees were members of the National Treasury Employees Union.

Charles Rossotti

Appointed 45th commissioner of the IRS in 1997, Rossotti had been sought out to create a new kind of government agency that drew lessons from the private sector more directly than ever before. A graduate of Georgetown University and Harvard Business School, from which he graduated with

[2] Shelley L. Davis, *Unbridled Power* (New York: HarperCollins Publishers, 1997), p. 185.

high distinction, Rossotti brought to the job extensive private-sector and leadership experience. In 1970 he had founded American Management Systems, Inc. (AMS), an international business and information-technology consulting firm that developed systems for large organizations seeking ways to manage processes such as customer relationship management. In 1998 the 8,000-employee firm had revenues in excess of $1 billion. AMS's customers had included government agencies during Rossotti's tenure.

In addition to his relevant industry experience, Rossotti had in the late 1960s held various positions in the Office of Systems Analysis in the Office of the Secretary of Defense. He described his

had revenues in excess of $1 billion. AMS's customers had included government agencies during Rossotti's tenure.

In addition to his relevant industry experience, Rossotti had in the late 1960s held various positions in the Office of Systems Analysis in the Office of the Secretary of Defense. He described his
decision to lead the IRS as "an opportunity to bring about fundamental change at an agency that really needed it, to have an impact on a key function of government, and to make life easier for our tens of millions of taxpaying customers. To me it seemed like a very interesting challenge."[3]

Customers

In simple terms, taxpayers were the IRS's customers. But these included an incredibly diverse array of individual households, self-employed workers, small businesses, large businesses, and tax-exempt organizations such as schools and nonprofits (**Exhibit 2** profiles these customer segments). Another way to group customers was by compliance status. The United States had one of the highest compliance percentages in the world. Voluntary compliance accounted for more than 85% of total revenues. The majority of U.S. citizens were part of this voluntary compliance group. "When you go down to any country in South or Central America," explained Bob Wenzel, deputy commissioner, "and you sit down with their commissioner of taxes, they just marvel at our compliance levels, because in their countries they say they can't even measure, but generally, it's single digits, 7 or 8%. The rest is enforcement."

Another group comprised people Wenzel dubbed unintentional noncompliers. These were citizens who were not complying with the law, albeit not necessarily trying to escape responsibility; they simply, honestly did not know what they were supposed to do. Recent immigrants unfamiliar with U.S. tax law made up a significant portion of this group.

The last group, the intentional noncompliers, was consciously evading its responsibility. Although this segment was relatively small, tracking down individual noncompliers and enforcing the law was expensive. But, it was key to the principle of compliance to pursue this group. "We . . . have an enforcement role that deals with that small percentage of noncompliers," Wenzel explained, "and we have a responsibility to address that group because everyone else is working hard to pay their fair share, and if we don't pay attention the other groups will start to look at this and say, 'Wait a minute here, this isn't fair.'"

IRS Prior to the Restructuring and Reform Act of 1998

Organizational Structure

President Truman made the first major structural changes at the IRS in 1952 in an attempt to de-politicize the agency and rid it of scandal.[4] He established a three-tiered, geographically based organization with national, regional, and local offices and separated it from the federal government by reducing the number of appointed positions to two, commissioner and chief counsel. The remainder of the IRS employees became career civil servants.[5]

Functions such as exams, audits, collections, and enforcement were centralized, but the 40 regional districts were managed quite independently. Budgets handed down from central functional groups often were not allocated as intended after they filtered through district directors who might use funds for projects other than those for which they were intended. There was little accountability for resources spent, and results were not measured in terms of effective use of funds. Within this network of decentralized, independent offices that served customers ranging from individual taxpayers to corporations in specific territories, everything from hours of operation to measurement systems to organizational culture varied from location to location. David Mader, assistant deputy commissioner of operations, explained:

> Before I came to Washington 11 years ago, I was the assistant director for taxes in the state of New Jersey. We had responsibility in New Jersey for taxpayers that ranged anywhere from Johnson & Johnson to AT&T to individual taxpayers to mom and pop shops to small-business start-ups. You can't focus on any one of those market segments when you're trying to service a population that diverse. A big corporation is going to ask very different questions than a freelance writer.

Culture and Operations

"No one likes the tax man," former commissioner Margaret Richardson had said. Perhaps because of this mentality, the IRS had developed over the years as a loyal and insular employee base. Facing and interacting with customers who often resented them, IRS employees were unusually committed to the organization and to one another. Most, including many married couples, had long standing with the agency, many as much as 30 years.

It was important that employees convey competency to the agency's customers. "Any open airing of misconduct and corruption inside the IRS, the party line went, would inevitably cause the average taxpayer to lose confidence in the agency and thus severely hinder the IRS's ability to 'promote voluntary compliance' with the nation's tax laws," observed one commentator.[6] But this also could engender a defensive attitude and resistance to change. Employees were more comfortable with criticism from taxpayers than from management. The passing of RRA98, however, directly challenged the quality of service being delivered and demanded change.

---

[4] A series of congressional hearings prompted by Cecil King in 1950–1951 uncovered corruption among IRS employees who were often appointed by local politicians in exchange for campaign support favors and other unethical activities. Davis, pp. 197–198.

[5] Career civil servants were not political appointees but government employees hired in the same way private-sector companies hired employees.

[6] Davis, p. 121.

Call Centers

A major hub of IRS activity, call centers were the first line of access for taxpayers. In 1995 complaints had been overwhelming; more than 500 million callers encountered busy signals.[7] The total number of taxpayers was fewer than 200 million, but frustration with inadequate access, incorrect information, and inconsistent service drove callers to phone again and again, flooding an already stressed system.

