

# TE/GE Priorities for FY 2016

---

## Message from the TE/GE Commissioner

Wow, what a year! Coming into FY 2015, I spoke about moving forward and we have, thanks to your hard work and dedication. This past year, we focused on strengthening our strategic foundation for organizational excellence to help us better achieve our mission and deliver quality customer service for our taxpayers and stakeholders.



We established a knowledge management system to ensure the quality and consistency of technical positions, provide timely assistance to all employees, and preserve and share TE/GE's knowledge base. We streamlined processes to better serve our customers in EO and EP determinations. We also began reviews of other programs to see if other efficiencies could be gained, such as in the examination closing units and in our examination workload selection, classification, and delivery programs. All of this work was done (and continues to be done) by you, TE/GE's employees, and with your continuous feedback.

This fiscal year we will continue building on many of our existing initiatives as we travel on *The Road Ahead*, TE/GE's vision for the future. *Moving Forward Together – The Road Ahead*, which Donna and I introduced earlier this year, aligns with the IRS's future state and will position TE/GE to build an organization that:

- Serves self-sufficient and compliant taxpayers;
- Addresses significant non-compliance and aggressive taxpayer behavior;
- Optimizes resource allocation;
- Has a well-trained, flexible, and collaborative workforce; and
- Continuously looks for improvement through feedback.

This letter lays out some of the initiatives TE/GE will specifically concentrate on in building the IRS of the future based on the same five areas of focus as last year—continuous improvement, knowledge management, risk management, data-driven decision-making, and employee engagement. We will keep you updated as we progress on our initiatives throughout the fiscal year. Additionally, in response to feedback we received on last year's program letter, this year we provide specific information about plans and priorities in attached work plan briefings for the TE/GE programs.

The work we've done together, and will continue doing, is no doubt a heavy lift, particularly in these tough budget times. Donna and I are regularly impressed by your ability to move our organization forward in a thoughtful manner. Thank you for doing that.

I look forward to having another banner year with you here in TE/GE!

## TE/GE's Key Areas of Focus for FY 2016

**Continuous Improvement:** One of our guiding principles involves sustaining a continuous improvement feedback loop so we can understand our taxpayers' needs and allocate resources to where they will be most effective. TE/GE's partnership with the Lean Six Sigma Office (LSSO) has led us to many improvements in our processes and procedures.

In Employee Plans, we are using a risk-based approach to make changes to the determination letter program for individually designed plans and are implementing sustainable procedures that will yield internal processing efficiencies. In Government Entities, we are assessing the process used to conduct compliance reviews of payments made on direct pay bonds, and are streamlining the process flow of those reviews.

In Exempt Organizations, we are now assigning determinations applications directly to specialists rather than waiting for requests by agents or managers for new cases. In addition, rather than holding cases in suspense for 90 days, we now close cases within a 35-day time frame if an applicant fails to respond to a request for additional information. These changes have reduced cycle time, benefiting both applicants and the IRS.

This fiscal year we plan to work on several additional long-term projects aimed at providing better service to taxpayers and making it easier for employees to do their jobs. These include:

- Evaluating the Form 1023-EZ process to determine potential improvements to the application and review process;
- Delivering new, sustainable outreach products that will allow our customers to self-train, especially in areas such as Indian Tribal Governments and for taxpayers affected by the Affordable Care Act;
- Developing a program to make Forms 990 available in Modernized e-File format, including automation of the redaction and restriction process for e-Filed Forms 990;
- Finding efficiencies in our closing unit processes;
- Finding efficiencies in our workload selection, classification, and delivery processes;
- Simplifying our tax forms and enhancing their digital functionality; and
- Refining our information document requests to reduce the length of our examination processes and foster greater engagement by our customers.

