

IRS Organization & Reorganization: A Remaining Defect (Part 2 of 2) Part Two: Reporting on the Programs IRS Administers

C. Eugene Steuerle

**"Economic Perspective" column reprinted with
permission.
Copyright 1999 TAX ANALYSTS**

Document date: September 27, 1999

Released online: September 27, 1999

*The nonpartisan Urban Institute publishes studies, reports,
and books on timely topics worthy of public consideration.*

*The views expressed are those of the authors and should not be attributed to the Urban Institute, its trustees,
or its funders.*

The job of the IRS, just like any administrative agency, is not simply to handle the paperwork or enforcement functions it is assigned. If an agency is to have some knowledge of itself, if it is to meet its responsibilities well, then inevitably it must assess, measure, quantify, and report on the programs under its control. While the IRS often cannot by itself change the programs it administers—it is not in charge of making tax policy—its responsibilities concerning those programs are still large and comprehensive. The agency's current reorganizational efforts may be successful in a lot of ways, but they will be inadequate if the IRS does not figure out how to better assess the programs under its charge.

There is a simple test. Over the next few years the IRS commissioner will be called to testify on a whole series of issues. Among the many possibilities are the number of children inappropriately claimed under the earned income tax credit (EITC); the unrelated business activities of charities; the administration of tax subsidies for health; who benefits from housing tax credits; the extent to which taxable gifts are not being reported for estate and gift tax purposes; what charities benefit most from gifts of appreciated property; which colleges take advantage of recent special provisions for tax-exempt bonds; how many traditional pension plans have converted to cash balance plans; and the administrative aspects of enterprise zones—to name only a few.

If the commissioner comes armed with completed studies, then the reorganization will have succeeded in getting the IRS to understand its own programs. If, as historically has been the case, he and the agency run around at the last minute trying to find out what material they even have on a given subject, attempt to discern something from taxpayer compliance data that generally has not been designed to assess programs separately, or simply promise Congress that next time they will be on top of this issue (but not necessarily the others), then the reorganization will remain incomplete.

With hundreds of millions of returns every year, and billions of information documents, it is not surprising that the IRS would devote so much time and effort to dealing with those "papers." Much of its current reorganization efforts are being made toward improving its capability of handling and processing all that paper efficiently. With the help of modern technology, the IRS hopes further to reduce the amount of actual paper and increase electronic filing.

Still other efforts are being made to improve the agency's relationship with those who file the papers—the taxpayers and their preparers or representatives. By organizing by "industry" instead of function, the IRS hopes to consolidate its dealings with particular taxpayers such as wage earners, and small or large businesses. Organizationally, however, most of the reorganizational effort is still centered on the return, which is the base for almost all the paperwork and dealings with taxpayers.

While I agree that this is the "natural order of things," and that organizing around groups of taxpayers rather than functional stratification may simplify the system and make dealings between the IRS and the taxpayer easier, the agency must take the extra step of ensuring that programmatic assessment follows naturally from its new industry-centered reorganization.

Programmatic assessment follows from the IRS's claim that it wants to be oriented to the needs of its consumers, the public. After all, the public's interests extend beyond minimizing the hassle of tax returns and audits. The public has a right to expect that the programs under the IRS's jurisdiction are properly run and are achieving their stated objectives. But one can't run a program unless one knows what's going on in the program. What is the program designed to achieve and is it accomplishing that purpose? For better or worse, it is mainly the IRS that has the administrative data needed to answer these questions. No one else has the

same experience and the same access to that type of information.

Historically the IRS has prepared few analyses of the programs under its control and published fewer still. Only indirectly do we find out about these programs, as when the IRS measures error rates by line item on returns. To do a better job, the IRS does not have to make a final judgment; it does have responsibility for development and dissemination of the information it acquires in administering the programs under its control.

Finally, to properly assess and report on programs, the role of politics has to be recognized up front and then channeled appropriately. In reporting on the EITC during the 1990s, for example, the IRS faced the political constraint that both President Bush and President Clinton backed legislation increasing the grants made under that program. The IRS appropriately fears in these types of cases that the release of a report at any arbitrary time will appear to be politically motivated by one side or the other. Its way out of this box in the future is to schedule its studies and reports on a routine and regular basis, with the systematic development done months and even years in advance. When the IRS puts its programmatic assessment on that basis, it will be accused less of politics than in the past, when the occasional revelation of information related to any program came as a major surprise.

Other Publications by the Authors

- [C. Eugene Steuerle](#)

Usage and reprints: Most publications may be downloaded free of charge from the web site and may be used and copies made for research, academic, policy or other non-commercial purposes. Proper attribution is required. Posting UI research papers on other websites is permitted subject to prior approval from the Urban Institute—contact publicaffairs@urban.org.

If you are unable to access or print the PDF document please [contact us](#) or call the Publications Office at (202) 261-5687.

Disclaimer: *The nonpartisan Urban Institute publishes studies, reports, and books on timely topics worthy of public consideration. The views expressed are those of the authors and should not be attributed to the Urban Institute, its trustees, or its funders. Copyright of the written materials contained within the Urban Institute website is owned or controlled by the Urban Institute.*

Source: The Urban Institute, © 2012 | <http://www.urban.org>