The call centers were challenged not only by the sheer volume of calls but also by their complexity. Customers' questions ranged from specific tax-return line items, to the timing of returns and rebates, to general tax law. Rossotti observed:

> Compared to any commercial operation that I've ever seen, the calls are, on . . . average, much more complicated. You have two things that contribute to this complexity. One is the tax law and process itself. That means that the average length of calls is over 10 or 11 minutes. Three minutes would be pretty typical for a financial credit card company. And the other is the unfortunate vintage of our systems.

Prior to the geographic restructuring, call centers existed within the domains of 40 regional and district directors. Managing the service was just one part of the director's responsibility. There was no centralized policy, no procedural authority at the senior management level, no standardized measurement systems across centers, and no aggregated goals. How and what to measure were determined at each site. John M. Dalrymple, commissioner of wage and investment, explained: "St. Louis might have excellent service, or it might have really poor service. We had sites that were delivering 90% level of access into our call centers. We had other sites that were delivering 17%."[8] The accuracy of service representatives' answers to customer questions varied widely as well, and customers were responsible for errors on their tax returns even when given wrong information by IRS service representatives.

The accuracy of service representatives' answers to customer questions varied widely as well, and customers were responsible for errors on their tax returns even when given wrong information by IRS service representatives.

Information Technology

The IRS relied on information technology to store taxpayer data, facilitate employees' interface with that data, accommodate electronic filing by customer, and process returns, among other things. In 1939, the IRS processed 6.4 million returns. After World War II, the number jumped to more than 45 million, and by 1952, with local offices still processing returns, the average time to process a refund was one month.[9] Automatic tabulation, introduced in 1955, constituted the first centralized processing. Sorting and tabulation evolved with the technology. But complication and confusion accompanied modernization. A modernization initiative dubbed the Tax Systems Redesign (TSR) project was launched in 1986. By 1996 $4 billion had been spent and project completion was not in sight.[10] A push toward improvement had spawned a proliferation of independent, uncoordinated

[7] Interview with Ron Watson, chief of IRS Joint Operations Center.

[8] "Access" is the percentage of phone calls answered, not necessarily problems solved.

[9] Davis, p. 58.

[10] Davis, p. 48.

projects.[11] Going forward, it was an uphill battle to prove that any new modernization program warranted funding. An 11% budget cut by Congress resulted in 2,000 layoffs.[12]

The Road to Change

By the mid-1990s public concern with IRS performance had reached critical levels. A bipartisan presidential commission was convened to explore options for reforming and restructuring the IRS and, as part of its government reinvention effort, the administration assigned a task force to evaluate and make recommendations about reinventing service at the IRS (**Exhibit 3** provides details). Finally, the Senate Finance Committee held a four-day series of nationally televised hearings detailing IRS inadequacies and featuring dramatic stories of taxpayer abuse. RRA 98 was the culmination of the commission's report, the task force's recommendations, and the Senate hearings on IRS problems (see **Exhibit 4** for Robert Rubin's introduction). Armed with a legislative mandate containing specific structural prescriptions for change, Rossotti set out to implement what many constituencies were demanding. He recalled:

> Having come to the IRS as commissioner in 1997 after a 27-year career in international business and information technology consulting, I could see the criticism was not only justified, but unsurprising. The last time the agency had been reorganized was 1950: an era of one-income families, locally based businesses, and a population about one-third the size of today's. It was as if IBM were operating in a PC-based universe with management systems unchanged since the days of UNIVAC. No wonder, then, that the Congress overwhelmingly passed the IRS Restructuring and Reform Act in July 1998, requiring us to redefine our mission and reorganize our structure to serve taxpayers better.
>
> The landmark legislation was long overdue. Any company failing to keep up with the changing needs and expectations of its customers for so many years would long ago have disappeared. Because the taxes the IRS collects support everything from national defense to Social Security, we literally could not afford to let that happen. So with the Restructuring and Reform Act as our guide, we took on the task of transforming America's tax agency into a customer-centered enterprise. It was a transformation challenge similar to those faced by other organizations in the contemporary economy, only bigger.[13]

Implementing Change

A New Mission

A new mission statement—"Provide America's taxpayers top-quality service by helping them understand and meet their tax responsibilities and by applying the tax law with integrity and fairness

[11] Davis, p. 65.

[12] Davis, p. 49.

[13] Rossotti, p. 106.

to all"—was developed after consultation with outside institutions, both public and private, and IRS employees.[14]

Five levers of change were identified that would guide any adjustments to the IRS structure, organization, culture, and operations, as follows:

- Customer-focused operating divisions
- Management roles with clear responsibility

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

A phased approach was mapped out prior to implementation. Rossotti explained: "In Phase I, which lasted from March 1998 to August 1998, a small group of IRS experts worked with the consultants to assess the modernization concept, define the new organization architecture, and outline the transformation program."[15] Phase II A, which followed in September and focused on creating a more detailed design, involved as many as 1,500 IRS employees.[16] Phase II B moved the IRS into implementation planning, Phase III, which commenced in October 2000.

A detailed communication plan was developed to ensure that IRS employees felt aware and involved as major changes were occurring. Progress was conveyed through a biweekly newsletter to employees, national meetings and interactive broadcasts, voice-mail broadcasts, modernization guides for managers, breaking news e-mails, and training videos.[17]

Structural Reorganization

RRA98 required that the IRS reorganize into four divisions: Wage and Investment, Small Business and Self-employed, Large and Mid-sized Business, and Tax-exempt and Government Entities (see **Exhibit 5**). Segmentation enabled the IRS to build not only knowledge and understanding but also processes to address specific customer needs. Mader, assistant deputy commissioner of operations, explained:

> We view ourselves as probably the world's largest financial services organization. Basically what the Restructuring and Reform Act and the commission said is that we had lost touch with American taxpayers. The reason that's critical is our system of taxation is based on voluntary participation, self-assessing, and paying. If you lose the confidence of taxpayers, then you're going to run the risk of losing the voluntary nature of our tax system.

