

TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION



Snapshot: The IRS's Inflation Reduction Act Spending Through June 30, 2023

October 10, 2023

Report Number: 2024-IE-R002

HIGHLIGHTS: Snapshot: The IRS's Inflation Reduction Act Spending Through June 30, 2023

Final Evaluation Report issued on October 10, 2023

Report Number 2024-IE-R002

Why TIGTA Did This Evaluation

In addition to its Fiscal Year 2023 annual appropriation of \$12.3 billion, the IRS received approximately \$79.4 billion in supplemental funding when the President signed the Inflation Reduction Act of 2022 (IRA) into law in August 2022. Approximately \$1.4 billion in IRA funding was later rescinded by Congress reducing the available IRA supplemental funding to approximately \$78 billion. This supplemental funding is available through September 30, 2031.

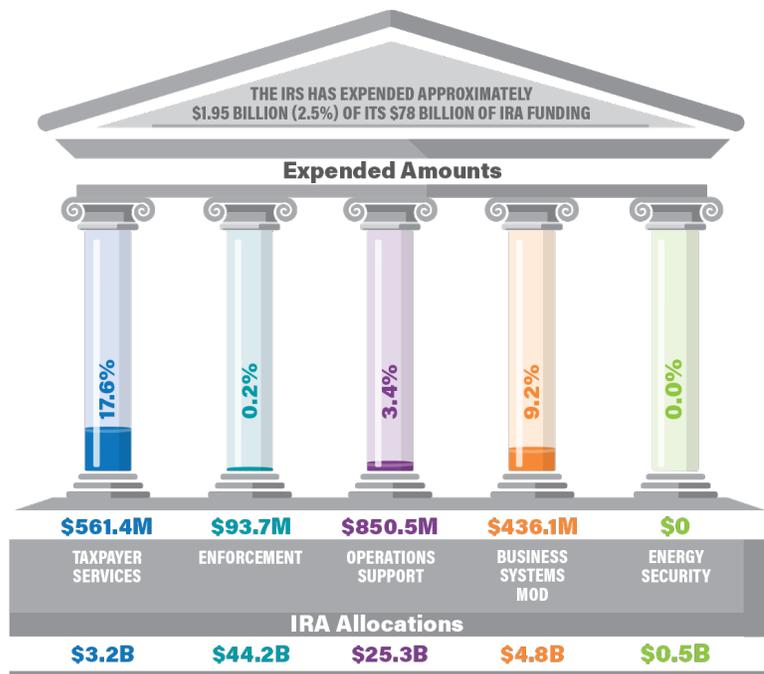
TIGTA initiated this review to provide periodic reporting on the IRS's use and accounting for expenditures using IRA funds. This report provides a snapshot on how the funding has been expended through June 30, 2023.

Impact on Tax Administration

The IRS's transformation efforts that will be achieved through IRA supplemental funding will help improve taxpayer service, update IRS computer systems, and increase compliance and enforcement actions against high income taxpayers and large corporations.

What TIGTA Found

This is our first reporting on the IRS's spending of its IRA funding. This report is inclusive of all IRA expenditures from the passage of legislation through June 30, 2023. Going forward, TIGTA plans to issue this type of report quarterly, which will provide quarterly and cumulative reporting on the IRS's use of IRA funding to implement its Strategic Operating Plan. Our reports will also highlight key IRA expenditures during the quarter. As of June 30, 2023, the IRS has expended approximately \$1.95 billion or 2.5 percent of its \$78 billion in IRA funding. The majority of the expenditures during this time period related to IRS employees' pay and benefits and contractors' support for advisory and assistance services.



IRS officials indicated that nearly \$2 billion of IRA funding has been budgeted to supplement its Fiscal Year 2023 annual appropriation as the amount the IRS received did not include adjustments to account for inflation, estimated at approximately \$460 million from Fiscal Year 2022. Additionally, the Taxpayer Services and Operations Support appropriations were already insufficient to cover normal operating expenses, and the Fiscal Year 2023 annual appropriations unexpectedly zeroed out the Business Systems Modernization account.

