

TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION



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

January 29, 2024

Report Number: 2024-IE-R007

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

Final Evaluation Report issued January 29, 2024

Report Number 2024-IE-R007

Why TIGTA Did This Evaluation

In addition to its Fiscal Year (FY) 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 Approximately \$1.4 billion in IRA funding was later rescinded by Congress reducing the available IRA supplemental funding to approximately \$78 billion.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.

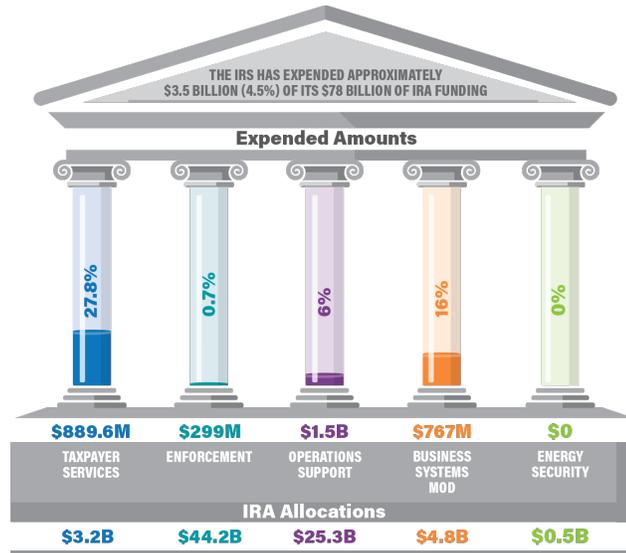
TIGTA initiated this review to provide periodic reporting on the IRS's use and accounting for expenditures using IRA funds. This report provides a quarterly and cumulative snapshot on how the funding has been expended through September 30, 2023.

Impact on Tax Administration

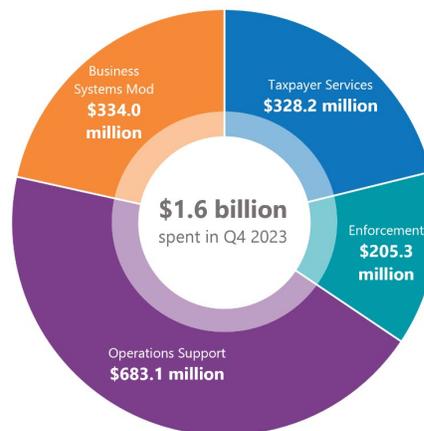
The IRS's transformation efforts that will be achieved through IRA supplemental funding will help improve taxpayer service, update IRS computer systems, and increase compliance and enforcement actions against high-income taxpayers and large corporations.

What TIGTA Found

This report provides the cumulative and quarterly reporting on the IRS's use of IRA funding to implement its Strategic Operating Plan and is inclusive of all IRA expenditures through September 30, 2023. As of September 30, 2023, the IRS expended approximately \$3.5 billion or 4.5 percent of its \$78 billion in IRA funding.



Of the \$3.5 billion of IRA funding expended in FY 2023, approximately \$1.6 billion occurred in the fourth quarter of FY 2023 (July through September 2023). This includes approximately \$464,000 of the \$11.6 million expended in FY 2023 for the direct e-file tax return system.



IRS officials indicated that nearly \$2 billion of the \$3.5 billion of IRA funding expended in FY 2023 has been used to supplement its FY 2023 annual appropriation due to budget shortfalls not covering normal operating expenses.

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: January 29, 2024

MEMORANDUM FOR: COMMISSIONER OF INTERNAL REVENUE

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

SUBJECT: Final Evaluation Report – Quarterly Snapshot: The IRS’s Inflation Reduction Act Spending Through September 30, 2023
(Evaluation # IE-24-001-I.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 September 30, 2023.¹ This review is part of our Fiscal Year 2024 Annual Program Plan and addresses the major management and performance challenge of *Managing IRA Transformation Efforts*.

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.

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

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Background

The Consolidated Appropriations Act, 2023¹ 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.