Functions such as filing, processing, and call routing were centralized, reducing the need to build functionality regionwide while automating expertise and efficiency. Whereas segmentation enabled the IRS to get to know specific constituencies better, technology facilitated processing.

Working at the "New" IRS

Key tactics for implementing change included creating a steering committee of managers, employees, and union representatives to provide input into decisions and oversee the change process; creating and communicating a mission statement; carefully delineating a phased program of changes; and developing measures to track progress. New human resources practices were instituted to support a "flatter" organizational structure (**Exhibit 6** provides organizational charts before and after the transformation), the linking of compensation to performance rather than just seniority, and better communication of performance expectations and evaluations for all employees.[18]

When Rossotti initiated the reorganization of the agency's structure, he also shook up employees, reducing the number of management positions and then asking many to compete for their jobs in a "new" IRS. Recalled Mader:

> We basically reduced by half the levels of management, which was dramatic. It required every executive and every midlevel manager below that, with the exception of the deputy commissioner, who was the highest-ranking career person in the organization, to compete for a new job. We said, "Here's the new structure, what job are you interested in?" We recognized that some people were not willing to change or to move. We lost a lot of senior executives. Regional commissioners in the old organizational structure who had worked 30 years didn't want to change. They were given early-retirement options.

Reorganization of the Call Centers

The reorganization shifted call centers from the regional structure into a centrally managed system controlled by the Joint Operations Center (a mission statement is provided in **Exhibit 7**). Regional call centers that required service representatives to have broad knowledge across customer segments were replaced by centralized centers that employed new call-routing technology that organized and routed calls according to the nature of the question (e.g., tax law, status of individual refund checks). Whereas under the old system any representative could receive any kind of call from any kind of customer within a given geographic region, the centralized system divided phone representatives into groups with specialized training to address specific problems. David Williams, chief of Communications and Liaison, remarked about the old system: "We didn't train them for a specific task or for a specific section of code. No wonder our accuracy rates were so poor; they had to know everything. In retrospect, it's amazing how much they cobbled together."

specific task or for a specific section of code. No wonder our accuracy rates were so poor; they had to know everything. In retrospect, it's amazing how much they cobbled together."

The IRS had a tremendous amount of information about call volume but no way to deal with it until the new system was put in place. Ron Watson, chief of the Joint Operations Center, explained the change:

> Once a taxpayer made a selection to indicate the purpose of their call, the system analyzed where that person should be routed to have their question answered based on skill groups of employees. It's . . . the framework that gave us the ability to integrate all of our call centers. We have all this data that we gathered, and so we're able to now determine how many calls, how many people it takes to answer those calls, and therefore how many people we need to train in that category. We have been able to specialize a lot more, standardize, and provide a consistent service.

---

[18] Mader.

Telephone service was viewed as being under "one call center roof," even though there were still 26 physical locations. Calls were routed to available and appropriate representatives around the country as opposed to locally. (**Exhibit 8** reproduces a document created for internal use in 2001 to compare past, present, and future states of the call centers.) The responsibilities of these centers were segmented by customer service deliverables and measured daily, weekly, and monthly (**Exhibit 9** provides examples of measures) by aggregate service delivered. If a call was transferred, as was often the case for multiple inquiries, quality was measured individually for each service delivered. If

Telephone service was viewed as being under "one call center roof," even though there were still 26 physical locations. Calls were routed to available and appropriate representatives around the country as opposed to locally. (**Exhibit 8** reproduces a document created for internal use in 2001 to compare past, present, and future states of the call centers.) The responsibilities of these centers were segmented by customer service deliverables and measured daily, weekly, and monthly (**Exhibit 9** provides examples of measures) by aggregate service delivered. If a call was transferred, as was often the case for multiple inquiries, quality was measured individually for each service delivered. If a customer spoke with three representatives, three services were considered to have been rendered. Up-to-the-minute status of calls waiting and being serviced could be viewed by managers in an on-site monitoring room. Watson offered more details:

> With the software we also know how many people are on the phone. We issue reports every day as to proper staffing. The management information we have available to us now is 1,000 times greater than what we had before. We went to what we call the enterprise approach of having a complete network of call centers that are all connected with much better planning and scheduling. We actually did get some additional staffing, too. And all of those things have helped move us forward. But I think we would all say in no way are we satisfied with where we are. We've come a long way, but we're not there. We don't want to compare ourselves to government. What we're trying to do is be as good as the best there is out there.

Even as the IRS transformed from a geographically based to a centralized organization, the structure of the National Treasury Employees Union continued to reflect the past. As the union had different goals locally, sweeping changes were not always easy to implement. Moreover, the union protected employees from individual measurement. Measurement for call center employees, for example, was done in aggregate and by call center but not by representative. The people who answered the telephones decided when to pick up and address the next caller. The unions focused on the quality of their members' work conditions.