What TIGTA Recommended

This report was prepared to provide information only. Therefore, no recommendations were made in this report.



TREASURY INSPECTOR GENERAL

for Tax Administration

DATE: October 10, 2023

MEMORANDUM FOR: COMMISSIONER OF INTERNAL REVENUE

FROM: Russell P. Martin 
Deputy Inspector General for Inspections and Evaluations

SUBJECT: Final Report – Snapshot: The IRS’s Inflation Reduction Act Spending Through June 30, 2023 (Evaluation # IE-23-010-1)

This report presents the results of our review to provide periodic reporting on the Internal Revenue Service’s (IRS) use and accounting for expenditures using Inflation Reduction Act of 2022 (IRA) funds through June 30, 2023.¹ This review is part of our Fiscal Year 2023 Annual Program Plan and addresses the major management and performance challenge of *Administering Tax Law Changes*.

This is our first reporting on the IRS’s spending of its IRA funding. Going forward, the Treasury Inspector General for Tax Administration plans to provide quarterly and cumulative reporting on the IRS’s use of IRA funding to implement its Strategic Operating Plan. This report was prepared to provide information only. Therefore, no recommendations were made in the report.

If you have any questions, please contact me or Nancy LaManna, Assistant Inspector General for Inspections and Evaluations.

¹ Public Law No. 117-169, 136 Stat. 1818.

Table of Contents

Background	Page 1
Results of Review	Page 5
Spending on IRS Staffing	Page 8
Spending on Contractor Support	Page 8
Appendices	
Appendix I – Detailed Objective, Scope, and Methodology	Page 10
Appendix II – Abbreviations	Page.11

Background

The *Consolidated Appropriations Act, 2023*¹ provided annual appropriated funding of \$12.3 billion for three of the four Internal Revenue Service (IRS) primary budget activities for Fiscal Year (FY) 2023. Congress provided no appropriated funding for the Business Systems Modernization Program, which normally funds upgrades to IRS information technology systems, but did provide special funding transfer authority and direct hire authority to address the backlog of returns and correspondence. Specifically, the Act included:

- *\$2.8 billion for Taxpayer Services.* Budget authorization language sets forth that these funds are to be used to support prefilling assistance and education, filing and account services, taxpayer advocacy services as well as the Volunteer Income Tax Assistance Matching Grants Program, Low Income Taxpayer Clinic grants, and the Tax Counseling for the Elderly Program.
- *\$5.4 billion for Enforcement.* Budget authorization language sets forth that these funds are to be used to support enforcement efforts, including such things as determining and collecting taxes owed, providing legal and litigation support, and conducting criminal investigations (including investigative technology), as well as digital asset monitoring and compliance activities, to enforce criminal statutes related to violations of Internal Revenue laws and other financial crimes.
- *\$4.1 billion for Operations Support.* Budget authorization language sets forth that these funds are to be used to support the agency's ordinary operating expenses, including such things as rent payments; facilities services; printing and postage; physical security; telecommunications; and information technology operations, maintenance, and security, as well as research and statistics of income.

According to IRS management, during FY 2023, the IRS transferred approximately \$272 million of Enforcement appropriation funds as follows: \$100 million to the Taxpayer Services appropriation; \$122 million to the Operations Support appropriation; and \$50 million to the Business Systems Modernization appropriation.

In addition to the previously mentioned annual appropriation, the IRS also received approximately \$79.4 billion in supplemental funding when the President signed the Inflation Reduction Act of 2022 (IRA) into law in August 2022.² This supplemental funding, which is available through September 30, 2031, is intended to help the IRS transform the administration of the tax system and to improve the services provided to taxpayers. Similar to its annual appropriation, this supplemental funding included caps for the four primary budget activities as well as funding for a special task force to assess the feasibility of a free direct e-file tax return system. The supplemental IRA funding allocation by appropriation is as follows:

- Taxpayer Services - \$3.2 billion.

¹ Pub. L. No: 117-328.

² Pub. L. No. 117-169, 136 Stat. 1818.