**Knowledge Management:** We are fortunate to have a highly skilled workforce with a substantial knowledge base. Leveraging those assets will be key to our success. To that end, we have made tremendous progress in developing a Knowledge Management framework, taking it from concept to reality in less than a year. Specifically, we:

- Gathered information from employees in all functions on their Knowledge Management needs and incorporated their suggestions;
- Shared our Knowledge Management vision with employees at multiple Town Halls;
- Began staffing the Knowledge Networks (K-Nets);
- Launched our first 11 K-Nets, spanning EP, EO, ITG, FSLG, and TEB; and
- Began building knowledge libraries within each K-Net, containing technical resources searchable by key issue areas and resource type.

FY 2016 will be our opportunity to further develop, expand and fully staff our K-Net teams. One of our primary goals is to provide technical assistance to TE/GE employees and managers on cases and issues in a collaborative environment. We will offer quality technical content around the significant issues that

employees face day-to-day in their jobs. To assist everyone with becoming more acclimated to K-Nets, we will continue publishing newsletter articles, hosting training sessions and demonstrations and answering questions submitted through the K-Nets' Ask a Question feature. We plan to survey users of the K-Nets to obtain input concerning the technology and technical assistance that was obtained. The input will provide opportunities for improvement and allow us to tailor the K-Nets to the users' needs.

**Risk Management:** We began FY 2015 with the goal of becoming a more risk-aware organization, and our efforts in this area are well underway. This year we:

- Worked with the Office of the Chief Risk Officer to ensure that our managers and management officials received IRS risk awareness training;
- Completed risk registers where managers identified risks within their offices and ways to mitigate existing and potential risks; and
- Introduced the Risk Acceptance Form and Tool (RAFT) to senior management, which will help us document business decisions in the context of our risk appetite and acceptance.

This fiscal year, we will expand use of the RAFT to further document risk-based decisions. In addition, we will review the risk registers provided by each function and incorporate the necessary items into the TE/GE Risk Register. For those risks TE/GE can address, we will implement mitigation strategies and/or plans to lessen the likelihood of the risk manifesting or the impact should it manifest.

**Data-Driven Decision-Making:** Using data to plan our work enables us to allocate our resources to focus on issues where they can have the greatest impact. For that reason, we have committed to integrating data into our processes and procedures. We have taken several steps to foster a culture of data-driven decision-making in FY 2015:

- Focused our examination plans on strategic areas or issues where we believe there may be greater risk of non-compliance;
- Developed a pilot process to analyze data from Form 1023-EZ applications to identify trends and patterns; and
- Used change rate data and statistical sampling in Tax Exempt Bonds to identify market segments with a higher risk of non-compliance, and can now screen for possible investment limitation violations using filters relating to minimum issue size, remaining term of bond issue, and yield curve analysis.

In the coming fiscal year and beyond, we will continue to work together to analyze the data we collect and test our methodologies. Based on the feedback and results we receive, we will continue to refine our strategies and use data to further guide our decision-making.

**Employee Engagement:** TE/GE's most valuable asset is our employees, which is why Employee Engagement was a key focus area for us in FY 2015 and continues to be a top priority in FY 2016. Our engagement strategy centers on empowering employees and managers, maintaining an effective recognition program, and strengthening our leadership team's visibility, transparency and interaction with employees. In the past fiscal year we:

- Participated in the launch of the Servicewide Detail Opportunities website, through which several TE/GE details at various grade levels have been posted and filled;
- Recognized our outstanding employees through awards ceremonies, including the introduction of the Horizon Award for cross-functional collaboration, a Public Service Recognition Week, and engagement and recognition resources pages on our intranet;
- Launched the Ask the TE/GE Leaders page to collect and respond to employee questions;
- Held collaborative town halls and POD visits for senior managers and executives to engage with and receive feedback from their employees; and

- Offered several training sessions to employees on self-development topics such as Career Learning Plans and resume writing.

