



Commissioner

OFFICE OF COMPLIANCE ANALYTICS

29 November 2011

Making Analytics Pay Making Analytics Mainstream

OECD Forum on Tax Administration



Today's Agenda

- **Commissioner's priority and vision**
- **Example Initiatives**
- **Key Success Factors**





We started in January 2011 with dual priorities: increase compliance effectiveness and organizational capability

Commissioner's Priority and Charge

- **Lead a continuing series of strategic initiatives using information and analytics to materially enhance compliance results and capabilities**
- **Work closely with the business units and the technology organization***

*IRS businesses include Wage & Investment, Small Business/Self Employed, Large Business & Intl., Tax Exempt & Govt. Entities





Our organizational goals are designed to align with the Commissioner's charge

Organizational Goals

- **Initiate and implement** big impact compliance programs
- **Leverage (accelerate &/or extend)** progress on existing compliance initiatives
- **Model and contribute** to a more data-driven and analytical culture within core compliance activities...building capacity in the agency to continually analyze and apply data to evolve compliance programs
- **Accelerate use of testing** to evaluate potential alternative compliance approaches





Using data analytics to increase organizational effectiveness means making the activity pay and making it mainstream

- **Bottom-line oriented**
- **Expertly executed, PLUS**
- **Operationally grounded**
- **Widely understood and used**
- **Flexible in approach**
- **Transformative in aim**





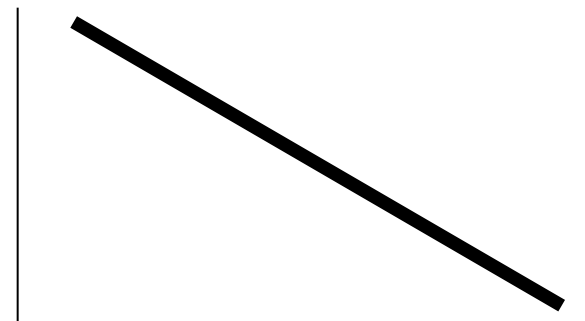
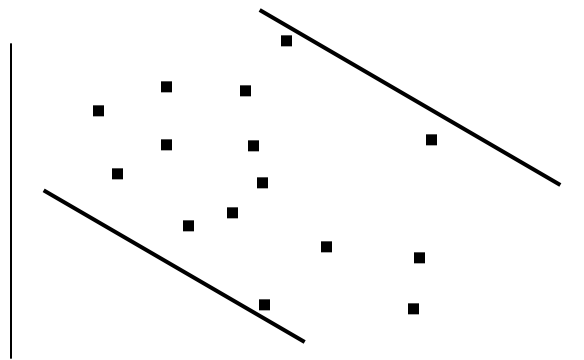
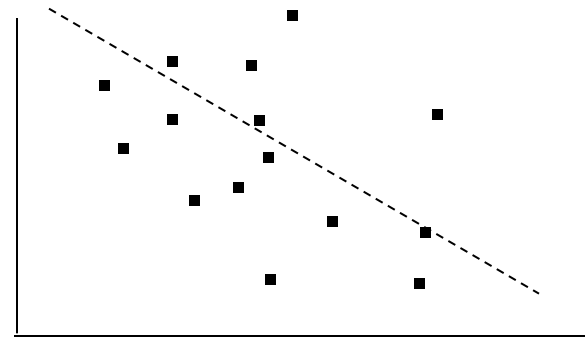
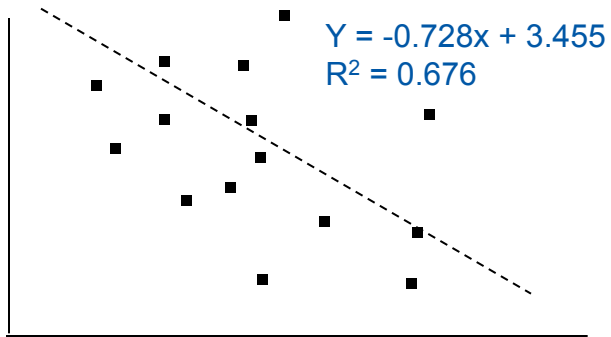
Our staffing model is a consulting-like structure