- Enforcement - \$45.6 billion.³
- Operations Support - \$25.3 billion.
- Business Systems Modernization - \$4.8 billion.
- Energy Security Provisions -- \$500 million.
- Task Force to Design an IRS-Run Free Direct E-File Tax Return System - \$15 million. This funding remains available until September 30, 2023. As of June 30, 2023, the IRS expended approximately \$11 million on this effort. The IRS was required to deliver to Congress, within nine months of the law's enactment, a report on:⁴
 - The cost (including options for differential coverage based on taxpayer adjusted gross income and return complexity) of developing and running a free direct e-file tax return system, including costs to build and administer each release, with a focus on multilingual and mobile-friendly features and safeguards for taxpayer data.
 - Taxpayer opinions, expectations, and level of trust, based on surveys, for such a free direct e-file tax return system.
 - The opinions of an independent third party on the overall feasibility, approach, schedule, cost, organizational design, and IRS capacity to deliver such a direct e-file tax return system.⁵

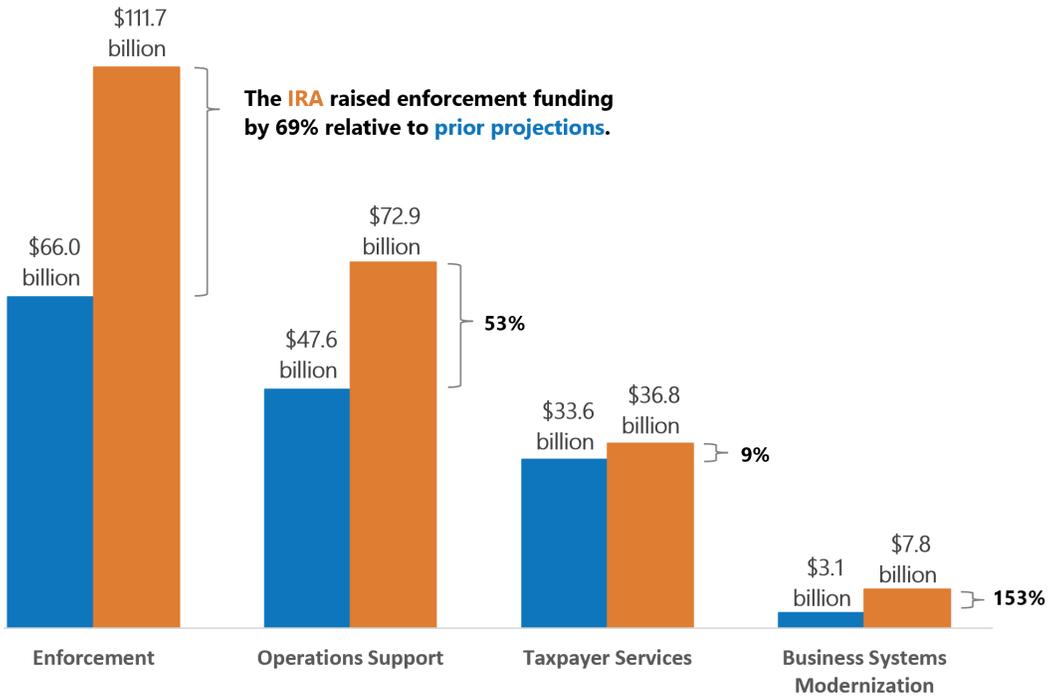
Figure 1 highlights how IRA funding is to be used to supplement the prior estimated budget projections for the IRS's four appropriation areas.

³ The amount of the Enforcement appropriation was reduced to \$44.2 billion.

⁴ The IRS issued the report on May 16, 2023.

⁵ TIGTA's Office of Audit conducted a review on the IRS's Free Direct Electronic Filing Proposal, TIGTA, Report No. 2024-408-002, *Inflation Reduction Act: Assessment of a Free and Electronic Direct Filing Tax Return System* (Oct. 2023).

Figure 1: The IRS's Budget Authority Through FY 2031 Under the IRA



Source: Congressional Research Service report, *IRS-Related Funding in the Inflation Reduction Act*, updated October 20, 2022. Note: The prior projections are for FY 2022 through FY 2031 and assume there is no change in base appropriation.

