

TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION



Inflation Reduction Act: Assessment of Implementation of Processing Year 2023 Tax Provisions

October 3, 2023

Report Number: 2024-408-004

This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.

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HIGHLIGHTS: Inflation Reduction Act: Assessment of Implementation of Processing Year 2023 Tax Provisions

Final Audit Report issued on October 3, 2023

Report Number 2024-408-004

Why TIGTA Did This Audit

On August 16, 2022, the President signed into law the Inflation Reduction Act of 2022 (IRA). The legislation provides funding to the IRS to improve taxpayer services, update antiquated computer systems, and increase compliance and enforcement actions on segments of taxpayers with complex issues and complex tax returns, such as large partnerships, large corporations, and high-income individuals. The legislation contains 38 provisions, including 36 tax provisions that affect individual and business taxpayers, and two provisions directed at IRS funding.

TIGTA initiated this audit to assess the accuracy and completeness of the IRS's actions to implement the tax provisions of the IRA.

Impact on Tax Administration

The legislation includes 20 tax provisions that required the IRS to implement changes related to tax return processing for Processing Year 2023. This required the IRS to create or revise tax forms, instructions, and publications; update computer programming to process tax returns affected by the provisions; and communicate and provide guidance to taxpayers and tax professionals on the tax law changes.

What TIGTA Found

The IRS used several established processes to immediately begin the task of tracking and implementing the 36 tax provisions. This included creating an implementation oversight office to work across the IRS overseeing the implementation efforts. Additionally, the IRS created the IRA 2022 Tax Provision Implementation Office, which is primarily responsible for overseeing the implementation of the tax provisions.

TIGTA's review identified that 20 of the 36 tax provisions affect the filing of tax returns during Processing Year 2023. As of May 12, 2023, the IRS created or revised 71 tax products related to these provisions. Our review of these tax products identified concerns with only the Instructions for the Form 720, *Quarterly Federal Excise Tax Return*, which contained incorrect manufacturer tax rates.

In addition, the tax provisions affecting Processing Year 2023 required the IRS to create or modify 78 electronic filing business rules. TIGTA identified concerns with three business rules related to Form 8974, *Qualified Small Business Payroll Tax Credit for Increasing Research Activities*. These business rules were rejecting tax returns with [REDACTED] was needed to reduce taxpayer burden.

Finally, actions are underway to implement the 16 tax provisions of the IRA that become effective during Processing Years 2024 through 2028. As of June 16, 2023, the IRS has identified 68 tax products affected for future processing years on these provisions, including 25 tax forms, 41 instructions, and two publications. This includes efforts to implement processing controls for the clean vehicle credits and elective payments for energy property and electricity produced from certain renewable resources. TIGTA plans to continue to monitor the implementation during Processing Year 2024.

The IRA required the IRS to create or revise:



34 tax forms (6 new)



34 tax form instructions



3 publications

71 tax products

What TIGTA Recommended

TIGTA recommended that the IRS should update computer programming [REDACTED] on three business rules related to Form 8974. The IRS agreed with this recommendation and requested programming updates for implementation for the 2024 Filing Season.



TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

U.S. DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20024

October 3, 2023

MEMORANDUM FOR: COMMISSIONER OF INTERNAL REVENUE

Heather Hill

FROM: Heather M. Hill
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Inflation Reduction Act: Assessment of
Implementation of Processing Year 2023 Tax Provisions
(Audit #202340826)

This report represents the results of our review to assess the accuracy and completeness of the Internal Revenue Service's actions to implement the tax provisions of the Inflation Reduction Act of 2022. This review is part of our Fiscal Year 2023 Annual Audit Plan and addresses the major management challenge of *Administering Tax Law Changes*.

Management's complete response to the draft audit report is included as Appendix IV. If you have any questions, please contact me or Diana M. Tengesdal, Assistant Inspector General for Audit (Returns Processing and Account Services).