The IRS's operating budget is a mix of annual appropriations and miscellaneous resources, such as unobligated balances from previous years and reimbursable items. The IRS has considerable leeway in how it uses non-appropriated funds. According to IRS management, during FY 2023, the IRS transferred approximately \$272 million of Enforcement funds to the other funding activities due to budget shortfalls. Specifically, the \$272 million was transferred as follows: \$100 million to Taxpayer Services; \$122 million to Operations Support; and \$50 million to Business Systems Modernization.

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 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 funding activity is as follows:

¹ Pub. L. No. 117-328.

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

- Taxpayer Services - \$3.2 billion.
- Enforcement - \$45.6 billion.³
- Operations Support - \$25.3 billion.
- Business Systems Modernization - \$4.8 billion.
- Energy Security Provisions -- \$500 million.⁴
- Task Force to Design an IRS-run Free Direct E-file Tax Return System - \$15 million. This funding remained available until September 30, 2023. As of September 30, 2023, the IRS expended approximately \$11.6 million on this effort. The IRS delivered to Congress, within nine months of the law's enactment, a report on:⁵
 - 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 levels 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.⁶

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 1 outlines the transformation objectives in the SOP.

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

⁴ This funding was provided to the IRS for the necessary expenses relating to the Energy Security Provisions included in the IRA.

⁵ The IRS issued the report on May 16, 2023, meeting the nine-month requirement.

⁶ Treasury Inspector General for Tax Administration's (TIGTA) 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: 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

IRS officials 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. The IRS has not received its FY 2024 appropriation, as continuing resolutions were passed to fund the IRS until March 2024.⁷ A continuing resolution generally funds most programs and activities at the FY 2023 levels.

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 cover only approximately two-thirds of the IRS's planned modernization.

Figure 2 outlines the five broad objectives included in the SOP and how the \$79.4 billion in supplemental IRA funding was initially allocated across the funding activities for the transformation objectives.

⁷ H.R. 6363 — 118th Congress: Further Continuing Appropriations and Other Extensions Act, 2024.

Figure 2: IRA Funding Allocated by Transformation Objectives⁸

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). Mod = Modernization.

In June 2023, enactment of the Fiscal Responsibility Act of 2023⁹ 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 funding activity, reducing the IRA Enforcement funding activity from \$45.6 billion to approximately \$44.2 billion. According to an IRS official, it is likely that most of the rescission will impact Objective 3 in the SOP. However, spending from the Enforcement funding activity 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 funding activities this will impact. During testimony in April 2023, the IRS Commissioner highlighted that the transformative investments to be made using IRA funding can only be put to work if Congress continues annual funding for steady-state maintenance of agency operations.

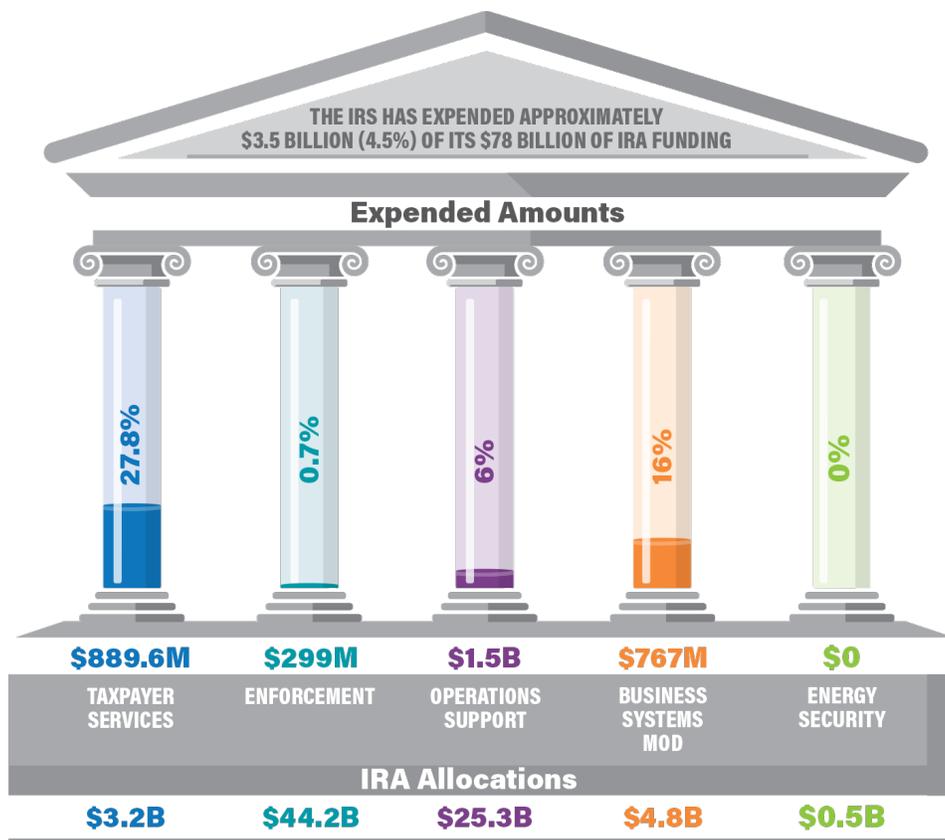
⁸ Numbers may not total due to rounding.