Shortly after passage of the IRA legislation, the IRS, working closely with the Department of the Treasury, began developing a Strategic Operating Plan (SOP) to outline how the IRS planned to transform its operations. On April 6, 2023, the IRS issued its SOP, covering FYs 2023 through 2031. The SOP is structured to achieve five transformation objectives, which will be accomplished through a series of initiatives and projects aligned to each. Successful delivery of these transformation objectives is interdependent of each other.

Figure 2: IRS Transformation Objectives



Source: *IRS Strategic Operating Plan (April 2023)*.

The SOP assumes that IRA funds will solely be used to support transformation efforts, while day-to-day operations will continue to be supported by the annual appropriation

In the FY 2024 Congressional Justification, the IRS estimated that it would need \$818 million more for its FY 2024 annual appropriation than it received in FY 2023 just to maintain its current

services. Assuming Congress provides a flat budget for FY 2024, the IRS would need to make up the \$818 million shortfall to maintain its current services using IRA funding. This means less funds available for IRS transformation efforts. Any reduction in the IRS's annual appropriated funding, including inadequate funding to cover inflationary increases, will require the IRS to shift IRA funding to cover general operating expenses. Additionally, the FY 2023 enacted budget eliminated the Business Systems Modernization appropriation, which created a budget shortfall. Without the restoration in the IRS's annual appropriation, IRA funding will only cover approximately two-thirds of the IRS's planned modernization.

Figure 3 outlines the five broad objectives outlined in the SOP and how the \$79.4 billion in supplemental IRA funding was initially allocated across the budget activities for the transformation objectives.

Figure 3: IRA Funding Allocated By Transformation Objectives⁶

Transformation Objective	TAXPAYER SERVICES	ENFORCEMENT	OPERATIONS SUPPORT	BUSINESS SYSTEMS MOD	CLEAN ENERGY	TOTAL PROPOSED INVESTMENT
 01 Dramatically improve services to help taxpayers meet their obligations and receive the tax incentives for which they are eligible.	1.5 BILLION	100 MILLION	2.1 BILLION	700 MILLION	0	4.3 BILLION
 02 Quickly resolve taxpayer issues when they arise.	100 MILLION	1.8 BILLION	700 MILLION	600 MILLION	0	3.2 BILLION
 03 Focus expanded enforcement on taxpayers with complex tax filings and a high-dollar noncompliance to address the Tax Gap.	200 MILLION	41.7 BILLION	5.5 BILLION	0	0	47.4 BILLION
 04 Deliver cutting-edge technology, data, and analytics to operate more effectively.	0	100 MILLION	9.2 BILLION	3.1 BILLION	0	12.4 BILLION
 05 Attract, retain, and empower a highly skilled, diverse workforce and develop a culture that is better equipped to deliver results for taxpayers.	200 MILLION	700 MILLION	6.9 BILLION	400 MILLION	0	8.2 BILLION
 Energy Security	1.2 BILLION	1.3 BILLION	900 MILLION	0	500 MILLION	3.9 BILLION
TOTAL IRA ALLOCATIONS	3.2 BILLION	45.6 BILLION	25.3 BILLION	4.8 BILLION	500 MILLION	79.4 BILLION

Source: IRS Strategic Operating Plan (April 2023).

During testimony in April 2023, the IRS Commissioner informed Congress that the historic funding provided under the IRA would allow the IRS to transform tax administration and taxpayer service in ways not possible under the annual budget. The Commissioner indicated that years of underfunding left the IRS understaffed and unable to deliver the modern customer service experience taxpayers deserve, with challenges operating on outdated information technology systems, and unable to keep up with a changing economy. The Commissioner highlighted that the transformative investments to be made using IRA funding can only be put

⁶ Numbers may not total due to rounding.

to work if Congress continues annual funding for steady-state maintenance of agency operations.