Revitalizing IT Transformation in 2001

John Reece, appointed new CIO and deputy commissioner of modernization for the IRS in February 2001, was the third CIO in five years. Although congressional funding cuts in 1996 had made launching a major initiative difficult, doing so was an important element in Rossotti's plan. The project Reece controlled was a 10-year, $10 billion plan to modernize internal and external systems while maintaining uninterrupted service in the business of tax collection. Having been recruited, like Rossotti, from the private sector,[19] Reece believed it was essential to break the giant task at hand down into pieces that could be won and shown off to prove that the IRS's IT modernization plans were back on track. He told *CIO* magazine: "I am talking about breaking the

Revitalizing IT Transformation in 2001

John Reece, appointed new CIO and deputy commissioner of modernization for the IRS in February 2001, was the third CIO in five years. Although congressional funding cuts in 1996 had made launching a major initiative difficult, doing so was an important element in Rossotti's plan. The project Reece controlled was a 10-year, $10 billion plan to modernize internal and external systems while maintaining uninterrupted service in the business of tax collection. Having been recruited, like Rossotti, from the private sector,[19] Reece believed it was essential to break the giant task at hand down into pieces that could be won and shown off to prove that the IRS's IT modernization plans were back on track. He told *CIO* magazine: "I am talking about breaking the enterprise life cycle into three- to six-month bites so that hopefully there is something that comes along with each milestone that the user can see, feel, and touch and understand this is a significant step toward where they want to go. . . . Nobody ever ate an elephant in one bite."[20]

Before trying to figure out how to handle external challenges—improving technology touch points such as electronic filing, for example—Reece set out to determine what he was dealing with

[19] Reece was vice president of IT at Time Warner and its first CIO, a job from which he had retired to run a consulting firm. John Reece Consulting focused on helping high-tech start-ups evolve successfully through an IPO. He had more than 40 years experience in IT management.

[20] "Interview: John Reece," *CIO* magazine, March 26, 2001.

internally. He hired Booz Allen to compile an inventory of people, hardware, and problems. Reece

603-010 Transformation at the IRS

internally. He hired Booz Allen to compile an inventory of people, hardware, and problems. Reece
described the project:

> I wanted a profile of every post of duty. That's every building in every state in the country wherever we are. The last count was about 785 plus 1,100 remote audit teams and our very large corporate taxpayers. We have permanent teams that are actually in offices on site at some corporate taxpayers. I wanted to know what business division is where. I wanted to know what subfunction of that division is present. And I wanted to know how many people they have and what technology they have.

At the base of the technology network, the agency infrastructure was mainframes. This was to be the first tier to be modernized. Reece's predecessor had begun the process by consolidating the mainframes, which were running different kinds of applications, into three computing centers and converting to Sun Solaris systems. Reece was relying on what he had dubbed the Customer Account Data Engine (CADE) to deal with the enormous amounts of taxpayer information that had to be organized, understandable, accurate, and accessible. Eventually, he hoped to be able to use this engine to address taxpayers as they called and as they filed with up-to-date knowledge. Reece explained:

> What we do is really a big assembly line for the most part, and so in any assembly situation it's the 2%, the 5% that are exceptions and represent 80% of the work. If every tax return that came in electronically or in the mail was perfect, man, we could really go gangbusters. But it's the fact that some come with incomplete information, some don't meet our standards, some don't have all the 1099 and W-2 stuff attached. It's all of that stuff that results in correspondence back to the taxpayer for clarification and corrections or whatever that causes all of this long, hard work. It's the exceptions that we really aren't built to handle.

Conclusion

With a new filing season on the horizon, Rossotti considered all the things that needed to happen even as they were knee deep in the service turnaround effort. Business as usual had to go on. He was proud of the adjustments his employees had made and confident that improvement was occurring but recognized that more had to be done. Providing good service was not a complicated concept. Williams, the chief of communications, broke it down as follows:

was occurring but recognized that more had to be done. Providing good service was not a complicated concept. Williams, the chief of communications, broke it down as follows:

> For the average taxpayer, phone calls to the IRS should be answered quickly, accurately, and in a manner that provides absolutely top-quality customer service. Correspondence with the IRS should be easy, understandable, clear, and timely. The IRS has to be much quicker at catching errors in tax returns. And we need to change perception. Many people in this country fear that if they make a mistake on this incredibly complicated tax return, we will ruin their lives.

The goals were set and the objectives now obvious, but it was like shoveling the snow off a glacier, the tactical elements were on such a large scale. Nevertheless, achieving his vision of superb customer service and efficient, reliable systems was not impossible, Rossotti was sure of that.

Exhibit 1 Timeline

1781—The Articles of Confederation This document reflects the American fear of a strong central government. With no power to tax, the government of the United States relies for its revenue primarily on donations from the states.

government. With no power to tax, the government of the United States relies for its revenue primarily on donations from the states.

1789—The Constitution This document gives the federal government the authority to tax by granting Congress the power to "lay and collect taxes, duties, imposts, and excises, pay the debts and provide for the common defense and general welfare of the United States." To pay the Revolutionary War debts and operate the government, Congress imposes tariffs and excise taxes.

1794—The Whiskey Rebellion

1812—The War of 1812 The federal government imposes excise taxes and raises money before issuing Treasury notes to support the war. An extra tax is imposed on imported rum to discourage its consumption. These taxes are repealed in 1817.

1816—Protective Tariff Adopted The federal government raises duties on imported goods so they will sell at higher prices than American-made goods.

1824–1832—Tariff of Abominations Additional protective tariffs are imposed in 1824, 1828, and 1832 to protect industries in the Northeast. Higher tariffs are unpopular in the South because they make needed products more expensive. The 1828 tariff is so distasteful it becomes known as the "Tariff of Abominations."

1832—The Protective Tariff Issue

1833—The Compromise Tariff Adopted by the federal government and accepted by South Carolina due largely to the efforts of Henry Clay of Kentucky, the Compromise Tariff gradually reduces tariff rates to their 1816 level.

1862—Excise Taxes When it becomes clear that the War between the States will be long and expensive, new excise taxes are levied on playing cards, gunpowder, feathers, telegrams, iron, leather, pianos, yachts, billiard tables, drugs, patent medicines, and whiskey, and many legal documents are taxed. The law modifies an income tax first passed in 1861 but never collected. The changes add to the tax two important features that are part of our current laws: income taxes are based on the ability to pay, and taxes are "withheld at the source" by employers.