- **Dean Silverman, Senior Advisor to the Commissioner (~Sr. Partner)**
 - Ensure team is engaged in strategic, systemically important issues
 - Manage senior and external relationships (Commissioner, Deputy Commissioners et al)
- **Directors (~Partner)**
 - Provide relationship and analytic guidance for individual initiatives
 - Direct the initiative team's work
 - Build the OCA organization (recruiting, training, motivating)
- **Initiative Manager (~Engagement Manager)**
 - Day-to-day initiative team management
 - Project management PLUS analytic structuring
- **Analysts**
 - Mix of data analysis (pulling and organizing data) and statistical work
- **SMEs (Subject Matter Experts)**
 - Provide expertise on focused topics
 - Provide insight on the details of how the Service works





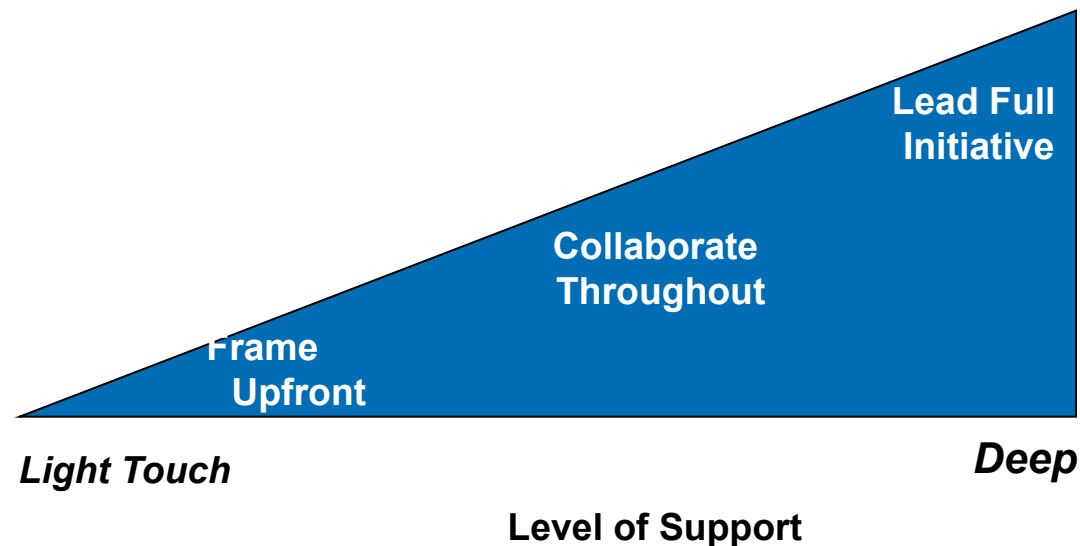
In figurative terms...



Potential initiatives are evaluated for overall value and what our role will be

Operating Model

- **High stakes, enterprise-wide opportunity screening for potential initiatives**
 - Screen for size, scope, complexity, candidate for testing?
 - Opportunity to tackle compliance efforts inclusively with the business(es)
- **Staffing model: focused on building analytic capacity across the IRS as well as solutions**
 - Small permanent staff
 - “Detailed” staff
 - External expertise