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Background

On August 16, 2022, the President signed into law the Inflation Reduction Act of 2022 (IRA).¹ The legislation authorizes almost \$80 billion through September 30, 2031, to the Internal Revenue Service (IRS) to improve taxpayer services, update antiquated computer systems, and increase compliance and enforcement actions on segments of taxpayers with complex issues and complex tax returns, such as large partnerships, large corporations, and high-income individuals. The IRS also received \$15 million to fund a task force to study the cost and feasibility of creating a free direct electronic filing (e-file) system with funding available until September 30, 2023.² The White House considers the IRA one of the most significant actions taken on clean energy and climate change in the Nation’s history.

The IRA contains 38 provisions affecting the IRS, 36 of which are tax provisions impacting both individual and business taxpayers.³ Figure 1 provides a breakdown of IRA provisions.

Figure 1: Summary of IRA Provisions



Source: Treasury Inspector General for Tax Administration (TIGTA) summary of IRA provisions.

The IRS and the Department of the Treasury (referred to as the Treasury Department) develop and issue guidance documents to assist taxpayers with the interpretation of the Internal Revenue Code (I.R.C.) sections associated with provisions in the IRA.⁴ The IRS anticipates that approximately 70 different guidance products relating to the IRA will be issued. As of April 21, 2023, the IRS and the Department of the Treasury have issued 27 guidance products.

¹ Pub. L. No. 117-169, 136 Stat. 1818.

² Treasury Inspector General for Tax Administration, Audit No. 202340808, *Inflation Reduction Act: Assessment of the IRS’s Free, Electronic Filing Proposal*.

³ See Appendix II for a list of the 38 tax provisions.

⁴ See Appendix V for a glossary of terms.

On June 3, 2023, the President signed into law the Fiscal Responsibility Act of 2023, which suspended the limit on Federal debt through January 1, 2025.⁵ This Act made changes that affected Federal spending and rescinded almost \$1.39 billion in IRA funding to the IRS.

Creation of oversight office to assist with implementation

The IRS used several established processes to immediately begin the task of tracking and implementing the 36 tax provisions. This includes creating an implementation oversight office, the IRA 2022 Transformation and Strategy Office, to oversee the IRS's collective implementation efforts. Additionally, the IRS created the IRA 2022 Tax Provision Implementation Office to oversee the implementation of the tax provisions. Working groups are assigned to each tax provision and will identify the specific actions needed to implement the assigned provision(s). The working groups include representatives from the various business units including the Wage and Investment Division, Office of Chief Counsel, Information Technology organization, Small Business/Self-Employed Division, Large Business and International Division, and Tax Exempt and Government Entities Division.

Twenty of the 36 tax provisions required the IRS to implement changes related to tax return processing for Processing Year 2023.

To help facilitate tracking the actions to implement the tax provisions, the IRS relies on the Legislative Analysis, Tracking, and Implementation System and the Enterprise Integrated Program Plan. These systems work in conjunction with one another and provide detailed information regarding specific tasks, due dates, and the business unit that is responsible for completing the implementation tasks. The IRS updates these tracking tools biweekly to keep management apprised of the IRS's overall implementation efforts. In January 2023, TIGTA's Office of Inspections and Evaluations reported on the IRS's development of processes and procedures to monitor, measure, and track implementation efforts of all IRA tax-related provisions.⁶ Our current review continues to assess the IRS's implementation efforts.