1872—Income Tax Abolished

1894—Personal Income Tax A federal law creates a personal income tax; all taxable income is taxed at a flat rate of 2%.

1895—Income Tax Declared Unconstitutional The Supreme Court rules the income tax law unconstitutional because taxes are not apportioned according to the population of each state.

Exhibit 2 Customer Segment Profiles

Customer Segment	Definition	Selected Key Events
• Individual	• Taxpayers who receive income subject to tax reporting	• Enter job market, relocate, retire, receive inheritance, marry, have child, pay child care expenses, die, divorce, buy or sell a home
• Self-Employed	• Individuals subject to business tax reporting (e.g., sole proprietors)	• Start business, keep up with major regulatory law and market changes, deal with investment or financial loss, and keep tax records for both individual and business taxes
• Small Business	• Businesses (partnerships, proprietorships, corporations, exempt organizations) with fewer than 500 employees regardless of revenue generated	• Start new product lines, hire employees, develop the business, add new locations, incorporate, incur casualty or operating losses, change technology, keep tax records, prepare tax returns, sell or merge business
• Large Business	• Businesses (corporations, partnerships, exempt organizations) with more than 500 employees	• Hire employees, develop new product lines, add space or equipment, experience domestic market or regulatory changes, restructure, add fringe benefits, change business strategy, maintain tax records, sell or merge businesses, close business
• Partners	• Organizations that work with taxpayers of the IRS on tax administration (e.g., tax preparers, state and local government)	• Educate the public about tax requirements, prepare returns, recommend ways for the IRS to improve operations and customer service

Source: Vice President Albert Gore and Robert Rubin, *Reinventing Service at the IRS* (Washington, D.C.: U.S. Government Printing Office, 1998), p. 60.

Exhibit 3 Summary of Task Force Recommendations

1. Ban Measures that Undermine Fair Treatment of Taxpayers

- The IRS will immediately ban measures such as using enforcement activities to rank districts and assigning dollar goals for districts and service centers.
- The IRS will work with the National Treasury Employees Union to design and test a balanced scorecard to evaluate the IRS and its employees in 1998. The scorecard will rate performance on customer service, based on customer satisfaction surveys; employee satisfaction; and business results.
- Over the longer term, the IRS will change how it selects, trains, evaluates, rewards, and supports its employees so they can better serve customers.

2. Provide Better Telephone Service

- Increase Hours

To make service more convenient, the IRS will, by January 1, 1998, expand telephone service to six days a week, 16 hours a day. By January 1, 1999, the IRS will expand telephone service to seven days a week, 24 hours a day. Currently, callers can get their questions answered by an IRS customer service representative only five days a week, 12 hours a day. Expanded phone service will be achieved by putting more of the current workforce on the telephones during peak calling periods, using a new national call-routing system to route calls to the next available customer service representative, and forwarding calls to employees in other time zones during late-night hours.

- Expand Customized Services

In 1999 the IRS will begin using new call-routing technology to provide information that is geared to specific customers' needs such as the tax implications of the sale of a house, retirement or job change, and multilingual service. The IRS will also provide nationwide telephone service for tax preparers.

3. Make it Easier to Get Answers

- Institute New "Problem Solving Days"

Beginning November 15, 1997, the IRS will institute in every district monthly "Problem Solving

3. Make it Easier to Get Answers

- Institute New "Problem Solving Days"

Beginning November 15, 1997, the IRS will institute in every district monthly "Problem Solving Days" during which employees listen to and resolve taxpayer problems.

- Expand Office Hours

Beginning in 1998 the IRS will open district offices on Saturdays during the busiest weekends of the filing season.

- Open More Convenient Locations

Beginning in 1999 the IRS will open additional temporary community-based locations such as banks, libraries, or shopping malls during peak season to distribute publications and forms. It will also expand the telephone information system so that people can find out when and where they can get help.

Exhibit 3 (continued)

- Improve Tracking of Complaints

Using the Taxpayer Advocate's Problem Resolution Information System (PROMIS), the IRS will track complaints and, if unresolved in a reasonable period of time, reassign the case to the next higher level of management. These changes will go hand in hand with strengthened Taxpayer

Exhibit 3 (continued)

- Improve Tracking of Complaints

Using the Taxpayer Advocate's Problem Resolution Information System (PROMIS), the IRS will track complaints and, if unresolved in a reasonable period of time, reassign the case to the next higher level of management. These changes will go hand in hand with strengthened Taxpayer
Advocate and Citizen Advocacy Panels described in IIe.

- Review Unnecessary Penalties

The administration will undertake a comprehensive review of the fairness and effectiveness of all penalties, report to Congress in 1998, and make recommendations for legislative changes.

4. Reduce and Simplify Forms and Notices

- Rewrite Notices

By 1999 the IRS will completely rewrite in plain language its most frequently used notices such as those for late payment or mathematical errors. These notices will be released only after they are tested for clarity and acceptance by taxpayers who do not have accounting or tax law backgrounds.

- Eliminate 30% of All Notices

By the end of 1998 the IRS will eliminate more than 45 million pieces of mail, almost one-third of the notices the IRS has been sending to taxpayers.

- Simplify Forms and Brochures

During 1999 the IRS will create easy-to-read brochures that provide important information on tax benefits and obligations when and where taxpayers need it such as at banks or realty companies after the purchase of a home. By 2000 the IRS will rewrite the basic 1040 instruction package and test it for clarity on ordinary taxpayers.

5. Strengthen Customized Support for Small Businesses

- Help Start-up Businesses

Beginning in 1998 the IRS will team up with other federal agencies, financial institutions, tax

During 1999 the IRS will create easy-to-read brochures that provide important information on tax benefits and obligations when and where taxpayers need it such as at banks or realty companies after the purchase of a home. By 2000 the IRS will rewrite the basic 1040 instruction package and test it for clarity on ordinary taxpayers.