This fiscal year, in addition to continuing the efforts begun in FY 2015, we will continue to equip our workforce with the tools they need to adapt to a rapidly changing environment and maintain our efforts to develop employees. We will also incorporate into our engagement strategy process the feedback we gathered from employees in FY 2015. Finally, we will request employee involvement and feedback to ensure that we remain well-trained, flexible and collaborative as we move forward.

## Employee Plans

**Examinations.** In FY 2016, EP will continue to: (1) develop, maintain and refine a comprehensive collection of enforcement mechanisms that identify and focus efforts on addressing retirement plan non-compliance, (2) leverage existing programs and learned best practices to enhance voluntary compliance, and (3) address and eliminate fraudulent and abusive schemes that undermine the retirement system. For FY 2016, EP will allocate examination resources among the following casework categories:

- **Specialty Programs:** EP will focus resources into specialty program casework, focusing on EP Team Audit (EPTA)/Large Case, multiemployer plans, and IRC 403(b)/457(b) plans. These areas have been selected for increased attention because they have a historical pattern of non-compliance and also allow for greater coverage of the retirement plan participant universe. Specialized training needs will be identified and implemented as needed (just-in-time training) throughout FY 2016. The remaining resources will be applied towards cash balance plans, 401(k) plans, and employee stock ownership plans.
- **Traditional Casework:** EP will continue to select various plan types (profit sharing, money purchase, 401(k), defined benefit) from within our Risk Assessment program, while continuing to pursue taxpayer and interagency referrals, reported funding deficiencies, and non-bank trustee investigations.
- **Supplemental Work:** Additional project work will be supplemented by the Learn, Educate, Self-correct, Enforce (LESE) program, the Individual Retirement Arrangement (SEPs, SARSEPs, SIMPLEs) program, and the Form 5500-EZ (one participant plan) program.

**Employee Plans Compliance Unit (EPCU).** EP will also use the Employee Plans Compliance Unit to identify areas with the greatest potential for non-compliance in plan operation and form. Through compliance checks, the EPCU can establish a greater presence in the retirement plan community in a manner that reduces the cost to the IRS, while limiting the burden of each taxpayer contact. This effort educates taxpayers on issues of non-compliance, improves return filings and filing accuracy, and facilitates the use of the Employee Plans Compliance Resolution System (EPCRS) for voluntary corrections. Data collected is used for potential audit project development and shared with TE/GE Communications & Liaison to develop self-help tools and to provide educational articles for the EP community. We anticipate starting several new compliance check projects in FY 2016, based on analytical reviews of current data, past projects, law changes, and recently released guidance.

**Determinations.** In FY 2016, EP Determinations will continue to work individually-designed and pre-approved plans. We anticipate greater than 24,000 individually-designed plan case receipts and greater than 1,500 defined benefit pre-approved plans. This is in addition to the 403(b) pre-approved plan submissions that were received in mid-FY 2015. The breakdown of the expected receipts is shown below.

Application Type	Receipts
Individually Designed Plans - Form 5300	8,650
Terminations - Form 5310	1,300
Adopters of Modified Volume Submitter Plans - Form 5307	14,600
Defined Benefit Pre-approved Plans	1,571
<b>Total</b>	<b>26,121</b>

Managing inventory will be challenging due to anticipated above normal receipts, the need to review lead plans for two pre-approved plan programs, anticipated higher than normal employee attrition, and continued support for TE/GE-wide efforts such as Knowledge Management.

Determinations will also develop a strategic plan to implement the program changes recommended by the LSS team, which are effective in calendar year 2017.

**Voluntary Compliance (VC).** In FY 2016, we will continue to process the VC cases, including voluntary requests for closing agreements. The submissions received continue to increase in complexity, thus requiring more time to process. We will also consider options to improve case processing efficiencies, including developing a designated team for processing and screening submissions. VC also expects to devote resources to support the development of the EP Knowledge Networks.