In June 2023, enactment of the *Fiscal Responsibility Act of 2023*⁷ resulted in the rescission of approximately \$1.4 billion of IRA funding provided to the IRS. According to IRS officials, this rescission will come from the Enforcement appropriation, reducing the IRA Enforcement appropriation from \$45.6 billion to approximately \$44.2 billion. According to an IRS official, the IRS is still evaluating the impact of this rescission on its efforts to reduce the Tax Gap via addressing noncompliance in a balanced manner. It is likely that most of the rescission will impact Objective 3 in the SOP. However, spending from the Enforcement appropriation is planned to assist in completing all the objectives, including work regarding energy security, and it is possible that the other objectives will see adjustments due to the rescission. Finally, in addition to the \$1.4 billion rescission, the Administration agreed to reduce future IRS appropriations by approximately \$20 billion. According to IRS officials, a decision has not been reached on which appropriation accounts this will impact.

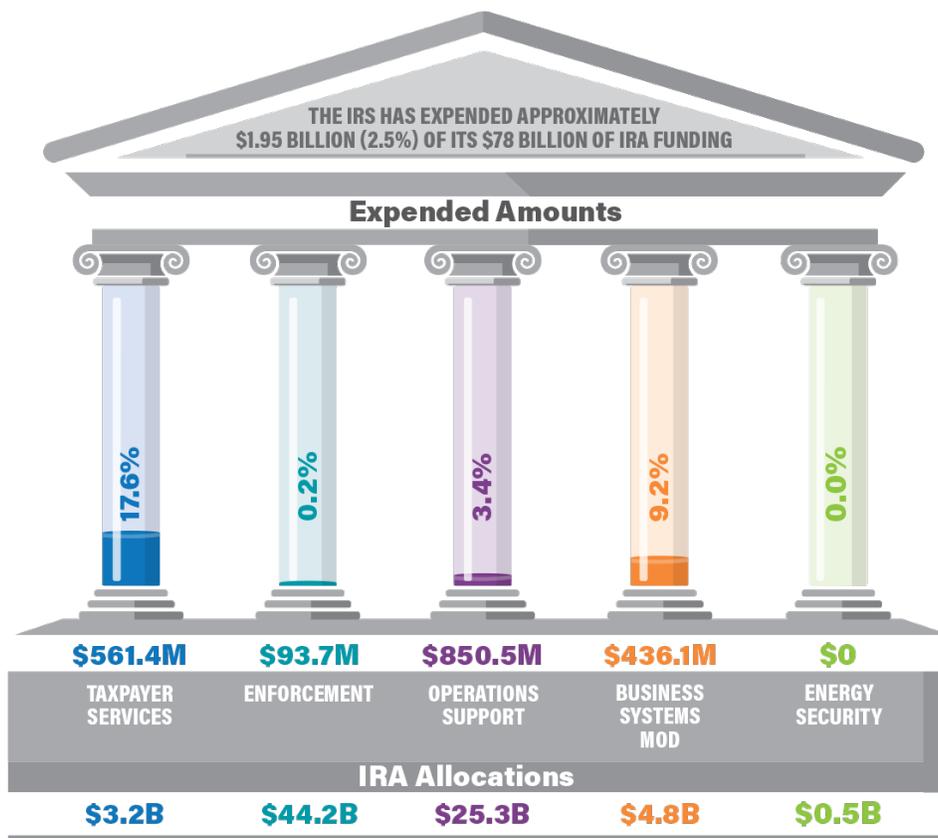
Results of Review

This is our first reporting on the IRS's spending of its IRA funding. This report is inclusive of all IRA expenditures from the passage of the legislation through June 30, 2023. Going forward, we plan to issue this type of report quarterly, which will provide quarterly and cumulative reporting on the IRS's use of IRA funding to implement its SOP. Our reports will also highlight key IRA expenditures during the quarter.

As of June 30, 2023, the IRS has used approximately \$1.95 billion or 2.5 percent of its \$78 billion IRA funding available after the rescission. Additionally, IRS officials indicated nearly \$2 billion of IRA funding has been budgeted to supplement its FY 2023 annual appropriation as the amount the IRS received did not include adjustments to account for inflation, estimated at approximately \$460 million from FY 2022. Additionally, the Taxpayer Services and Operations Support appropriations were already insufficient to cover normal operating expenses, and the FY 2023 annual appropriations unexpectedly zeroed out the Business Systems Modernization account. Figure 4 provides the breakdown of IRA expenditures by funding activity.

