

TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION



Inflation Reduction Act: Continued Assessment of Transformation Efforts - Evaluation of Fiscal Year 2023 Delivery of Initiatives

March 11, 2024

Report Number: 2024-IE-R010

HIGHLIGHTS: Inflation Reduction Act: Continued Assessment of Transformation Efforts – Evaluation of Fiscal Year 2023 Delivery of Initiatives

Final Evaluation Report issued on March 11, 2024

Report Number 2024-IE-R010

Why TIGTA Did This Evaluation

After the passage of the Inflation Reduction Act of 2022 (IRA), the Secretary of the Treasury directed the IRS Commissioner to work with the Deputy Secretary of the Treasury to develop an operational plan by February 17, 2023, detailing how IRA funding was to be spent. The IRS publicly released its Strategic Operating Plan (SOP) on April 6, 2023, noting that the SOP outlines how the IRS will deliver transformational change for taxpayers.

TIGTA initiated this evaluation to assess the IRS's SOP to determine whether it provides a clear framework on the IRS plans to transform itself to improve taxpayer service, modernize technology, and increase equity in tax administration.

Impact on Tax Administration

The legislation authorized almost \$80 billion through September 30, 2031, for the IRS to help improve taxpayer service, update its computer systems, and increase compliance and enforcement actions against high-income taxpayers and large corporations.

What TIGTA Found

Although the delivery of the SOP did not meet the February 17, 2023, due date established by the Secretary of the Treasury, IRS management indicated as the SOP was being developed, versions were being shared on a regular basis with IRS stakeholders and the Deputy Secretary of the Treasury for feedback. IRS management also noted that the Treasury Department was not going to give the approval to release the SOP until all comments were appropriately addressed. IRS management noted that the SOP replaces the IRS's Fiscal Year 2022-2026 Strategic Plan and going forward will serve as the IRS's strategic plan and transformation vision for the IRS. The SOP will be updated annually.

The SOP outlines five transformation objectives, which are comprised of 42 initiatives. These initiatives outline how the IRS plans to provide best-in-class customer service and transform how taxpayers interact with the IRS, modernize technology and analytics, reduce the Tax Gap by focusing on taxpayers with complex filings and high-dollar noncompliance, and become an employer of choice.

As the IRS details in its SOP, the successful delivery of most of its planned initiatives is contingent upon the IRS timely modernizing its core information technology structure. The SOP contains a total of 42 initiatives that outline strategic bodies of work, including key projects, that will drive the IRS's transformation. Of the 42 initiatives outlined in the SOP, 35 (83 percent) are dependent upon one or more of the eight information technology initiatives.

The SOP includes 58 milestones that were to be delivered in Fiscal Year 2023. Our discussion with IRS management identified that the IRS completed 19 (33 percent) milestones, 36 (62 percent) were in progress, and three (5 percent) were delayed. Transformation Strategy Office (TSO) leadership indicated that planning will be ongoing and that the years provided for the milestones were "best estimates" at the time the SOP was drafted.

The Secretary of the Treasury also directed that any additional resources, including new personnel or auditors who are hired, shall not be used to increase the share of small businesses or households below the \$400,000 threshold that are audited, relative to historical levels. While the SOP did not include specifics on how the IRS was going to ensure it met this commitment, the IRS is working on a proposal for its implementation.

What TIGTA Recommended

This report is part of a series of evaluations that are assessing the IRS's efforts to transform its operations to improve tax administration. This report was prepared to provide information only. Therefore, no recommendations were made in the report.



TREASURY INSPECTOR GENERAL

for Tax Administration

DATE: March 11, 2024

MEMORANDUM FOR: COMMISSIONER OF INTERNAL REVENUE

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

SUBJECT: Final Evaluation Report – Inflation Reduction Act: Continued
Assessment of Transformation Efforts – Evaluation of Fiscal Year 2023
Delivery of Initiatives (Project No.: IE-23-007-I)

This report presents the results of our review to assess the Internal Revenue Service's (IRS) Strategic Operating Plan to determine whether it provides a clear framework on the IRS's plans to transform itself to improve taxpayer service, modernize technology, and increase equity in tax administration. This review is part of our Fiscal Year 2024 Annual Program Plan and addresses the major management and performance challenge of *Managing Inflation Reduction Act 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. While no recommendations were made in this report, IRS management did provide a response. Management's response to the draft report is included as appendix III.

If you have any questions, please contact me or Debra Kisler, Director, Inspections and Evaluations.

