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PLANNING AND RESEARCH: ITS EVOLUTION AND ROLE IN THE INTERNAL REVENUE SERVICE

SHELDON S. COHEN*

INTRODUCTION

When I was appointed Commissioner of Internal Revenue in 1965, I assumed the leadership of an organization of nearly 1,000 offices throughout the United States and abroad staffed by almost 60,000 employees. The Service had just finished its first \$100 billion year. A new Commissioner is acutely aware of his responsibility to the public and to the Government. In order to carry out the responsibilities of the office there must be a responsive and responsible organization. Any Commissioner is aware of a strong sense of organizational continuity built on an efficient operation and pride in performing a difficult job smoothly.

An organization such as the Internal Revenue Service is, in a sense, the sum of the efforts of all those who contributed to its development. Inevitably, a few men by force of great talent and character leave an indelible mark on an organization. One such man is Dr. Thomas C. Atkeson.

Dr. Atkeson's distinguished career with the Internal Revenue Service covered thirty-six years, from 1918 to 1954. His career paralleled the evolution of our modern tax system—from the Revenue Act of 1918, which marked the beginning of a new era of taxation, to the 1952 reorganization of the old Bureau of Internal Revenue, which largely shaped the Internal Revenue Service as it is today. As a key member of the Service's top management for many years, Dr. Atkeson made numerous outstanding contributions to modern tax administration. Perhaps his most significant achievement was his leading role in founding a planning and research capability during the period 1945-1954.

IMPACT OF WORLD WAR II ON FEDERAL TAXATION

To appreciate the importance of planning and research to modern, efficient tax administration it is necessary to understand the dramatic change wrought in our federal tax system by World War II. War-time taxation brought the individual income tax to tens of millions of tax-

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payers for the first time. There were only eight million individual income tax returns filed in 1939. We now have seventy-one million individual returns representing one hundred and ten million taxpayers (taking into account joint returns).

This rapid growth presented the Revenue Service with a staggering problem. The methods which had been developed over many years for collecting the income taxes of a relatively small number of taxpayers were not effective in handling a huge volume of returns. The Service was thus confronted with the problem of devising methods by which a broadly based income tax could be administered at a time when no one knew whether—much less how—such a tax could be enforced.

The enormous task of administering a tax system of such dimensions might have proved insurmountable had it not been for three significant changes. One was the adoption of the short form return in 1941. Another was the withholding of taxes at the source which went into effect in 1943. The third was the adoption of the standard deduction in 1944.

Although these changes tended to lessen the administrative burden, the Service emerged from the war still buried under wartime responsibilities and trying to catch up. Expansion of the nation's tax system had revealed many organizational and procedural weaknesses, and Treasury and Service officials began laying the groundwork for modernization.

EVOLUTION OF PLANNING AND RESEARCH IN IRS

In October, 1946, National Office and field officials met in Washington to consider operational and administrative problems. This meeting was the first in a continuing series of actions taken to effect major improvements in post-World War II federal tax administration.

In April, 1948, Commissioner George J. Schoeneman set up a Management Staff as part of the office of the Assistant to the Commissioner, Dr. Atkeson. This action was a landmark in the planning history of the Internal Revenue Service. The Management Staff's primary objective was the improvement of program management in the Bureau. Under the direction of Dr. Atkeson, this group played a major role in assisting the Commissioner in controlling and pulling together the diverse functions of the Service. More importantly, it provided the ideas needed for future growth.

Long-range tax administration planning began in 1948 with a study made by the Advisory Group to the Joint Committee on Internal Revenue Taxation. Although the study itself was made by a group of

private citizens, Dr. Atkeson's Management Staff participated actively in the research and factfinding aspects of the work. Also, attention began to focus on organizational needs. The Management Staff, working with private consulting firms and others, participated in drafting the complete overhaul of the Internal Revenue organizational structure effected in 1952.

One of the Staff's most important contributions was in developing forecasts of manpower and other resource requirements. After Congress broadened the income tax base in 1942, there were seldom enough people and equipment in Internal Revenue to do all the checking, auditing, investigation and other work that was felt necessary. The fundamental difficulty is that the Service's responsibilities are so affected by changing population and economic factors that they cannot be dealt with adequately within the usual cycle of one-year appropriations or estimates.

The Management Staff's pioneering efforts in forecasting resource requirements laid the groundwork for a formal long-range planning system. In 1959, the Service launched its first Long-Range Plan to determine and provide for future needs. The Plan covered a five-year period with a year-by-year breakdown as a basis for annual appropriations requests. It contained detailed analyses of how and where the money and men were to be used and the revenue results anticipated. This and subsequent annual plans have been instrumental in illustrating the Service's needs to Congress and in thus obtaining Congressional approval for necessary increases in manpower and funds since 1959.