**EP Technical.** We will provide the staffing needed for the core teams in the Knowledge Management process and lead the effort in developing the EP K-Nets. The teams will use stakeholder feedback to further develop the Defined Contribution, Defined Benefit and Specialized Plans K-Nets. In addition, we will continue processing legacy work that remains after the January 2015 TE/GE and Associate Chief Counsel realignment.

## Exempt Organizations

**Examinations.** EO's overarching compliance strategy is to ensure organizations enjoying tax-exempt status comply with the requirements for exemption and adhere to all applicable federal tax laws. This strategy will be implemented through data-driven decisions with the intended goal of identifying and addressing existing and emerging high-risk areas of non-compliance with the optimal use of available resources. The focus will be on significant compliance issues, not on the number of cases closed, and some issues may require a multi-year approach.

EO will use the most appropriate, cost-effective and least intrusive compliance treatment. This will include educational efforts, compliance reviews, compliance checks, and correspondence and field examinations. We will balance coverage across subsections and asset classes while optimizing resources on the highest risk returns (e.g. multiple potential issues dealing with exemption, protection of charitable assets or tax gap). This strategy will be achieved through:

- Determining the coverage of all major subsections and size of organizations by stratifying the universe of exempt organizations into the major subsections and allocating anticipated new examination cases among each subsection and asset class;
- Determining issues to focus on through a data-driven approach where we will identify the highest risk areas of non-compliance through the use of return data of the EO community and historical information; and
- Identifying areas of high non-compliance risk through stakeholder input, reliable outside data, and public information.

Through this process, EO will focus resources on five strategic issue areas:

- **Exemption:** Issues include non-exempt purpose activity and private inurement, enforced primarily through field examination;
- **Protection of Assets:** Issues include self-dealing, excess benefit transactions, and loans to disqualified persons, enforced primarily through correspondence audits and field examination;
- **Tax Gap:** Issues include employment tax and Unrelated Business Income Tax liability, enforced through compliance checks, correspondence audits, and field examination;
- **International:** Issues include oversight on funds spent outside the U.S., including funds spent on potential terrorist activities, exempt organizations operating as foreign conduits, and *Report of Foreign Bank and Financial Accounts* (FBAR) requirements, enforced through compliance reviews, compliance checks, correspondence audits, and field examination; and
- **Emerging issues:** Issues include non-exempt charitable trusts and IRC 501(r), enforced through compliance reviews, correspondence audits, and field examination.

EO's compliance strategy will also include oversight of tax-exempt hospitals with certain compliance issues related to the Patient Protection and Affordable Care Act (ACA). This oversight includes conducting reviews of hospitals' compliance with ACA as described in IRC section 501(r). We will also continue to review organizations that were granted tax-exempt status through the streamlined determination process and we will begin post-determination compliance enforcement on organizations that were granted exempt status through the submission of the Form 1023-EZ application.

**Determinations.** In FY 2016, EO Rulings and Agreements anticipates having 100 determination specialists to review Form 1023 and Form 1024 application receipts and to participate in pre-determination reviews of sampled Form 1023-EZ receipts. In addition, we will have 25 Tax Examiners reviewing the Form 1023-EZ. We project an approximate 3% increase in application receipts in FY 2016, assuming that the increase in the Form 1023-EZ adoption rate will continue at a conservative pace.<sup>1</sup> As a result, we anticipate receipts outpacing closures and an increased open application inventory at the end of FY 2016.

While we will realign 30 determination specialists to EO Examinations for FY 2016, the additional efficiencies gained through streamlined case processing and continued improvements from the Lean Six Sigma recommendations will mitigate the loss of these employees. Additionally, with a consolidated staff within a single post of duty, we may experience additional efficiencies, allowing us to generally keep pace with current inventory levels and ensure timeliness of application case processing.

Applicant compliance risks with the Form 1023-EZ will be mitigated through the continued pre-determination application reviews and evaluation of the review data. Consistent with TE/GE's data-driven approach, we will continue to study data analyzed from Form 1023-EZ pre-determination reviews and will consider future adjustments to the percentage of Forms 1023-EZ selected for pre-determination reviews.