⁹ Pub. L. No. 118-5.

Results of Review

As of September 30, 2023, the IRS has used approximately \$3.5 billion or 4.5 percent of its \$78 billion IRA funding available after the rescission. Additionally, IRS officials indicated that nearly \$2 billion of IRA funding has been budgeted to supplement its FY 2023 annual appropriation as the amount the IRS received was insufficient to cover normal operating expenses and did not include adjustments to account for inflation, estimated at approximately \$460 million from FY 2022. Figure 3 shows the cumulative IRS IRA expenditures by funding activity through September 30, 2023.

Figure 3: Cumulative IRA Expenditures by Funding Activity Through September 30, 2023¹⁰

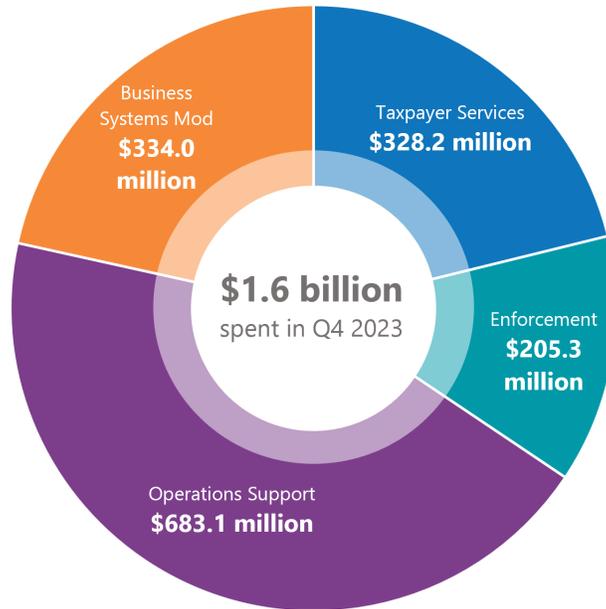


Source: Treasury Inspector General for Tax Administration (TIGTA)-created graphic based on information provided by the Office of the Chief Financial Officer.

¹⁰ Percentages of IRA funds expended may not calculate correctly due to rounding. Additionally, the Enforcement allocation amount is after the FY 2023 \$1.4 billion rescission.

Figure 4 reflects IRA expenditures by funding activity for the fourth quarter of FY 2023 – these funds were expended during the period July 1, 2023, through September 30, 2023.

Figure 4: IRA Expenditures by Funding Activity for Quarter Ended September 30, 2023¹¹



Source: TIGTA-created graphic based on information provided by the Office of the Chief Financial Officer.