⁷ Pub. L. No. 118-5.

Figure 4: Breakdown of IRA Expenditures by Funding Activity⁸



Source: Treasury Inspector General for Tax Administration (TIGTA)-created graphic based on information provided by the Office of the Chief Financial Officer.

The IRS developed a series of fund codes to track IRA funding and spending

As mentioned previously, the IRA legislation provides the IRS with almost \$80 billion over the next 10 years. The law intended that this increase in funding supplement, not replace, the IRS's annual appropriations. To assist in monitoring the use of IRA funds, the IRS applies the same established procedures it uses to track its annual appropriations and spending. For example, the IRS created a series of fund codes to track IRA funding and spending. The fund codes are how the IRS tracks the source of funds in the IRS's Integrated Financial System.⁹ The IRS reports on IRA spending based on these fund codes and uses the same budget activity structure to report on its annual appropriation spending.

IRA legislation does not allow any transfers between the various budget appropriations. For instance, funds cannot be moved from Enforcement to Taxpayer Service. As the IRS rolls out the various projects and initiatives, it will track the funds by the activities detailed previously.

⁸ Percentages of IRA funds expended may not calculate correctly due to rounding. Additionally, the Enforcement appropriation amount is after the FY 2023 \$1.4 billion rescission.

⁹ The Integrated Financial System is a packaged system software solution. It enables the IRS to integrate the majority of its internal financial management processes, share common financial data and practices across the entire organization, and produce and access financial data online in a real-time environment.

Figure 5 highlights the cumulative IRA expenditures by object class for the various funding activities.

Figure 5: IRA Funding Activity Expenditures by Object Class¹⁰

		TAXPAYER SERVICES	ENFORCEMENT	OPERATIONS SUPPORT	BUSINESS SYSTEMS MOD	DIRECT E-FILE	GRAND TOTAL
Labor Total	IRS Employee Pay & Benefits	\$496,612,837	\$32,120,468	\$141,509,163	\$50,112,838	\$367,065	\$720,722,370
Non-Labor	Contractor Support - Advisory and Assistance	\$64,047,912	\$11,588,998	\$298,897,715	\$336,741,343	\$8,624,814	\$719,900,780
	Communications, Utilities, and Miscellaneous Charges	0	0	\$28,694,240	0	0	\$28,694,240
	Equipment	0	\$1,872,931	\$314,275,426	\$43,458,146	\$254,897	\$359,861,399
	Purchase/Improvement of Land and Facilities	0	0	\$23,756,298	0	0	\$23,756,298
	Operation and Maintenance of Equipment	0	0	\$1,798,437	\$5,541,667	0	\$7,340,104
	Operation and Maintenance of Facilities	0	0	\$14,335,380	\$136,872	0	\$14,472,252
	Services From Federal Sources	\$646,247	\$47,301,761	\$24,130,597	0	\$1,892,380	\$73,970,985
	Other Goods and Services From Non-Federal Sources	0	\$4,600	\$703,926	0	0	\$708,526
	Printing and Reproduction	0	\$1,700	\$754,287	0	0	\$755,987
	Supplies and Materials	\$41,808	\$5,402	\$936,672	0	0	\$983,882
	Employee Travel	\$50,778	\$793,745	\$757,164	\$82,138	0	\$1,683,826
	Unvouchered	0	\$28,503	0	0	0	\$28,503
Non-Labor Total		\$64,786,745	\$61,597,640	\$709,040,143	\$385,960,166	\$10,772,090	\$1,232,156,784
Grand Total		\$561,399,582	\$93,718,108	\$850,549,306	\$436,073,003	\$11,139,155	\$1,952,879,154

Source: IRS Integrated Financial System Report as of June 30, 2023.