Process for creating and updating tax forms, instructions, and publications

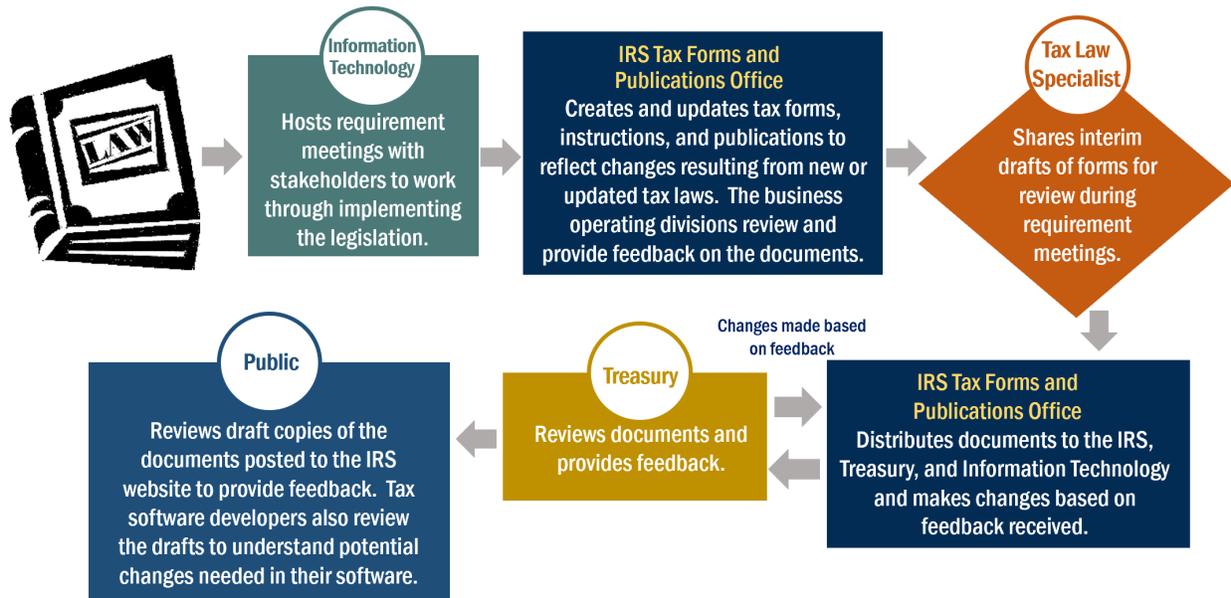
The IRS Tax Forms and Publications Office is responsible for identifying, creating, and updating tax forms, instructions, and publications to reflect changes resulting from the IRA.⁷ This process includes receiving input from the various operating divisions, obtaining feedback from the Department of the Treasury, and receiving public comments on the documents. In addition, the IRS's Information Technology organization is alerted of potential computer programming that may be required. Figure 2 provides a summary of the process to modify tax forms, instructions, and publications.

⁵ Pub. L. No. 118-5, 137 Stat. 30.

⁶ TIGTA, Report No. 2023-IE-R003, *Inflation Reduction Act: Assessment of the Internal Revenue Service Implementation Efforts* (Jan. 2023).

⁷ There are some instances where a business operating division creates the tax forms and instructions.

Figure 2: Process to Modify Tax Forms, Instructions, and Publications



Source: TIGTA summary of the tax forms, instructions, and publications update process.

Identification and development of tax return processing controls

Tax return processing controls include business rules for e-filed tax returns and error resolution codes. The IRS develops these controls to validate information on both e-filed and paper-filed tax returns. The operating division responsible for implementing a specific legislative provision, in coordination with the Submission Processing function and the Information Technology organization, is responsible for determining if computer programming changes are necessary to process new or revised tax forms. If a change is needed, the operating division will prepare an information technology work request detailing the specific computer programming needed and send this information to the Information Technology organization. These programming requests include data fields needed for an existing or new tax form, and business rule and error resolution code language to validate tax return data during processing.

TIGTA has several ongoing and planned reviews to assess the IRS's implementation of the IRA.⁸ This includes, for example, reviewing the tax credits related to clean vehicles, the elective payment election for energy property, and the feasibility of creating a free direct e-file system.

⁸ See Appendix III for a list of TIGTA audits on the IRA.

Results of Review

Upon enactment, the IRS took actions to implement the tax provisions of the IRA. These actions include:

- Creating or revising 71 tax products as of May 12, 2023. This includes 34 tax forms (six that were new), 34 instructions, and three publications.
- Identifying and updating computer programming required for processing tax returns and tax forms affected by IRA provisions. For example, the IRS identified 20 information technology systems that required updates to implement the new provisions for Processing Year 2023, including creating or modifying 78 e-file business rules.
- Developing a communication and outreach plan to educate and inform taxpayers and tax professionals about the changes to the I.R.C.

In addition to these implementation actions, on April 6, 2023, the IRS published its IRA Strategic Operating Plan (referred to as the Plan) for Fiscal Years 2023 through 2031.⁹ The Plan outlines how the IRS will deploy the investments made by the IRA to better serve taxpayers, tax professionals, and the broader tax ecosystem. The Plan states that the IRS will improve the taxpayer experience through better customer service, clearer guidance on how to correctly file taxes, increased options for filing electronically, and increased access to online accounts to take care of business quickly and independently.