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

As mentioned previously, IRA legislation provides the IRS with \$78 billion over the next 10 years. The law intended that this increase in funding supplement, not replace, the IRS's annual appropriations. To monitor the use of IRA funds, the IRS uses the same established procedures it uses to track its annual appropriations and spending. For example, the IRS uses a series of object class categories to track IRA funding and spending.¹² These categories are how the IRS tracks its spending in the Integrated Financial System.¹³ The IRS reports on IRA spending based on these categories and uses the same funding activity structure to report on its annual appropriation spending.

IRA legislation does not allow any transfers between the various funding activities. 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 funding activities detailed previously. Figure 5 highlights the cumulative IRA expenditures by object class category for the various funding activities.

¹¹ The \$1.6 billion spent includes approximately \$464,000 of the \$11.6 million expended in FY 2023 for the direct e-file tax return system.

¹² Object classes are categories that present obligations by the items or services purchased by the Federal Government.

¹³ 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: IRA Funding Activity Expenditures by Object Class¹⁴

	TAXPAYER SERVICES	ENFORCEMENT	OPERATIONS SUPPORT	BUSINESS SYSTEMS MOD	DIRECT E-FILE	GRAND TOTAL
Labor Total IRS Employee Pay & Benefits	\$807,843,126	\$97,365,065	\$432,464,271	\$67,671,630	\$814,200	\$1,406,158,292
Non-Labor Contractor Support - Advisory and Assistance	\$81,010,852	\$49,009,932	\$468,717,715	\$609,261,740	\$8,624,814	\$1,216,625,053
Communications, Utilities, and Miscellaneous Charges	\$0	\$0	\$49,741,610	\$0	\$0	\$49,741,610
Equipment	\$0	\$10,835,929	\$445,482,506	\$84,194,846	\$254,897	\$540,768,178
Purchase/Improvement of Land and Facilities	\$0	\$0	\$48,375,882	\$0	\$0	\$48,375,882
Operation and Maintenance of Equipment	\$0	\$378,383	\$4,679,811	\$5,630,610	\$0	\$10,688,804
Operation and Maintenance of Facilities	\$0	\$0	\$20,149,231	\$136,872	\$0	\$20,286,103
Services From Federal Sources	\$646,247	\$119,191,185	\$30,913,087	\$0	\$1,909,578	\$152,660,097
Other Goods and Services From Non-Federal Sources	\$0	\$11,974,961	\$28,262,752	\$0	\$0	\$40,237,713
Printing and Reproduction	\$0	\$10,318	\$2,999,861	\$0	\$0	\$3,010,179
Supplies and Materials	\$42,434	\$9,277,273	\$1,545,593	\$3,527	\$0	\$10,868,827
Employee Travel	\$70,236	\$910,745	\$1,110,725	\$188,158	\$0	\$2,279,864
Unvouchered	\$0	\$36,442	\$0	\$0	\$0	\$36,442
Rental Payments to GSA	\$0	\$0	\$371,134	\$0	\$0	\$371,134
Non-Labor Total	\$81,769,769	\$201,625,168	\$1,102,349,907	\$699,415,753	\$10,789,289	\$2,095,949,886
Grand Total	\$889,612,895	\$298,990,233	\$1,534,814,178	\$767,087,383	\$11,603,489	\$3,502,108,178

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

As shown in Figure 5, as of September 30, 2023, the IRS reported the largest portion of IRA expenditures was for IRS employee compensation (*i.e.*, pay/benefits) totaling approximately \$1.4 billion and contractor advisory and assistance services totaling approximately \$1.2 billion.¹⁵

¹⁴ As of September 30, 2023, the IRS has not apportioned or expended any funds from the Energy Security Provision appropriation.