As illustrated in Figure 5, as of June 30, 2023, the IRS reported the largest portion of IRA expenditures was for IRS employee compensations (*i.e.*, pay/benefits), totaling approximately \$721 million, and contractor advisory and assistance services totaling approximately \$720 million

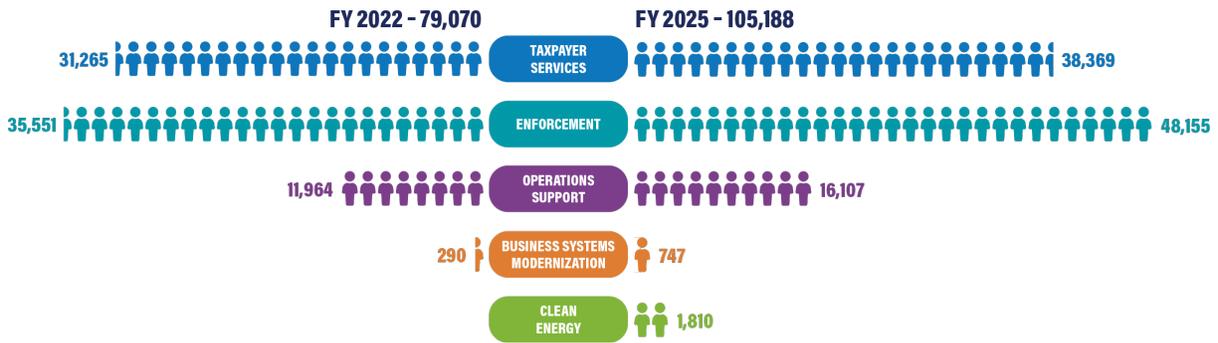
¹⁰ Percentages of IRA funds expended may not calculate correctly due to rounding. Additionally, as of June 30, 2023, the IRS has not apportioned or expended any funds from the Energy Security Provision appropriation.

Spending on IRS Staffing

As of June 30, 2023, the IRS expended approximately \$721 million in labor costs from its IRA funding. Most of the labor costs (approximately \$497 million) were in the Taxpayer Services appropriation. IRA funding in Taxpayer Services has helped support the IRS's efforts to hire additional customer service representatives to answer taxpayer telephone calls, as well as employees to staff Taxpayer Assistance Centers for the 2023 Filing Season.

According to an IRS Spending Compendium dated April 19, 2023, the IRS expects labor costs will continue to grow as the IRS plans to increase staffing levels to 105,188 by FY 2025. The planned increase in staffing will be funded from discretionary spending from the annual appropriation and IRA supplemental funding. If achieved, the IRS will increase its staffing by 26,118 employees, which represents a 33 percent increase from its FY 2022 staffing level of 79,070. Figure 6 shows the projected growth in IRS personnel by funding category.

Figure 6: Projected Growth in IRS Personnel



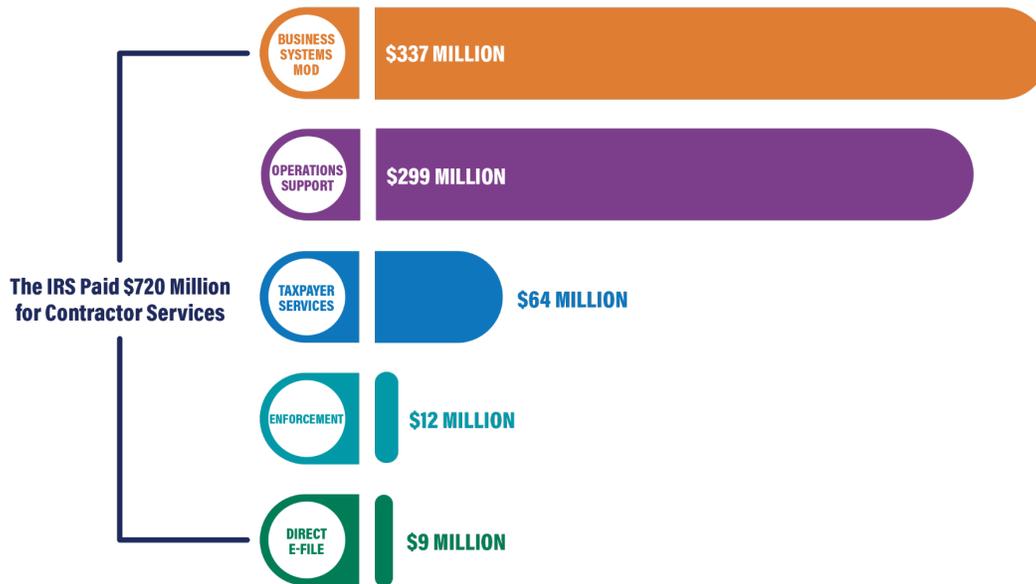
Source: IRS Data Book and IRS Spending Compendium Provided to Congress.