**Processing.** EO will continue to reduce our correspondence inventory, and we have implemented a new, customer service-focused process to help prevent erroneous revocations. In FY 2015, this has resulted in preventing over 1,000 erroneous revocations, and we will refine and formalize this process in FY 2016.

**Technical.** We will continue to aggressively build out our Knowledge Management (KM) program through additional staff participation and accumulation of tax law content. In FY 2015, we established Knowledge Networks (K-Nets) for Private Foundations, Hospitals and Other Healthcare, Section 501(c)(3) Issues, Other 501(c) Issues, and Unrelated Business Income Tax. The Knowledge Management program will sustain a vibrant and open process where all EO employees participate and benefit from a robust knowledge repository. A fully functional KM program will improve collaboration between employees, which will mitigate risks and benefit employee engagement. Additionally, we expect the overall knowledge base of employees to improve, which will drive improvements in technical quality and consistency of work completed within EO.

---

<sup>1</sup> We have no historical data on the Form 1023-EZ, so the assumption could be volatile.



## **Government Entities & Shared Services: Federal, State, and Local Governments (FSLG)**

FSLG will continue to address compliance through a balanced approach which includes outreach, education and examination activities. We will invest our limited resources in areas that provide the greatest impact. This includes large entity examinations which allow us to maximize our wage base coverage while also addressing material and significant compliance issues. This transition will also require continual improvements to our auditing approach, auditing efficiency, and employee skillsets.

The primary workplan focus areas in FY 2016 include:

- Greater reliance on data-driven project cases;
- Continued shift and focus on Large Entity Examinations;
- Shifting compliance checks to Government Entities Compliance Services;
- Focused examinations of refund claims;
- Limited scope examinations;
- Outreach/Education: Focused on national web-based events and web tools; and
- Launching the Employment Tax Knowledge Network (K-Net).

**Examinations.** FSLG projects address significant issues of non-compliance and identify government entities with compliance issues. In addition, these projects allow us to learn more about emerging or significant compliance issues, which we then use to prepare outreach and guidance to help taxpayers understand and comply with their tax responsibilities.

We will continue to utilize an examination workplan consisting of five distinct gross wage categories based off of Form 941 filings by government entities:

- \$0 – \$2.5 million;
- \$2.5 – \$10 million;
- \$10 – \$40 million;
- \$40 – \$100 million; and
- Greater than \$100 million.

Our examinations will cover all gross wage categories but with an emphasis on entities with gross wages of \$10 million or more; approximately 75% of examination closures will be of these returns. The focus on these larger entities directly correlates with our need to address the tax gap and the greatest risk of non-compliance since these organizations represent a significant percentage of the gross wage base. In addition, we will increase the number of examinations on entities with \$100 million or more in gross wages by shifting compliance checks of the small taxpayer sector to the Government Entities Compliance Services (GECS) program. In addition, we will limit the number of claim examinations that are assigned to the field through improved pre-examination screening and by transferring some of these cases to the GECS.

We will also conduct specific compliance initiative projects to determine high risks of non-compliance with a specific issue, test a hypothesis about a possible non-compliance pattern or theory of non-compliance that will lead to a better case selection method.

We will conduct the following compliance projects to address the issues identified through data analytics:

- **Early Retirement Incentive Plans (high risk non-compliance issue):** Addresses entities that provide cash (and other) options to their employees as an incentive to encourage them to voluntarily retire early. This often results in employment tax issues that were not handled correctly by taxing the benefits under constructive receipt rules.