Actions Were Taken to Update Tax Products and Computer Programming for Processing Year 2023

Based on our review of IRA provisions, we identified that 20 of the 36 tax provisions affected the filing of tax returns during Processing Year 2023. This required the IRS's Tax Forms and Publications Office to create six new tax forms and four new instructions, and update 28 tax forms, 30 instructions, and three publications to ensure that taxpayers understand and meet their tax responsibilities.

Our review of the new and modified tax forms, instructions, and publications identified a concern with the instructions for Form 720, *Quarterly Federal Excise Tax Return*. On March 15, 2023, we informed the IRS of our concern that these instructions were published with the incorrect manufacturer tax rates and, as a result, taxpayers may be at risk of filing incorrect tax returns. The IRS agreed with our concern and published the revised Instructions for Form 720 with the correct manufacturer tax rates on March 22, 2023.

Evaluation of new and modified e-file business rules

The IRS developed additional controls to validate information on the new or revised tax forms for both e-filed and paper-filed tax returns. The computer programming related to these changes and updates included the creation or modification of 78 e-file business rules for

⁹ IRS Publication 3744, *Internal Revenue Service Inflation Reduction Act Strategic Operating Plan* (April 2023), available at www.irs.gov/pub/irs-pdf/p3744.pdf.

Processing Year 2023. This includes 26 business rules for individual tax returns and 52 business rules for business tax returns.

Individual tax return e-file business rules

In May 2023, we reported that our testing of the 26 business rules for individual tax returns did not identify any concerns with the business rules we were able to test.¹⁰ We noted that, at the time of our testing, we were unable to confirm whether the rules were working correctly in accepting tax returns for two business rules or when rejecting tax returns for five business rules due to an insufficient volume of returns with the rule criteria to test. We will continue to monitor and test the remaining business rules and will report on their accuracy later in Calendar Year 2023 as part of our filing season review.¹¹

Business tax return e-file business rules

As of May 3, 2023, our testing identified concerns with three business rules for business tax returns. Our concerns related to the business rules for Form 8974, *Qualified Small Business Payroll Tax Credit for Increasing Research Activities*, that were put into place to ensure the accuracy of calculations of qualified small business payroll tax credits for increasing research activities. Our analysis identified 32 tax returns [REDACTED] that were rejected by the three business rules. This includes tax returns rejected with [REDACTED]. On June 1, 2023, we advised the IRS of our concern that the business rules were rejecting tax returns with [REDACTED] and recommended that [REDACTED] was needed to reduce taxpayer burden. IRS management stated that the three business rules would be updated [REDACTED], and they plan to implement the updated rules in January 2024.

Although there was a total of 52 business rules associated with business tax returns, we could only test 36 business rules for accepted business tax returns and seven business rules for rejected business tax returns. The remaining business rules could not be tested because there was an insufficient number of tax returns filed and processed with the rule criteria to evaluate whether the business rules were functioning as intended. We will continue to monitor the business rules during our subsequent audit work.

Recommendation 1: The Commissioner, Wage and Investment Division, should ensure that [REDACTED] is implemented for the three business rules used to verify the accuracy of calculations of qualified small business payroll tax credits reported on the Form 8974.

Management's Response: IRS management agreed with this recommendation and requested programming updates for implementation for the 2024 Filing Season.

Training Needs Are Being Assessed, and Efforts Are Being Made to Provide Communication and Outreach to Taxpayers

As of February 2023, the IRS identified and updated several sections of its internal guidance, *i.e.*, Internal Revenue Manual, that relates to provisions of the IRA. The IRS has also been assessing the training needs of the employees of the various business units. The IRS noted that

¹⁰ TIGTA, Report No. 2023-40-029, *Interim Results of the 2023 Filing Season* p. 6 (May 2023).

¹¹ TIGTA, Audit No. 202340004, *2023 Filing Season Individual Tax Return Processing (Final)*.

the compliance functions will receive some training later in Calendar Year 2023 and additional training in subsequent calendar years when examinations will be conducted.