Over the years the name and organizational location of the original Management Staff have changed. It gradually evolved into the present Office of Planning and Research, headed by an Assistant Commissioner of Internal Revenue. This office was created on May 19, 1958.

DEVELOPMENT OF THE TAXPAYER COMPLIANCE MEASUREMENT PROGRAM

The tax administrator has always had ready information on tax returns filed and revenue collected. But formerly he did not know how many returns were not filed and how many dollars went uncollected. A key Planning and Research effort has been to provide the data needed to answer such questions.

The first major project in this direction was the "Audit Control Program." A sample of the 1948 individual income tax returns was set

aside for special auditing, tabulation, and analysis. This study enabled us to spot the most serious areas of error and to estimate the additional tax that could be assessed if it were possible to audit larger proportions of the total number of returns filed. Later, a related Management Information Reports program was developed to analyze the results of the regular audit program. Then came a project to measure delinquency in filing various business returns (income, excise, employment) in sample geographical areas.

Out of these research programs grew an over-all research effort, the "Taxpayer Compliance Measurement Program" (TCMP). The chief goals of TCMP are to measure compliance in filing returns and in reporting income and tax, and to detect causes of noncompliance in these and other areas, including the causes of delinquency. In sum, it provides yardsticks for determining the adequacy of existing programs and to suggest needs for future program changes.

PLANNING AND AUTOMATIC DATA PROCESSING

From its earliest days, the planning group devoted considerable effort to mechanical methods of coping with the increasing volume of documents which Internal Revenue is required to process and control. In the early 1950's, it sponsored experimental installations of tabulating (punch-card) equipment in over a dozen district offices. These tests demonstrated that high-cost mechanical equipment could be justified only if enough work was concentrated to use the machinery full time. Next, partially mechanized area service centers were established in Lawrence, Massachusetts, for the East; in Kansas City, Missouri, for the Midwest; and in Ogden, Utah, for the West. These centers were extremely successful in carrying out their limited assignments.

One of the first assignments of the new Planning and Research office was to explore the adaptability to Internal Revenue operations of the new large-scale electronic computer systems which were being introduced in the business machine market. Out of this study came what was perhaps the most significant change in tax administration since withholding—the installation of a nationwide electronic Master File system for processing tax data. Today, virtually every tax return or related document filed with IRS is processed through one of our seven Regional Service Centers by automatic data processing equipment. The results are ultimately posted to a Master File of taxpayer accounts at the Service's National Computer Center in Martinsburg, West Virginia.

MODERN PLANNING AND RESEARCH IN IRS

Day-to-day planning for Internal Revenue functions concerned with collections, audits and investigations is, of course, done by those functional offices. Planning and Research contributes the long-range planning and research that cannot be expected from officials whose primary responsibility is to deal with immediate operational problems.

The primary responsibility of Planning and Research is to look beyond day-to-day operations and to forecast and program long-range plans and objectives. Such planning takes into account the changing national economy, population growth, and other factors affecting workload and efficient tax administration.

Today, the key instrument used to achieve these purposes is the Service's Planning-Programming-Budgeting System (PPBS). This system is an essential management tool for establishing goals, forecasting future needs (normally for a five-year period) and assuring that current programs are designed and executed to meet established goals.

PPBS is primarily a program-planning instrument. Tax administration requires foreseeing needs with sufficient lead-time to recruit and train personnel to meet workloads. These needs cannot be met adequately through short-term programs. Similarly, the data processing requirements of tax administration are so compelling that only the most modern and efficient equipment and procedures will keep the tax administration system from falling behind. Since tax administration involves a variety of functional activities throughout hundreds of field offices, the attainment of programs and goals depends upon planning and cooperative execution. PPBS is the principal mechanism for achieving this integration.

Research is the vital foundation for planning, programming and budgeting in Internal Revenue. This involves primarily the study of key aspects of the federal tax system and of new and better ways of improving the Service's operations. It also involves such programs as working with the states in negotiating agreements for the exchange of tax information. In addition, Planning and Research identifies matters that require an official Service policy prescribed by the Commissioner. The general management responsibilities of the office include systems development studies; preparation of statistics to provide basic information for Congress, the Service and the Treasury Department; and general statistical services to other activities. Using not only statistical methods, but also legal research, economic research and general factfinding, the

Planning and Research group conducts many other inquiries of importance to the improvement of federal tax administration.

CONCLUSION

In this article I have undertaken to give a general account of the evolution of planning and research in the Internal Revenue Service and to indicate briefly Dr. Atkeson's pioneer role in that development. Words are nearly always inadequate when probing behind organizational structure to reveal human events. The essence of Dr. Atkeson's contribution to our federal tax system during his Internal Revenue career is perhaps best captured by this statement in a 1951 Treasury Department management survey:

The Assistant to the Commissioner also provides leadership to the Bureau Divisions. . . . He has no formal authority over these Divisions, however, and the influence which he has on them appears to stem from the very high regard which they have for him as much as from his position.