

IRS Organization & Reorganization: A Remaining Defect (Part 1 of 2) Part One: Inadequate Assessment of Agency Programs

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The IRS seems to be making remarkable progress in its new efforts to serve its customers, the public. Although it will take time to know for sure, the ultimate verdict on the agency's ongoing reorganizational efforts and the management of Commissioner Charles O. Rossotti, I believe, will be a positive one. Although problems will inevitably remain, the ultimate impact of the changes now occurring will be good for both the public and those who work at the IRS.

Reform may have been spurred partly by attacks on the agency that in some cases were unfair—some of the people alleging abuse by the IRS now seem themselves to have been abusing their fellow taxpayers. But fair or not, the IRS has figured out how to do many things right over the last couple of years. It's also worthwhile for any agency to rethink its mission and ways of operating once in awhile. Finally, it is a step forward for the IRS to get varied types of expertise at the top. I write this column, therefore, not out of a desire to criticize the IRS's many steps in the right direction.

Despite all indications of progress, however, I fear that the IRS has not dealt fully with a longstanding defect. That historical defect is one that I struggled with in many years at the Treasury Department; it is nothing less or more than the failure or inability of the IRS to organize some of its activity on a more programmatic basis.

The IRS does not organize itself so much by the programs it administers as by tax returns. The tax return remains the agency's primary contact with individuals, whether as individual filers or preparers and representatives of other individuals and organizations. It is on the basis of the return that the IRS sets up its various functions, including returns processing, audit, collection, and taxpayer service, among others. And it is on the basis of the return that it is redefining itself along "industry" lines. Almost all of the agency's thinking goes into how it will deal with tax returns, especially income tax returns, and their preparers. Much of this is natural and unavoidable.

But there is an alternative way to think about the U.S. tax collector. The IRS is an agency that oversees many programs. Only one of them is collecting taxes on income or on sales of certain items. It is also the largest spending agency in the federal government. It "spends" on health programs, on promoting saving and investment, on supporting alternative fuel sources, on education and, well, just name any societal need or function and the IRS administers at least one program for it and has another on the way.

Often, as in the case of housing and wage supplements, the IRS spends more than the expenditure departments more directly devoted to those missions, such as the Department of Housing and Urban Development and the Labor Department. In some ways, the assignment of so many programs to the IRS is a backhanded compliment. Often less than a day after attacking the IRS, some member of Congress will turn around and submit a bill assigning it some new spending program to administer, rather than passing it on to another agency. While certainly there are other political incentives—a tax expenditure shows up in the federal budget as a tax cut rather than an expenditure increase—the member often trusts more in the IRS's administrative ability.

The IRS is not just a spending agency, either. Whether it likes it or not, it is the chief regulator and monitor of the charitable sector and one of the chief regulators of the multitrillion dollar pension business. It is also one of the primary, if not the primary, sources of economic and social data. From its databases come estimates of the gross national product, the size and conditions of the business and charitable sectors of the economy, the distribution of income and wealth, and, of course, who bears the tax burden. For many purposes, its data are far more important than those generated by the Census Bureau, which spends billions in fulfilling its functions.

Now think about a business—say General Motors or Microsoft. In organizing itself, would it devote almost its

entire effort toward customer service? A company such as Coca-Cola, which has one basic product, spends a lot of its money on advertising, distribution, and checking up on the quality of its soft drinks and distributors—most of which could be considered customer-related. But even in its case, much effort would go toward product development and analysis.

Now it can be argued that a business is forced by competition to constantly assess its product, and that a similar competitive pressure does not apply to an agency like the IRS. One consequence is that the private business is much more likely to be fully knowledgeable about its products and their markets, at least if it wants to stay in business.

Now here's the rub. If I were to stereotype, perhaps unfairly but not too inaccurately, the attitude of many IRS officials toward all the programs under the agency's control, it would be that they don't belong there. The IRS's role, they would say, is to collect taxes, not serve as a welfare agency or monitor the charitable sector or promote energy policy. In many cases, they would be right; the programs don't belong under the IRS. The public would be better served if they were run by one of the other departments of government.

To make matters more complicated, the IRS is not entirely in charge of the programs it administers. These programs are developed by Congress and the White House and the Treasury Department and then often dumped in the lap of the IRS. Unlike a private business, the IRS seldom has a choice as to what it wants to do and to decide whether taking on additional assignments is likely to be good for it or its customers. Moreover, seldom do those developing a new government program prepare any analysis of whether the IRS can effectively administer it.

The knee-jerk response of the IRS—"We shouldn't have these programs in the first place."—is, therefore, not without merit. At that point, however, the whining has to stop and the IRS has to get on with its job. And, at least historically, the part of the job that entails assessment of the administration of each of its programs has been largely neglected.

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