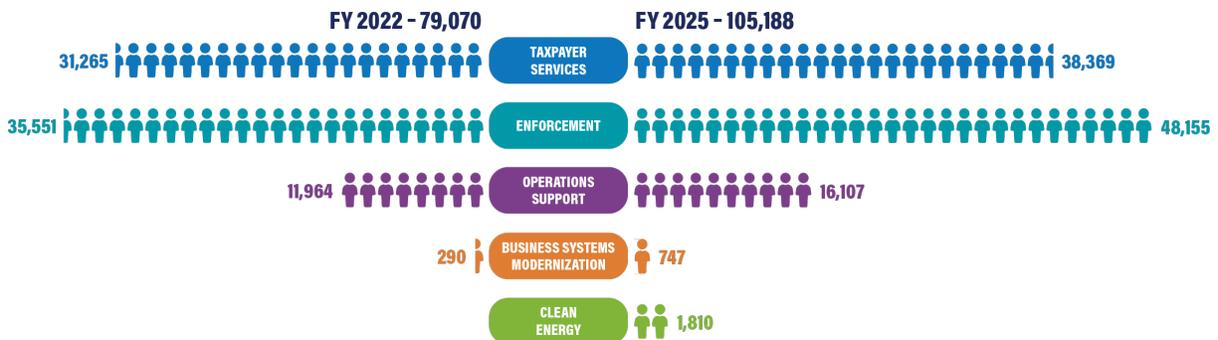
¹⁵ Advisory and assistance services is based on the IRS's classification and not as defined by Federal Acquisition Regulations.

Spending on IRS Staffing

As of September 30, 2023, the IRS expended approximately \$1.4 billion in labor costs from its IRA funding, nearly doubling expenditures in this object class category in the fourth quarter. Most of the labor costs (approximately \$808 million) were in the Taxpayer Services funding activity. 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.

In April 2023, the Office of the Chief Financial Officer issued a document providing information on IRA spending and IRS staffing. In this document, the IRS noted that it 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 April 2023 document regarding IRA spending and IRS staffing.

According to IRS officials, the IRS staffing level was 89,767 at the end of FY 2023. In addition to hiring staff to improve services to help taxpayers meet their tax obligations and receive the tax incentives for which they are eligible, as well as quickly resolve taxpayer issues when they arise, the IRS focused on expanding enforcement on taxpayers with complex tax filings and high-dollar noncompliance to address the Tax Gap. To accomplish this objective, the IRS plans to hire enforcement personnel. Enforcement personnel include:

- Revenue Officers – Employees in the Collection function who collect delinquent taxes and secure delinquent returns.
- Revenue Agents – Employees in the Examination function who conduct face-to-face audits of more complex returns.
- Special Agents – Law enforcement employees in Criminal Investigation who investigate potential criminal activities.

While it has been widely reported that the IRS will be hiring 87,000 armed enforcement agents, Figure 7 shows the number of enforcement personnel the IRS had onboard at the end of FY 2023 and the IRS's hiring goal for FY 2024. The only enforcement personnel who are armed

are special agents. As the figure shows, the goal is to increase enforcement personnel by 5,462 in FY 2024 with the majority being hired in the revenue agent position.

Figure 7: Staffing of Enforcement Personnel

Position Title	Staffing 10/03/2023	FY 2024 Hiring Target	FY 2024 Anticipated Attrition	Staffing Goal End of FY 2024	Net Staffing Increase FY 2024
Revenue Officer	2,861	762	497	3,126	265
Revenue Agent	8,559	5,814	1,110	13,263	4,704
Special Agent	2,078	694	201	2,571	493
Totals	13,498	7,270	1,808	18,960	5,462

