



COMMISSIONER

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

April 2, 2014

The Honorable Kenny Marchant
U.S. House of Representatives
Washington, DC 20515

Attention: Scott Cunningham

Dear Mr. Marchant:

I am responding to your inquiry dated February 26, 2014, about our reinstatement of performance awards for our employees.

My decision to pay performance awards in today's tight budget environment was not made lightly. Following my recent visits with frontline employees and managers during which I have observed first-hand their hard work and accomplishments. Additionally, there had been a grievance that had been filed by the National Treasury Employees Union (NTEU). The settlement agreement that we reached allowed us to resolve the NTEU's national grievance and unfair labor practice charges, which could have resulted in the payment of a full 1.75 percent of total annual bargaining unit salaries (approximately \$76 million) as well as attorneys' fees and interest. I am convinced that reinstating awards in fiscal year (FY) 2014 was the correct decision. Providing these awards avoided protracted litigation and allowed us to recognize our high-performing employees who do impressive work in a wide range of areas across the IRS, from taxpayer service and tax enforcement to Information Technology and other critical support functions.

Employees are accomplishing this work with FY 2014 funding levels that are nearly \$1 billion below what the agency received four years ago. At the same time, the taxpayer population has increased along with our responsibilities to implement tax law changes from the Congress. We anticipate having 2,000 fewer employees this year than a year ago, and 11,000 fewer people working this filing season than four years ago. Our employees continue to achieve much more than anyone could expect, given the funding provided and the increasing workload.

I hope the information below answering your specific questions is helpful.

1. How much is the agency planning to spend on employee bonus payments and where is the agency finding the funding to make these payments?

The hiring exception process in place since FY 2011 resulted in unreplaced attrition in FY 2013, reducing our labor costs. We have set aside approximately \$65 million to pay awards.

2. Do you believe that the funding used for these employee bonus payments is the best use of limited taxpayer resources? Are there not any other presently unfunded priorities for the agency that would be of a better value to the taxpayer?

While the funds for performance awards may have allowed the IRS to address other budget items, following my visits with employees it has continued to be clear to me this is money best spent on performance awards for our existing employees. The performance award payouts are in recognition of good work done in very trying circumstances. While the IRS portfolio of responsibilities has expanded, employees continue to support our service and enforcement responsibilities by doing more with less. I continue to believe that this investment in our employees will directly benefit taxpayers and the tax system by helping to improve employee morale and rewarding high performance.

3. Can you please list in detail the expected number of IRS employees who will be receiving bonuses by their department and location? Will any employees who were involved in the IRS targeting be awarded or considered for a bonus payment? Will any employees who were involved in the making of IRS videos that have been considered a significant waste of taxpayer money be awarded bonus payments?

Information regarding the expected number of IRS employees who will be receiving awards will not be available until award amounts are finalized and paid in early April. We base eligibility for a performance award on an employee's performance rating. For all employees, we consider the protection of the IRS's integrity when determining who will receive performance awards. The fact that an employee has been the subject of a disciplinary action during the rating period does not preclude a performance award; we will, however, refrain from granting awards in certain situations to protect the integrity of the IRS. We will provide you details about the employees receiving awards after award amounts have been finalized and paid.

4. What standards is the IRS using to determine employees who will receive these bonus payments? What percentage of the total IRS workforce will receive these payments?

In accordance with federal regulations, employees' official performance ratings are the sole basis for determining eligibility for performance awards. Information on the percentage of our workforce that will receive a performance award will not be available until award amounts are finalized and paid in early April.

5. Do you have any plans for future bonus payments to employees?

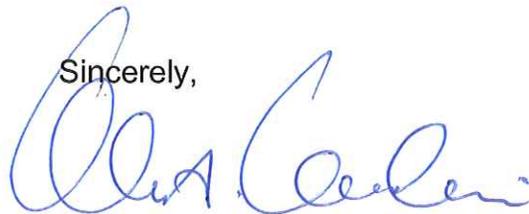
We have not made any decisions to pay future performance awards to employees.

6. It has been reported that these bonuses are meant to "boost morale" for employees at the agency. Performance based bonuses should rather be used when appropriate to reward employees for a superior work product rather than a morale booster for employees that may have not earned such a bonus. Would you please comment on the press reports of these funds being used as a morale booster rather than being based on performance?

Employees' official performance ratings are the sole basis for determining eligibility for performance awards. In addition, our collective bargaining agreement requires that, within available funding, we must base the amount of individual employee awards only on employees' official performance ratings and the complexity of employees' work. Federal regulations and the terms of our award programs prohibit granting performance awards to boost morale. But at the same time, withholding performance awards from high-performing employees eligible for an award negatively impacts the morale of these employees. Thus, I cannot dispute that performance awards do indeed boost morale. Notwithstanding that these awards may be viewed by some individuals as a morale booster, the exemplary employees whose dedication and commitment to the agency despite budget constraints and a 3-year pay freeze deserve performance awards. Therefore, I stand by my decision to pay awards.

I hope this information is helpful. If you have any questions, please contact me, or a member of your staff can contact Leonard Oursler, Director, Legislative Affairs, at (202) 317-6985.

Sincerely,



John A. Koskinen