- **Rapid Growth Governments:** A research project to test the hypothesis that rapidly growing entities have a high risk for employment tax non-compliance due to rapid hiring; new, more complex benefit structure; and lack of experienced personnel. Expected non-compliance issues include worker classification, failure to classify compensation as wages, incorrect tax treatment of fringe benefits, and failure to file or inaccurate information returns.
- **Reduction of Payroll and Increase in filed Forms 1099-Miscellaneous:** A research project to test if worker misclassification can be identified based upon analysis of payroll and information return data. This project is expected to identify worker classification non-compliance.

**Knowledge Management.** As we continue to lose employees through attrition or retirement, we must ensure that we are able to transfer institutional knowledge and skills of experienced employees. This will be done through the launch of the Employment Tax K-Net. This K-Net will include employees who have vast experience with employment tax issues affecting federal agencies, state and local government entities, exempt organizations, and Indian Tribal Governments. As we move towards a greater focus on large entity examinations, we will invest in the development of our employees through training and, when appropriate, through team based examination experiences.

**Customer Education & Outreach.** FSLG will continue to invest time and resources into customer education and outreach levels similar to prior years. We will limit the number of face-to-face outreach events and we will work with TE/GE Communications & Liaison (C&L) to develop and deliver a series of national web-based events including supporting the development and delivery of ACA outreach events. A primary focus for FY 2016 will be to work with C&L to develop on-line tools to help FSLG customers understand and comply with their tax responsibilities including tools focused on the small entity community.

## **Government Entities & Shared Services: Indian Tribal Governments (ITG)**

We are entering a new phase in which we are adjusting our examinations of Tribal entities and focusing resources to reinforce our infrastructure, strengthen the integrity of our knowledge base within the organization, build sustainable outreach products, and maintain focused compliance examinations.

**Infrastructure Upgrade.** As our workforce continues to shrink, we will modify our infrastructure for this new reality while we have the people and knowledge to build it. When we look to disseminating information and procedures, we have to learn to rely less on people and more on products.

We will convert our current ITG classroom-based training into virtual modules that can be easily updated and accessed within ITG and we will revise our existing virtual training modules. Additionally, we will create an internal framework to ensure continuity and maintenance of training products. Within TE/GE Knowledge Management (KM) parameters, we will set up a structure and procedures to monitor and continue updates to the existing Casino/Title 31 Knowledge Network (K-Net) and we will prepare to bring our additional ITG knowledge skill groups under the KM umbrella.

Rather than requesting customer feedback from Tribal leaders in our customer satisfaction survey, we will begin requesting this feedback from business personnel to allow us to gather more accurate and applicable feedback from the Tribal employees who work directly with us. However, we have decided to defer our FY 2015 biennial customer satisfaction survey while we pursue replacing our paper-based survey with a virtual survey.

**Compliance and Enforcement Strategy.** Although we have reduced our overall examination focus, we will continue to have a compliance presence. The primary non-compliance issues for our customers are general Employment Taxes and Information Returns underreporting. While we are not changing the way we classify cases, we are changing to a national approach, rather than regional, when we assign work to the field. While we have always been mindful of horizontal equity when selecting work, we recognize the potential for inconsistency between different regions and across different ITG groups.

We will roll out the Tip Compliance Review (TCR) cases nationwide, which we piloted last fiscal year. A TCR will be issued for entities that currently have a tip agreement with the IRS, but have not been timely or correctly supplying additional annual documentation per the tip agreement requirements. We will also focus on updating old tip agreements.

In FY 2016 we will also introduce a new work type, a Technical Assistance Visit, which will focus on compliance in conjunction with education. This will be more complex than routine post-filing assistance and will provide one-on-one assistance to address compliance issues and allow the specialist to determine appropriate education and outreach to prevent reoccurrence. Note that we are calling this a work type for tracking and monitoring purposes, but these will not be counted as part of our examination closures.

**ITG Outreach and Education Strategy.** In FY 2016 we will develop innovative education products to allow our customers to find answers to questions and solutions to problems. We will develop focused training modules for our customers to self-train and move customer support to online platforms. In addition, we will reintroduce ourselves to our customers in a series of regional forums and re-establish the Consultation Meetings to enable the director to communicate our goals and provide substantive updates to the Tribes.