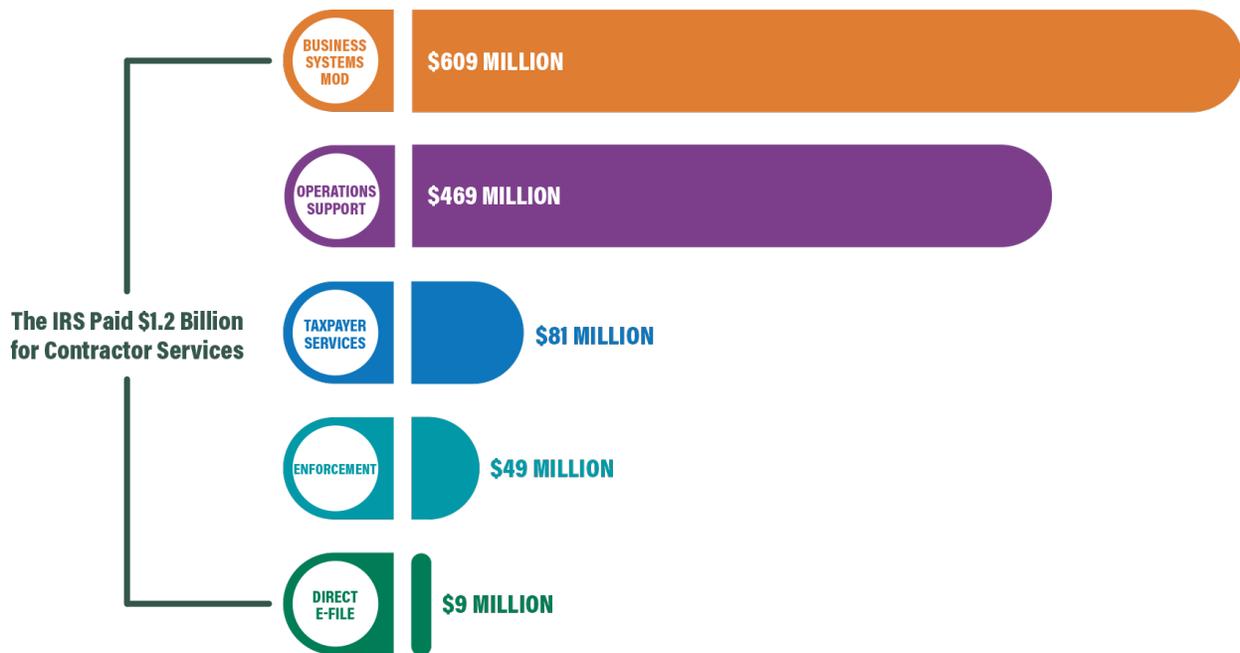
Source: Information provided by the IRS.

TIGTA's Office of Audit is currently assessing the IRS's recruiting, hiring, and onboarding processes and its effectiveness in filling critical program vacancies in support of IRA and other hiring efforts. It is also reviewing the IRS's strategy to recruit and train newly hired enforcement employees.

Spending on Contractor Support

Since the passage of the IRA legislation, the IRS has used approximately \$1.2 billion of the IRA funding to pay contractors for what the IRS classifies as advisory and assistance services. These services are acquired from contractors from non-Federal sources and consist of three types of services: management and professional support services; studies, analysis, and evaluations; and engineering and technical services. Most of these expenditures were for the Operations Support and Business Systems Modernization funding activities totaling approximately \$468.7 million and \$609.3 million, respectively. Figure 8 reflects the expenditures for contractor advisory and assistance support that have been expended through September 30, 2023, using IRA funding.

Figure 8: Expenditures for Contractor Support by Budget Activity



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

IRS internal guidance states that the receipt and acceptance of goods and services is the responsibility of the business units. Specifically, an IRS official in the business unit is responsible for ensuring that goods and services are received and meet the contractual requirements before receipt and acceptance is entered into the Integrated Financial System. Recording receipt acknowledges that the Government has received delivery of the goods and services according to the contract. While acceptance is confirming the received goods and services meet the quality assurance requirements of the contract before entering the accepted date in the Integrated Financial System, the quality assurance inspection is the most critical internal control of the receipt and acceptance process. The IRS official with knowledge of the goods or services and the contract terms conducts this review to ensure that goods and services received are acceptable.

Our review of contracting records indicated that the IRS accepted deliverables from various contractors for contracts using IRA funds. The deliverables from these contracts included status reports, checklists, briefings, presentations, meeting minutes, communication, and knowledge transfer plans. We relied on IRS confirmation and verification that contractor obligations were met. However, TIGTA's Office of Audit will be performing more comprehensive reviews on the IRA contract deliverables.

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 September 30, 2023. To accomplish our objective, we:

- Obtained IRA expenditures as of September 30, 2023, from the Integrated Financial System to identify overall expenditures by appropriation areas (*e.g.*, Taxpayer Services, Operations Support) 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 October through December 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; 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 that 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



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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.