5. Strengthen Customized Support for Small Businesses

- Help Start-up Businesses

Beginning in 1998 the IRS will team up with other federal agencies, financial institutions, tax preparers, state and local authorities and others to provide tax information, training and consultative services to small start-up businesses. These services will be designed to make record keeping, filing, and payment requirements as simple and easy as possible.

- Provide Specialized Phone Service

In 1998 the IRS will offer small businesses the opportunity to use TeleFile, expanding a successful pilot program nationwide. The IRS will provide small businesses with 24-hour phone assistance geared to their needs by the 1999 tax season.

Exhibit 3 (continued)

Exhibit 3 (continued)

- Work with Troubled Small Businesses

The IRS will work with troubled small businesses to help them comply, stay in business, and avoid future tax problems, expanding on successful pilot programs in California, Maine, and elsewhere.

6. Expand Electronic Filing

- TeleFile

By 1998 the IRS will increase by three million, or about 10%, the number of taxpayers who are eligible to use TeleFile, the telephone filing system. Also, the IRS will extend the use of TeleFile for business.

- Electronic Filing

The IRS will increase the number of forms that can be filed electronically and educate customers about the benefits of electronic filing, such as fewer hassles, less contact with the IRS, and faster refunds.

- Paperless Taxes

In 1999 the IRS will work to enable taxpayers to file paperless returns by eliminating the need for mailing in W-2s and other forms and for paper signatures.

7. Introduce New Payment Options

- For the first time beginning in 1999, taxpayers who file electronically will be able to pay their taxes with a direct withdrawal from their bank accounts. In addition, the IRS is seeking credit industry partners to test credit cards for taxpayers who file electronically in 1999. These new options will build upon the successful experience with about 15 million taxpayers whose refunds are deposited electronically.

8. Eliminate Unnecessary Filing

- In 1998 the IRS will step up its public efforts to inform nearly two million older and lower-income taxpayers who are currently filing federal tax forms that they don't need to file, saving them and the IRS time and money.

9. Upgrade Technology to Improve Customer Service

- In 1998 the IRS will step up its public efforts to inform nearly two million older and lower-income taxpayers who are currently filing federal tax forms that they don't need to file, saving them and the IRS time and money.

9. Upgrade Technology to Improve Customer Service

- In the long term the IRS Modernization Blueprint will improve assistance to customers by making accurate, electronically accessible and up-to-date information available on taxpayer returns and accounts while providing stringent protection of taxpayer privacy. In 1998, for example, the IRS will pilot a national call-routing system and provide simpler menus to let taxpayers get information more easily, including a much more reliable TeleTax system to check on the status of their refunds.

Exhibit 3 (continued)

10. Improve Customer Service Training

- Before the 1998 filing season the IRS will have an intensive, agencywide, special training program. This program will initiate the new approach to customer service and make specific plans for the 1999 filing season. In addition, IRS managers, including the commissioner, will spend time each year serving customers.

Exhibit 4 Treasury Secretary Robert E. Rubin, Address to Finance Committee

January 28, 1998

Mr. Chairman, distinguished members of this Committee, it is a pleasure to speak with you today. Soon after becoming Secretary of the Treasury, I began to see that the IRS was greatly in need of change. Just as many of you in this committee have been strongly focused on IRS reform, I became involved out of my concern that there were deep problems at the IRS, problems that developed over years, even decades, and problems that will take years to fully solve. The phones weren't being answered, the computers didn't work, and American taxpayers were too often being treated improperly and too seldom getting appropriate service. As a consequence, we started a highly intensified process of reform and change about two years ago. Though we have begun to make progress in some areas, there is an enormous challenge ahead including internalizing the commitment to change and reform. We must all work together constructively to meet this challenge.

Many have already contributed to the irreversible process of change underway at the IRS. We at Treasury are committed to continuing to provide our full assistance and support. The Vice-President's National Performance Review, in conjunction with Treasury and the IRS, produced an important set of recommendations on customer service. The Commission on IRS Restructuring, co-chaired by Senator Kerrey of this Committee and Congressman Portman, has been an important forum for analysis and an effective catalyst for IRS reform.

And this Committee, in its hearings last fall, brought to light serious and intolerable abuses at the IRS, abuses that have now been vigorously explored in the IRS's two recent reports, and will be further explored in one report not yet completed.

I am deeply troubled by the reports' conclusion that the inappropriate use of enforcement statistics has put taxpayer rights in jeopardy in districts around the nation. This is an unacceptable situation and strong steps have been taken by the IRS to end this practice. We at Treasury and Commissioner Rossotti are committed to fundamentally changing the agency to one that respects taxpayer rights while collecting the taxes due. And in recent months, significant steps have been taken to address these problems, including stopping the use of revenue goals in field offices, beginning to develop a new set of performance measures that address customer service and taxpayer rights, establishing more independent reviews of each district's compliance with the taxpayer bill of rights, and initiating monthly Problem Solving Days.

Despite the many, far-reaching problems, and fully recognizing the immensity of the challenge, I think there is good reason to expect substantial progress in the years ahead. The IRS is now guided by the firm hand of its new commissioner, Charles Rossotti, an individual quite unlike any previous more independent reviews of each district's compliance with the taxpayer bill of rights, and initiating monthly Problem Solving Days.