As part of its communication and outreach plan, the IRS participated in roundtables, national webinars, conventions, and Tax Forums focused on educating taxpayers and tax professionals. The IRS also created landing pages on its website dedicated to providing guidance to taxpayers on taxes, credits, and deductions, and issued news releases and updates on social media regarding the IRA.

In addition, the IRS updated the existing 800-829-1040 toll-free line to include an interactive voice response menu option for taxpayers that may be calling with questions about IRA-related changes to the clean vehicle credits. The option includes listening to standardized messaging about the clean vehicle credits until the call is directed to a live telephone assistor. The live telephone assistors work for a third-party contractor that was hired to provide support for the clean vehicle credit. The IRS provided scripts to these contracted telephone assistors to help them with answering taxpayer questions or direct callers to the clean vehicle section of the IRS website.¹² In early March 2023, the contracted telephone assistors received additional training and were instructed to use the clean vehicle frequently asked questions page on the IRS website to assist taxpayers.

Implementation Efforts Are Underway for Provisions Effective in Processing Year 2024 and Beyond

The IRS has started to identify and track the needed implementation actions for the remaining 16 tax provisions of the IRA that become effective during Processing Years 2024 through 2028. As of June 16, 2023, the IRS has identified 68 products, including 25 tax forms, 41 instructions, and two publications that will need to be updated for future processing years on these provisions. Along with the tax products, the IRS will also need to create or update business rules for these provisions for Processing Year 2024.

Processing controls are being explored to ensure that taxpayers are compliant with the requirements for the clean vehicle credits

The IRA extended and added requirements to the tax credit for qualifying new plug-in electric vehicles and fuel cell vehicles, now together referred to as clean vehicles. The IRA also established new tax credits for qualifying used clean vehicles and qualified commercial clean vehicles.¹³ The new clean vehicle credit and commercial clean vehicle credit can be claimed by an individual or business purchasing a new qualifying clean vehicle, while only individuals can claim the credit for used clean vehicles. Additionally, beginning in Calendar Year 2024, the credit amount for a qualified new clean vehicle or used clean vehicle can be transferred, for the benefit of the buyer, to the qualified vehicle dealer.

¹² See the clean vehicle section of the IRS website at <https://www.irs.gov/newsroom/frequently-asked-questions-about-the-new-previously-owned-and-qualified-commercial-clean-vehicles-credit>.

¹³ See I.R.C. § 30D, *Clean Vehicle Credit*; § 25E, *Previously-Owned Clean Vehicles*; and § 45W, *Credit for Qualified Commercial Clean Vehicles*.

The IRS continues to work on various implementation actions related to the clean vehicle credits that are effective for vehicles placed into service on or after January 1, 2023. As of April 2023, the IRS:

- Received written agreements from 40 qualified manufacturers.
- Created a template for qualified manufacturers to report qualified vehicle identification numbers to the IRS.
- Issued guidance to taxpayers on qualifications and reporting requirements on the clean vehicle provisions; however, additional guidance is in the process of being issued.
- Drafted the revised Form 8936, *Clean Vehicle Credits*, for Tax Year 2023.¹⁴ The form and its associated instructions are planned for release by January 2024.

Status of actions to allow taxpayers to make a payment election on eligible credits

IRA Provision 13801, *Elective Payment for Energy Property and Electricity Produced from Certain Renewable Resources, Etc.*, allows entities to elect to have an elective payment against Federal tax or transfer credits to other entities for 12 specific tax credits. As of May 2023, the IRS is:

- Developing a prefiling process for entities to register with the IRS how they plan to treat the credit, *i.e.*, elect payment of the credit amount or transfer the credit to another entity.¹⁵ The IRS will review the registration and provide the taxpayer with a registration number that will be used to track the credit during tax return processing.
- Developing a portal that will enable taxpayers to easily share and receive registration information with the IRS to allow them to establish systemic checks, match registration numbers to tax forms, and confirm the validity of entities. The IRS expects to implement the portal by October 2023.
- Updating and developing controls for tax return processing impacted by the provision to ensure that taxpayers that claim the elective payment or transfer of the credit are eligible.

Although the IRS has made significant progress implementing the clean vehicle credits and elective payment election provisions, it still has additional tasks to address prior to the start of the 2024 Filing Season. TIGTA plans to continue to monitor the implementation of the clean vehicle credits and the elective payment election for Processing Year 2024.