## **Government Entities & Shared Services: Tax-Exempt Bonds (TEB)**

We are critically reviewing our most important TEB programs to determine how they can be improved and made more efficient. As a result, we have improved our voluntary compliance, employee training, and examination programs. We are also working to optimize resource allocation, including taking steps to determine and focus resources to areas of greatest non-compliance through revisions to the market segment program. With a projected attrition rate approaching 18% for FY 2016, we are implementing programs to improve knowledge sharing, such as virtual case studies and collaborative market segment meetings, to further knowledge management and allow us to have a well-trained, flexible and collaborative workforce.

**Examinations.** Our balanced FY 2016 workplan will allocate half of TEB's resources to examination casework.

*Referrals/Claims.* Exam priority will be given to referrals, including whistleblower referrals, that have been determined to warrant examination resources and to claims; these should account for approximately 20% of our examination work.

*Market Segment Program.* Remaining examination resources will be spent on the market segment program. A market segment generally refers to a type of bond such as a private activity bond. The past market segment program provided examination coverage in each market segment at least every three years, but did not produce the information needed for TEB to focus our future resources on issues having a higher risk of non-compliance. In FY 2014 we began refining the program to: (1) focus resources on areas expected to have a greater potential compliance risk, and (2) increase the informative value of these exams.

Under this new program, we will retain an examination presence in each TEB market segment while working to identify specific fact patterns or issues in each segment ("focused subsegments") that have a greater risk of non-compliance. For example, the advance refunding market segment now has several subsegments directed at fact patterns or issues for which TEB believes there will be a higher risk of non-compliance. We identify these subsegments and classify the cases using return and public information.

For FY 2015, TEB selected thirteen segments and then identified five subsegments. In FY 2016, we will continue this work. We are working with TE/GE Research and Business Systems Planning to expand the public information available for identifying subsegments and on collecting data from the market segment exams to predict other fact patterns or issues that might give rise to additional subsegments. Because we are using statistical sampling, we will be able to make valid predictions about compliance in each segment or focused subsegment from the sample results. Statistical sampling requires a minimum sample size that may be larger than what we might have used under our prior program. However, we are also working with Research to limit the impact of this on our stakeholders and our resources. The market segment data will then allow us to better focus our examination, education, and voluntary compliance efforts to areas of greatest need.

*Compliance Checks/Soft Letters.* TEB and the Government Entities Compliance Services (GECS) are reinstituting a compliance check/soft letter program. Initially, this effort will focus on problems identified solely by looking at information returns issuers file when they issue bonds. As we learn more about compliance risk issues, we will direct compliance checks to these issues, when appropriate. Using limited resources, this program will provide broader coverage of returns than could be provided solely through examinations, but may lead to some examinations that we might not otherwise have conducted.

**Voluntary Compliance Agreement Program (VCAP).** Approximately 30% of our resources will be focused on our VCAP efforts in FY 2016. We have significantly revised the closing agreement process to increase efficiency and transparency and ensure consistency and enforceability, including creating standard closing agreement terms. We have also improved our closing agreement processes. For example, for appropriate issues, we are creating streamlined voluntary closing agreement programs with fill-in-the-blank agreements. These will eliminate the need for drafting and negotiating when they apply. We have created one program and we are drafting the parameters for two more.

**Customer Education and Outreach.** To address another critically important facet of our work, we expect to devote approximately 15% of our resources to customer education and outreach efforts. In particular, we:

- Are working on a project to revise the Form 8038 series: the Advisory Committee on Tax Exempt and Government Entities (ACT) previously recommended that these forms be revised, which will involve significant resources;
- Are creating a publication on arbitrage rules for infrequent issuers and improving the management contract training materials, which also addresses ACT recommendations;
- Will maintain a K-Net and teams focusing on market segments and emerging issues;
- Will have a new customer satisfaction survey tool to identify areas for improvement;
- Will hold virtual focus groups for employees to discuss individual cases in small group settings, just-in-time training for upcoming market segments, and periodic market segment meetings for employees working cases in the same market segment; and
- Will produce webinars which will be recorded and posted on the IRS website.