Today's Agenda

- **Commissioner's priority and vision**

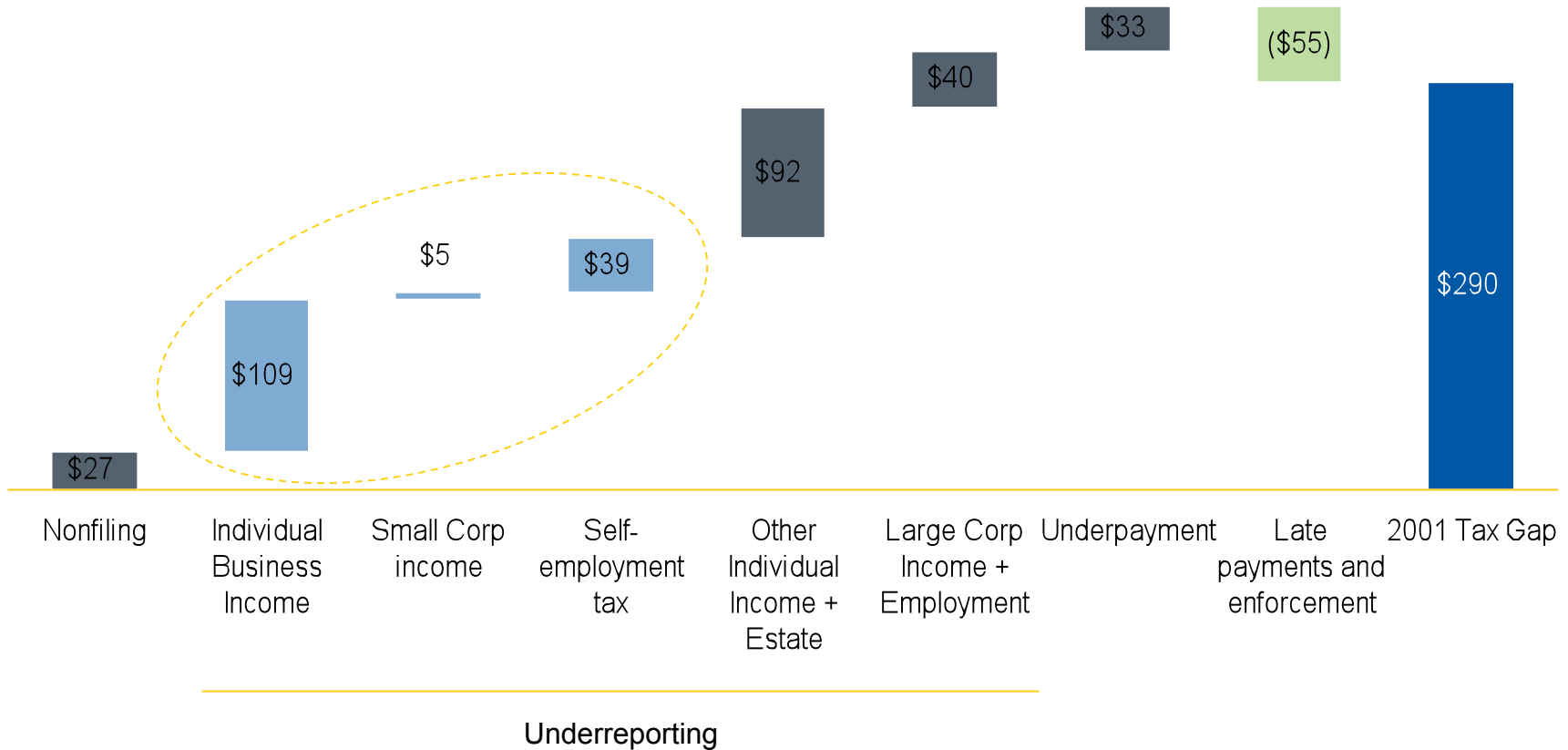
- **Example Initiatives**
 - **Merchant Card Integration/Test**
 - **Return Preparer Program: Real Time Intervention Pilot**
 - Real Time Tax System: From Vision to Blueprint
 - Refund Fraud and Identity Theft: Isolating the Sources and Stemming the Contagion
 - Expanded Use of Filed Electronic Data
 - Collections: Segmentation & Testing

- **Key Success Factors**



At the IRS, and elsewhere, data analytics needs to be bottom-line focused...and small business comprises the biggest part of the Tax Gap