¹⁴ This form was previously named Form 8936, *Qualified Plug-in Electric Drive Motor Vehicle Credit (Including Qualified Two-Wheeled Plug-in Electric Vehicles and New Clean Vehicles)*.

¹⁵ The actual election and payment method are made with the filing of the tax return.

Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this audit was to assess the accuracy and completeness of the IRS's actions to implement the tax provisions of the IRA. To accomplish our objective, we:

- Identified and evaluated the IRS's oversight process to implement the IRA.
- Evaluated the IRS's actions to implement tax provisions effective for Processing Year 2023 including the evaluation of updates to tax forms, instructions, and publications, and testing of new or modified business rules.
- Evaluated the IRS's actions to implement tax provisions that will be effective for Processing Year 2024 and beyond to ensure that continual progress is made toward the implementation of these provisions.

Performance of This Review

This review was performed with information obtained from the IRA 2022 Tax Provision Implementation Office in Washington, D.C., as well as the individual business units such as the Wage and Investment, Large Business and International, Small Business/Self-Employed, and Tax Exempt and Government Entities Divisions, during the period November 2022 through July 2023. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Major contributors to the report were Diana M. Tengesdal, Assistant Inspector General for Audit (Returns Processing and Account Services); Darryl J. Roth, Director; Jonathan W. Lloyd, Audit Manager; Cindy K. Hung, Lead Auditor; Alexis E. Gomez, Auditor; Ian B. Maloney, Auditor; and Mallory B. Vest, Auditor.

Validity and Reliability of Data From Computer-Based Systems

During this review, we relied on accepted and rejected tax return data extracted from the IRS's Modernized Tax Return Database for business tax returns from Processing Year 2023. We evaluated the data by performing electronic testing of required data elements, reviewing existing information about the data, selecting random samples, and verifying the samples against the IRS's Employee User Portal to determine that the data obtained were sufficiently reliable for the purposes of this report.

Internal Controls Methodology

Internal controls relate to management's plans, methods, and procedures used to meet their mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance. We determined that the following internal controls were relevant to our audit objective: the IRS's business rules for

Processing Year 2023; Internal Revenue Manual sections on updating tax forms, instructions, and publications; and the IRS's methods to track implementation actions in the Legislative Analysis, Tracking, and Implementation System and Enterprise Integrated Program Plan. We evaluated these controls by reviewing the Legislative Analysis, Tracking, and Implementation System; Enterprise Integrated Program Plan; and the Internal Revenue Manuals; holding discussions with IRS management; and reviewing other relevant documentation obtained from the IRS.

Appendix II

Provisions of the Inflation Reduction Act of 2022

Provision	Provision Title	Taxpayer Impact ¹	Processing Year Effective
Provisions Effective for Processing Year 2023			
10101	Corporate Alternative Minimum Tax	Business	2023
10201	Excise Tax on Repurchase of Corporate Stock	Business	2023
13101	Extension and Modification of Credit for Electricity Produced From Certain Renewable Resources	Business	2023
13102	Extension and Modification of Energy Credit	Business	2023
13104	Extension and Modification of Credit for Carbon Oxide Sequestration	Business	2023
13201	Extension of Incentives for Biodiesel, Renewable Diesel, and Alternative Fuels	Business	2023
13202	Extension of Second Generation Biofuel Incentives	Business	2023
13203	Sustainable Aviation Fuel Credit	Business	2023
13204	Clean Hydrogen	Business	2023
13301	Extension, Increase, and Modifications of Nonbusiness Energy Property Credit	Individual	2023
13302	Residential Clean Energy Credit	Individual	2023
13303	Energy Efficient Commercial Buildings Deduction	Business	2023
13304	Extension, Increase, and Modifications of New Energy Efficient Home Credit	Business	2023
13401	Clean Vehicle Credit	Individual and Business	2023
13403	Qualified Commercial Clean Vehicles	Business	2023
13404	Alternative Fuel Refueling Property Credit	Individual	2023
13502	Advanced Manufacturing Production Credit	Business	2023
13601	Reinstatement of Superfund	Business	2023
13901	Permanent Extension of Tax Rate to Fund Black Lung Disability Trust Fund	Business	2023
13902	Increase in Research Credit Against Payroll Tax for Small Businesses	Business	2023
Provisions Effective for Processing Year 2024			
11003	Excise Tax Imposed on Drug Manufacturers During Noncompliance Periods	Business	2024
11408	Safe Harbor for Absence of Deductible for Insulin	Individual	2024
12001	Improve Affordability and Reduce Premium Costs of Health Insurance for Consumers	Individual	2024