Despite the many, far-reaching problems, and fully recognizing the immensity of the challenge, I think there is good reason to expect substantial progress in the years ahead. The IRS is now guided by the firm hand of its new commissioner, Charles Rossotti, an individual quite unlike any previous commissioner, who brings with him 28 years of private sector management experience in the area of information technology and who has already begun to bring changes to the IRS. Our reform efforts over the past two years -- in addition to producing Commissioner Rossotti -- have resulted in setting technology on a new course, increased electronic filing and telefiling, and improved telephone service. The GAO recently released a report that praised the IRS's performance during the 1997 filing season, citing "substantial improvement" in two critical areas: telephone accessibility and the use of alternative filing methods. And the legislation passed with bipartisan support in the House last November promises to help bring the IRS into a new era.

Congress can continue to contribute vitally to reforming the IRS through adequate funding, effective oversight, and, most immediately, through passing the bill passed by the House as soon as possible.

Exhibit 4 (continued)

This bill contains important measures that will help build the IRS we all want to see.

- It provides for increased continuity and leadership at the IRS by providing that the Commissioner serve a fixed, five-year term, and it provides a range of personnel management reforms, although we would like to go further in improving managerial flexibility in selecting

Exhibit 4 (continued)

This bill contains important measures that will help build the IRS we all want to see.

- It provides for increased continuity and leadership at the IRS by providing that the Commissioner serve a fixed, five-year term, and it provides a range of personnel management reforms, although we would like to go further in improving managerial flexibility in selecting and managing personnel.

- It contains additional steps to strengthen taxpayer rights, including many of the President's taxpayers' rights proposals announced last year.

- It has important measures to expand electronic filing, which will decrease paperwork, increase efficiency, and save money.

- Finally, the bill contains new governance arrangements providing for valuable input from the private sector and effective outside oversight, while maintaining the authority and accountability with respect to the IRS within the existing structure of the federal government, with the on-going oversight and synergies that that can provide. We would also recommend semi-annual testimony be required of the Secretary and Deputy Secretary of the Treasury, on the IRS, to use public accountability to see to it that future secretaries and deputy secretaries take their responsibilities with respect to the IRS with the greatest seriousness.

In short, Mr. Chairman, this bill will help continue the process of change at the IRS in the months and years ahead, including an intense focus on eliminating the abuse of taxpayers that has been brought to light in recent months. It is clear that the IRS must focus more on taxpayer rights and quality customer service, while at the same time collecting the revenue due. In that regard, we must remember that those who cheat on their taxes increase the burden on all the rest of us.

Mr. Chairman, IRS reform is an issue of immense national importance, and one which we take with the utmost seriousness. We can debate whether to continue with the current progressive income tax system, or change to some other system, but we should not let that debate affect our support for the absolutely vital task of serving the American taxpayer and collecting the revenue due. Our society depends on effective tax collection to fund 95 percent of the services of the federal government, from defense to Social Security, and there are large numbers of hard-working employees at the IRS who are committed to doing the job properly, as was demonstrated to me when I visited one regional office on the first nationwide Problem Solving Day last November.

The new IRS will need to be the work of many hands. As we go forward we must all work together in a constructive spirit in helping the IRS meet the many serious challenges it faces, including each year's tax collection, the fundamental transformation now underway, and dealing with the year 2000

The new IRS will need to be the work of many hands. As we go forward we must all work together in a constructive spirit in helping the IRS meet the many serious challenges it faces, including each year's tax collection, the fundamental transformation now underway, and dealing with the year 2000 conversion, a subject which I know is of particular interest to members of the committee.

Exhibit 4 (continued)

I believe that in Charles Rossotti we have a Commissioner who both symbolizes the transformation under way and is exceedingly well-suited to provide transforming leadership. He needs your constructive engagement to get the required tools, and I believe an important step would be to adopt IRS reform legislation that will shortly be before you. I look forward to working with you, Mr. Chairman, the members of this committee, the men and women of the IRS, the National Treasury Employees Union, and all other interested parties as we take the steps necessary to transform the IRS into an institution that meets the needs of the American people. I would now welcome any questions.

Exhibit 5 Customer Segmentation

	Wage & Investment	Small Business & Self-Employed	Large & Mid-Sized Business	Tax-Exempt & Government Entities
Number of filers	88 million	45 million	210,000	2.4 million
Number of individual taxpayers	116 million	---	---	---
Total tax liability (billions)	$380	$790	$466	$103
Average tax liability per filer	$4,310	$20,231	$2,231,274	$42,698
Gross cash paid (billions)	$46	$915	$712	$221
Avg. # of transactions w/IRS per filer/year	1-4	4-60	60+	60+
Percent preparing own returns	59%	20%	---	---
Assets regulated	---	---	---	$7 trillion
Average number of income tax forms	1.1	2.7	3.5	1.7

Source: David A. Mader, *Internal Revenue Service Organizational Modernization Briefing for Second World Tax Conference*, May 23–25, 2001.

Exhibit 6 Organizational Charts

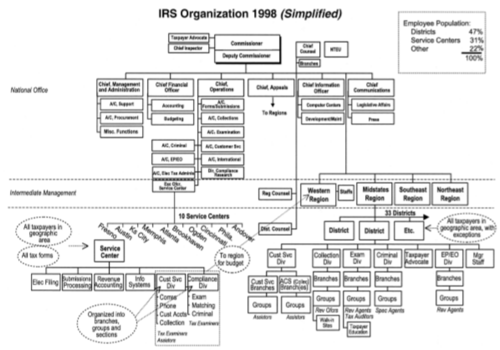
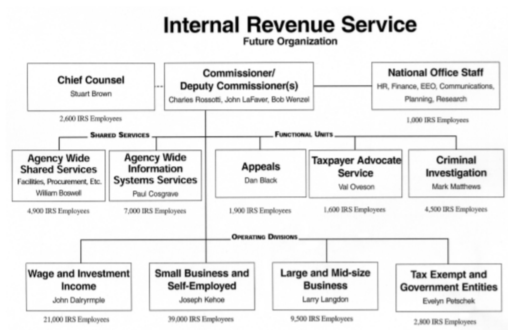


Exhibit 6 (continued)



Source: IRS information.