Components of the U.S. Tax Gap
In Billions, Tax Year 2001



Source: IRS, "Tax Gap Map for Tax Year 2001"



Lack of transparency = the most significant historical hurdle to closing the Small Business tax gap

Transparency drives income reporting

Individual income tax examples

Visibility of income	Example	Reporting rate
Substantial information reporting and withholding	Wages and salaries	99%
Substantial information reporting	Interest and pensions	95%
Some information reporting	Partnership income and capital gains	91%
No visibility	Sole proprietor income	46%

Source: IRS, "Understanding Compliance: What's the Tax Gap Got to Do with It?"

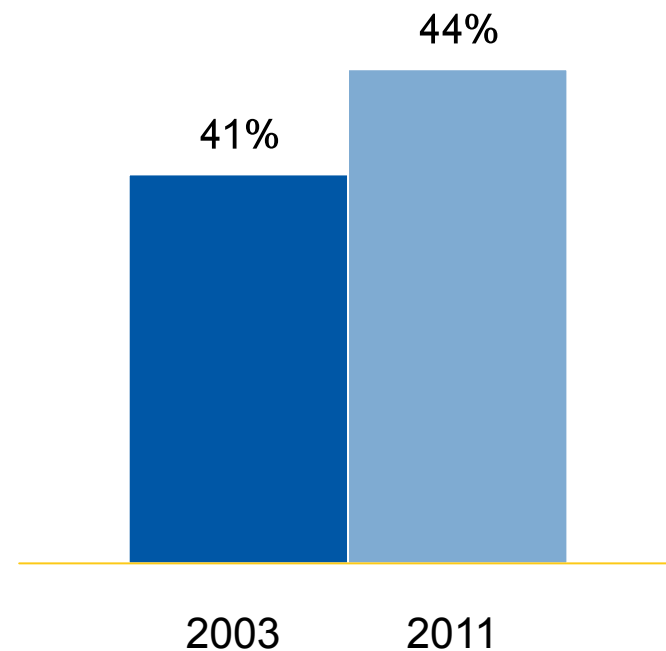


New card payments and third party network reporting requirements will be a significant step forward

New Reporting Requirement

- **Effective for Tax Year 2011 returns**
- **Requires merchant acquirers (among others) to report payment card, as well as an industry classifier (MCC) on a Form 1099-K**

Small Business card acceptance



> This new information should be applicable to ~7-12 MM U.S. merchants

Source: 2003 Federal Reserve Survey of Small Business Finances, OW2011 Small Business Survey



Initiative Example Two: Return Preparers and the Earned Income Tax Credit (EITC)

Test Background

- **EITC abuse is a significant multi-billion dollar issue per annum, and appears to be aided by paid tax-return preparers who facilitate their customers in what to claim**
- **Test design is to treat “bad”, high volume preparers (RPs) to see if we can influence their behavior – prior to filing season, during filing season and afterward**
 - Core of the test is “real time” interdiction of “bad” returns...can we even do it?!
 - Hypothesis is that by identifying bad returns early, and taking immediate action, we can stem the flow of further bad returns
- **The return preparer program is a multi-pronged, multi year priority strategy by IRS to impact compliance in a scale manner, beyond individual taxpayer interactions**





Summing up: How will we know that we've succeeded?

Defining Success

Compliance Results

- **Successful integration of merchant card data into compliance activities and increasing taxpayer compliance results through its use...**
- **Specific initiative metrics (e.g., return preparer)**

Organizational Evolution

- **“What’s the key question?”**
- **“What’s the hypothesis?”**
- **“How do results differ by segment?”**
- **“How might we do this differently?”**
- **“What might this be worth/what’s the value?”**
- **“FOCUS”**





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Data analytics in tax administration: what are the keys to success?

**Integration with
the business**

**Big-picture problem-
solving orientation**

**Ownership
at the top**

**Long-term HR
leadership**