¹ Tax provisions impacting business taxpayers include credits claimed on an individual's Form 1040, *U.S. Individual Income Tax Return*, Schedule C, *Profit or Loss From Business*.

Inflation Reduction Act: Assessment of Implementation of Processing Year 2023 Tax Provisions

Provision	Provision Title	Taxpayer Impact¹	Processing Year Effective
13103	Increase in Energy Credit for Solar and Wind Facilities Placed in Service in Connection With Low-Income Communities	Business	2024
13402	Credit for Previously Owned Clean Vehicles	Individual	2024
13501	Extension of the Advanced Energy Project Credit	Business	2024
13801	Elective Payment for Energy Property and Electricity Produced From Certain Renewable Resources, <i>Etc.</i>	Business	2024
13903(a)	Reinstatement of Limitation Rules for Deduction for State and Local, <i>Etc.</i> , Taxes	Individual	2024
13904(a)	Removal of Harmful Small Business Taxes	Business	2024
13904(b)	Extension of Limitation on Deduction for State and Local, <i>Etc.</i> , Taxes	Individual	2024
Provisions Effective for Processing Years 2025 – 2028			
13105	Zero-Emission Nuclear Power Production Credit	Business	2025
13701	Clean Electricity Production Credit	Business	2025
13702	Clean Electricity Investment Credit	Business	2025
13703	Cost Recovery for Qualified Facilities, Qualified Property, and Energy Storage Technology	Business	2025
13704	Clean Fuel Production Credit	Business	2025
13903(b)	Extension of Limitation on Excess Business Losses of Noncorporate Taxpayers	Business	2028
Nontax-Related Provisions			
10301	Enhancement of IRS Resources	Funding	2022
13802	Appropriations	Funding	2022

Source: TIGTA summary of IRA provisions.

Appendix III

List of TIGTA Audits Planned for the Inflation Reduction Act of 2022

Audit Number	Audit Title
202310812	IRS Hiring Efforts
202320822	Business Systems Modernization Efforts Funded by the Inflation Reduction Act of 2022
202330826	Inflation Reduction Act: Advanced Manufacturing Production Credit
202330827	Corporate Alternative Minimum Tax – Provision 10101
202340808	Inflation Reduction Act: Assessment of the IRS’s Free, Direct Electronic Filing Proposal
202340822	Inflation Reduction Act: Assessment of the Expanded Research Credit for Small Businesses
202340825	Inflation Reduction Act: Clean and Previously Owned Vehicle Credits
202340829	IRS Efforts to Scan Paper-Filed Individual Tax Returns for the 2023 Filing Season
IE-23-007-I	Development of Required Operation Plan
IE-23-008-I	Evaluation of the Internal Revenue Service’s Efforts to Deliver Expected Improvements for 2023 Filing Season
IE-23-009-I	Geographical Assessment of the Availability and Accessibility of Customer Service
IE-23-010-I	Process to Track Funding
IE-23-022-I	Operational Readiness of Toll-Free Customer Service Lines

Source: TIGTA audit coverage of the IRA reported in the 2023 Office of Audit Annual Audit Plan and the 2023 Inspections and Evaluations Program Plan. TIGTA anticipates there will be significant IRA-related oversight work in Fiscal Year 2024 and beyond.

Appendix IV

Management's Response to the Draft Report



DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, DC 20224

August 24, 2023

MEMORANDUM FOR HEATHER M. HILL
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Sharyn M. Fisk, *Sharyn M. Fisk*
Project Director, Tax Provision Implementation Office

SUBJECT: Draft Audit Report – Inflation Reduction Act: Assessment of
Implementation of Processing Year 2023 Provisions
(Audit # 202340826)

Thank you for the opportunity to review and comment on the subject draft audit report. We appreciate TIGTA's recognition of the IRS's efforts to date to track and implement the 36 tax provisions contained within the Inflation Reduction Act. Twenty of the 36 tax provisions affected the filing of tax returns during Processing Year 2023. As of May 12, 2023, we created or revised 71 tax products related to these provisions.