The IRS will face considerable challenges to increase its staffing levels to 105,188. For the period FY 2023 to FY 2025, the IRS estimates it could lose 26,000 employees to either retirement or separation from the agency. This includes an estimated 14,500 employees in Taxpayer Services and 8,000 employees in Enforcement. These losses equate to almost 33 percent of the employees working at the IRS as of the end of FY 2022. Therefore, in order to meet its hiring goal, the IRS will have to onboard over 52,000 employees during FY 2023 to FY 2025, to keep pace with estimated attrition.

Spending on Contractor Support

Since the passage of the IRA legislation, the IRS has used approximately \$720 million of the IRA funding to pay contractors for what the IRS classifies as advisory and assistance services. Most of these expenditures were for the Operations Support and Business Systems Modernization budget activities totaling approximately \$299 million and \$337 million, respectively. Figure 7 reflects the expenditures for contractor advisory and assistance support that have been expended through June 30, 2023, using IRA funding.

Figure 7: Expenditures for Contractor Support by Budget Activity¹¹



Source: IRS Integrated Financial System Report as of June 30, 2023.

TIGTA requested specifics on the deliverables received from these expenditures. IRS Procurement indicated that the Contracting Officers would need to contact the Contracting Officer’s Representative to see what has presently been delivered. Due to year-end procurement actions, the staff was unable to provide a response before the issuance of our report. However, in discussions with Chief Financial Officer staff, we learned that the IRS used contractor support in its efforts to develop its SOP and standup of its Transformation and Strategy Office. TIGTA will follow up on specifics regarding contractor deliverables in our next quarterly funding report.

¹¹ The individual expenditure amounts do not total \$720 million due to rounding.

Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this project was to provide periodic reporting on the IRS's use and accounting for expenditures using IRA funds through June 30, 2023. To accomplish our objective, we:

- Obtained IRA expenditures as of June 30, 2023, from the Integrated Financial System to identify overall expenditures by appropriation areas (*i.e.*, Taxpayer Services, Operations Support, *etc.*) and object class code.
- Determined the impact on IRS appropriations from the rescission of funding as part of the debt ceiling negotiations.
- Highlighted any trends and concerns regarding the expenditures.

Performance of This Review

This review was performed with information obtained from the Office of the Chief Financial Officer located in Washington, D.C., during the period May through August 2023. We conducted this evaluation in accordance with the Council of the Inspectors General for Integrity and Efficiency Quality Standards for Federal Offices of Inspector General. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our evaluation objective.

Major contributors to the report were Nancy LaManna, Assistant Inspector General for Inspections and Evaluations; Debbie Kisler, Director; Tom Dori, Senior Evaluator; and Lindsay Steward, Senior Evaluator.

Data Validation Methodology

We used data from the IRS's Integrated Financial System for our analysis. We evaluated the data by reviewing existing data produced from the system and interviewing personnel in the Office of the Chief Financial Officer to ensure the information was accurate. Data regarding funding allocations were based on testimonial evidence obtained from the Office of the Chief Financial Officer.

Appendix II

Abbreviations

FY	Fiscal Year
IRA	Inflation Reduction Act
IRS	Internal Revenue Service
SOP	Strategic Operating Plan
TIGTA	Treasury Inspector General for Tax Administration



**To report fraud, waste, or abuse,
contact our hotline on the web at www.tigta.gov or via e-mail at
oi.govreports@tigta.treas.gov.**

**To make suggestions to improve IRS policies, processes, or systems
affecting taxpayers, contact us at www.tigta.gov/form/suggestions.**

Information you provide is confidential, and you may remain anonymous.