**Direct Pay Bond Activity.** The balance of our focused efforts in FY 2016 will be devoted to specific activities centered on direct pay bonds. In addition to devoting resources to prevent fraud and inappropriate refunds in the direct pay bond refund program, we are continuing to seek process improvements in conjunction with the Lean Six Sigma project on the payment of direct pay bond refund claims.

## Government Entities & Shared Services: Government Entities Compliance Services (GECS)

Our FY 2016 goal is to support the GE functions and their project priorities, which requires our workplan to be flexible. GECS will be taking on correspondence, single issue exam projects and compliance checks from FSLG, TEB, and ITG. Examinations and compliance checks allow us to focus resources to address significant issues of non-compliance and better understand government entity's compliance issues, which reduces the tax gap, is good stewardship of taxpayer dollars, and positively impacts the taxpayer behavior.

The primary areas of focus in FY 2016 will be driven by:

- Greater reliance on data-driven project cases;
- A focus on specific issues with a high risk of non-compliance;
- Limited scope examinations; and
- Limiting our compliance work to the more egregious situations.

GECS continues to provide support to compliance strategies of the GE functions to better identify compliance priorities and prioritize compliance issues while exploring new ways to improve the processes in the Government Entities area. The examinations conducted in GECS are correspondence examinations with single issues.

### Ongoing Projects:

- **Direct Pay Bond Credit Filing Reviews:** In addition to devoting resources to prevent fraud and inappropriate refunds in the direct pay bond refund program, we are continuing to seek process improvements in conjunction with the Lean Six Sigma project on the payment of direct pay bond refund claims.
- **Form 1040-ITG ADAPT:** We expect to complete our remaining work on this specific issue non-compliance project. Our focused issue examination efforts will ensure that certain payments are reported to the IRS and that the income tax is assessed.
- **Voluntary Classification Settlement Program (VCSP) Casework:** This project is in the process of being transitioned over to SB/SE, so we expect to close some of our remaining inventory in FY 2016.

### Future and Proposed Projects:

- **General Welfare Claims:** GECS is working these claims with ITG. These claims are filed to receive a refund for income that may have been improperly taxed. Under the general welfare exclusion, the IRS has concluded that certain payments made to or on behalf of individuals by governmental units under legislatively provided social benefit programs for the promotion of the general welfare are not included in a recipient's gross income.
- **Claims:** FSLG will be moving most of its claims examinations to GECS. These claims relate to FICA taxes withheld on state-mandated employee contributions toward retiree healthcare.
- **Form 8038 Information Returns:** GECS is working with TEB to develop a soft letter campaign single issue project involving Form 8038 information returns. This project will allow us to measure issuer compliance and will enhance current records, improve the IRS's future records, and educate return filers. In addition, it will test the risk of non-compliance by determining whether the return information indicating a violation was accurately transcribed and by determining whether transcribed information was accurately reported by the issuer. This program will provide broader coverage of returns that could be provided solely through examinations, but may lead to some examinations that TEB might not otherwise conduct.
- **Additional Medicare Tax (AdMT) Compliance Checks:** GECS will be taking on compliance check cases from FSLG. The Affordable Care Act (ACA) added this AdMT and GECS will work

the AdMT Project for tax years 2013 and later. This project will verify that the AdMT is correctly reported by employers and that they withhold and deposit the proper amount of the tax on the correct amount of wages (>\$200,000). Through this project, those potentially non-compliant taxpayers will be sent a compliance letter to determine their level of compliance.