While much has been accomplished to date, additional work is needed to prepare for Processing Year 2024 and beyond. Many actions are already underway to timely implement the 16 tax provisions of the IRA that will become effective during Processing Years 2024 through 2028. As of July 21, 2023, we have identified 82 tax products affected in future processing years by these provisions, including 42 tax forms, 39 instructions, and one publication. We have efforts underway to implement processing controls for the clean vehicle credits and elective payments for energy property and electricity produced from certain renewable resources.

We welcome the Treasury Inspector General for Tax Administration's proactive identification of areas where tax return processing could be made more efficient, such as adding transcription to Form 4136, *Credit for Federal Tax Paid on Fuels*, Form 3800, *General Business Credit*, and new business rules applicable to Forms 8936, *Clean Vehicle Credits*, 8936-A, *Qualified Commercial Clean Vehicle Credit*, and 8936-A Schedule 1, *Schedule for Qualified Commercial Clean Vehicle*. These improvements will positively impact our ability to process these forms at filing and enforce post-filing compliance.

2

We agree with TIGTA's recommendation regarding the business rules related to Form 8974, *Qualified Small Business Payroll Tax Credit for Increasing Research Activities*, and appreciate the acknowledgement of the efforts we have already taken to improve credit implementation.

Attached is our detailed response to TIGTA's recommendation and the plan to have it implemented prior to Filing Season 2024. If you have any questions, please contact me at 202-317-6897.

Attachment

Attachment

Recommendation 1:

The Commissioner, Wage and Investment Division, should ensure that [REDACTED] [REDACTED] is implemented for the three business rules used to verify the accuracy of calculations of qualified small business payroll tax credits reported on the Form 8974.

Planned Corrective Action:

Programming updates have been requested for filing season 2024 implementation.

Implementation Date:

March 15, 2024

Responsible Official(s):

Director, e-File Services, Submission Processing, Customer Account Services, Wage and Investment Division

Corrective Action Monitoring Plan:

The IRS will monitor this corrective action as part of our internal management system of controls.

Appendix V

Glossary of Terms

Term	Definition
Business Rule	Used to validate information included on e-filed tax returns for acceptance into tax return processing. The IRS will reject e-filed tax returns from processing when the tax return does not meet a business rule.
Calendar Year	Twelve consecutive months ending December 31.
Employee User Portal	Internal IRS portal that allows IRS employee users to access IRS data systems such as tax administration processing systems, financial information systems, and other data and applications, including mission-critical applications. TIGTA auditors can also request access to this information.
Fiscal Year	Any yearly accounting period, regardless of its relationship to a calendar year. The Federal Government’s fiscal year begins on October 1 and ends on September 30.
Internal Revenue Code	The body of law that codifies all Federal tax laws. These laws constitute Title 26 of the United States Code, which is a consolidation and codification by subject matter of the general and permanent laws of the United States.
Internal Revenue Manual	Primary source of instructions to employees relating to the administration and operation of the IRS. The Manual contains the directions employees need to carry out their operational responsibilities.
Modernized Tax Return Database	The official repository of all electronic returns processed through the Modernized e-File system.
Processing Year	The calendar year in which the tax return or document is processed by the IRS.
Script	A series of statements and questions that guide a representative through conversations with callers based on their interests.
Tax Ecosystem	A holistic look at the entire tax system, from the end-user workstation to filing the tax return and beyond.
Tax Year	A 12-month accounting period for keeping records on income and expenses used as the basis for calculating the annual taxes due. For most individual taxpayers, the tax year is synonymous with the calendar year.
Vehicle Identification Number	The identifying code for a specific automobile.

Appendix VI

Abbreviations

e-file; e-filed	Electronic Filing; Electronically Filed
IRA	Inflation Reduction Act of 2022
I.R.C.	Internal Revenue Code
IRS	Internal Revenue Service
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.