Source: IRS information.

Exhibit 7 Joint Operations Center Mission Statement

"To provide world-class service, support, and technology for Operating Divisions and Functional Organizations to achieve their desired service levels for all telephone, correspondence, and electronic media inquiries within agreed resource and staffing parameters."

Source: IRS information.

Exhibit 8 IRS Accounts Management Operation—Past, Present, and Future

Exhibit 8 IRS Accounts Management Operation—Past, Present, and Future

Past (3-5 Years)	Present	Future
Organization • Decentralized/fragmented focus • 64 sites, 37 executives • Stand-alone call sites • No customer segmentation	• Centralized/singular focus • 26 sites, 13 executives • Networked call sites (one virtual call center) • Positioned for customer segmentation	• Organized by business segments • Networked call centers handle specific customer segments • Customer care centers are key strategic components of IRS
Performance Measures • Internally focused, business-driven goals and measures • Driven by prior internal practices • No independent customer satisfaction feedback • Weekly general information re: call sites	• Customer-focused, compliance-oriented goals and measures • Derived from private industry best practices formal independent survey of customer satisfaction • Employee satisfaction survey to identify needs/enable employees to meet customer needs • Detailed real time data re: call sites	• Enhanced quality, productivity, compliance, and customer-impact measures based on industry best practices • Based on industry best practices, determine best use of new data regarding our performance and service as it becomes available
Workforce Planning • Forecasting customer contact by week • Site-determined staffing needs • Site estimate of necessary skills • Training plans based on local estimate of necessary skills	• Forecasting customer contact by hour • Enterprise schedule integrating all sites • Staffing schedules including skills by hour enterprisewide • Training based on corporate analysis of needed skills	• New software enables precise planning across paper, phones, and e-mail • New training technology greatly enhances quality and customer experience • Centralized management information system enhances planning and adjusting to customer needs • Skills required based on specialized needs of customer segments • Adjustments to plans based on customer needs quickly made • Scheduling software reduces costs and takes full advantage of routing capabilities

Exhibit 8 (continued)

Past (3-5 Years)	Present	Future
Technology, Data, Tools • Limited database availability • Data available by geographical area only • Paper reference and research guides • Correspondence received (worked from paper) • Limited online case action	• Multiple database availability • Some account data available nationally • Electronic reference and research guides • Correspondence received (worked from paper) • Improved online case action	• Redesigned master file and data bases • New technology enables customer issues to be resolved online with current data • Redesigned assistor research and reference tools improve quality and customer satisfaction • Customers not required to recontact IRS • Customer and employee satisfaction enhanced • Correspondence imaged for better service quality and efficiency • Outgoing call technology enhances customer care and compliance • Electronic copies of returns on demand
Call Routing • Site specific area code based • Limited automated services • No real time knowledge of customer problems • Lengthy process to make corrections	• Intelligent call-routing enterprisewide • Enhanced automated services • Real time knowledge of customer issues • Correction can be made in real time	• ACD,[a] VRU,[b] and routing upgrades • Customer segments and issues identified before routing • Automation for appropriate callers • Assistors available when needed by customers (additional assistors) • Dramatic increase in e-mail activities • E-mail, paper, phone services integrate • Use of Internet or phone for current fact-of-filing and refund information
Customer Experience • 40 hours per week service • Hours and scripts vary by site • Paper and phones totally separate operation with no consistency for customers	• 90 hours per week service • Scripts and service hours same for all customers • Minimal linkage of paper, phones, and e-mail	• Medium of contact based on customer choice • Integration of phones, paper, e-mail enables maximum service • Customer satisfaction enhanced • Easier compliance with tax laws • Bilingual and speech recognition to services

Source: IRS information.

a Call-routing technology.

b Voice-response unit.

cob_transformation_at_t
file:///C:/Users/Gloria/AppData/Local/Temp/cob_transformation_at_the_irs_2002.pdf

Exhibit 9 Measurement Examples

Measure/Indicator	Description
Operating Division/ Function	Wage and Investment, Customer Account Services
Name	Toll-free customer service representative level of service — toll-free combined or 1040, 8815, 4262
Type of Measure	Balanced measure
Balance Measure Component Program Category Related Strategic Goal	Business results quantity Filing and account services Service to all taxpayers
Definition	The relative success rate of taxpayers who call for toll-free services seeking assistance from a customer service representative
Data Source/ Measurement Tools	Enterprise telephone database (ETD)
Formula/ Methodology	CSR[a] services answered + VCR[b] calls answered + informational messages + CSR queue abandons + VCR abandons + busies (network incompletes [excluding prompt abandons]) + emergency closed messages + courtesy disconnects
Data Owner Functional Contact Data Analyst (Contacts Included)	Director, Customer Account Services Senior Analyst, Program, Coordination and Support Staff Analyst, Analysis Section/Planning and Analysis Branch
Reliability of Data	Reasonable accuracy—data originates from the Aspect ACD.[c] Data is automatically fed to and compiled on ETD. Validation takes place to ensure accurate data is fed to ETD from the Aspect SCD, TRIS,[d] and AT&T. In addition, JOC[e] periodically verifies ETD data using intelligent contact management (ICM) data, which can be compromised by a loss of connectivity of one or more of the ACDs.
Frequency of Data Availability/ Reporting	Data is available in a wide variety of time increments: daily, weekly, monthly, planning period, and fiscal year.

Source: IRS information.

a Customer service representative.

b Variable-call redirection.

c Call-routing technology.

Ask me anything
1:06 PM
6/29/2016