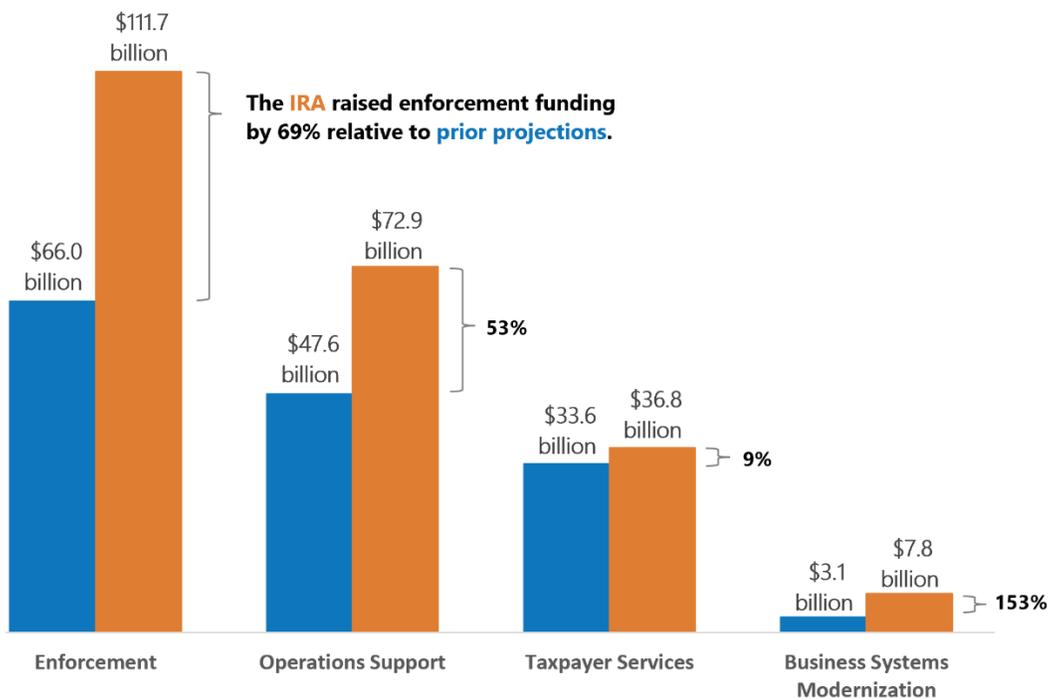
Table of Contents

Background	Page 1
Results of Review	Page 3
<u>Issuance of the Required Strategic Operating Plan</u>	Page 4
<u>Transformation and Strategy Office Governance Structure</u>	Page 7
<u>Status of Fiscal Year 2023 – Timely Delivery of Planned Milestones</u>	Page 11
<u>Measuring Overall Transformation Progress</u>	Page 19
<u>Addressing the Commitment to Not Use Inflation Reduction Act Funding to Increase Audits of Households or Small Businesses Making Under \$400,000 a Year</u>	Page 20
Appendices	
<u>Appendix I – Detailed Objective, Scope, and Methodology</u>	Page 22
<u>Appendix II – Status of Fiscal Year 2023 Milestones</u>	Page 23
<u>Appendix III – Management’s Response to the Draft Report</u>	Page 36
<u>Appendix IV – Abbreviations</u>	Page 38

Background

On August 16, 2022, the President signed the *Inflation Reduction Act of 2022* (IRA)¹ into law. The legislation provided approximately \$79.4 billion in supplemental funding to the Internal Revenue Service (IRS) to be used through September 30, 2031. These funds are to be used to improve taxpayer services, update antiquated computer systems, and to increase compliance and enforcement actions against high-income taxpayers and large corporations that try to evade taxes. Figure 1 highlights how the initial IRA funding was to be used to supplement the prior estimated budget projections for the IRS’s four funding activities.

Figure 1: The IRS’s Budget Authority Through Fiscal Year (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.

The following is a description of the supplemental IRA funding allocation by funding activity:

- Enforcement:** The IRA provides the IRS with over \$45.6 billion in supplemental funding for tax enforcement activities to determine and collect owed taxes, to provide legal and litigation support, to conduct criminal investigations (including investigative technology), to provide digital asset monitoring and compliance activities, to enforce criminal statutes related to violations of Internal Revenue laws and other financial crimes, and to purchase and hire passenger motor vehicles.
- Operations Support:** The IRA provides the IRS with over \$25.3 billion in supplemental funding to support taxpayer services and enforcement programs, including rent

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

payments; facilities services; printing; postage; physical security; Headquarters and other IRS-wide administration activities; research and statistics of income; telecommunications; information technology development, enhancement, operations, maintenance, and security; the hiring of passenger motor vehicles; and the operations of the IRS Oversight Board.

- **Taxpayer Services:** The IRA provides the IRS with over \$3.1 billion in supplemental funding to provide taxpayer services, including prefilling assistance and education, filing and account services, taxpayer advocacy services, and other services.
- **Business Systems Modernization:** The IRA provides the IRS with over \$4.7 billion in supplemental funding for the IRS's business systems modernization program, including development of callback technology and other technology to provide more personalized customer service, but not including the operation and maintenance of legacy systems.

In June 2023, the *Fiscal Responsibility Act of 2023*,² resulted in a rescission of approximately \$1.4 billion of the supplemental IRA funding provided to the IRS. IRS officials indicated that this rescission was taken from the Enforcement funding activity. 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 future rescission will impact. However, IRS officials did indicate that if part of the rescission is taken from Operations Support, it will affect the IRS's ability to support information technology.

The IRA does not allow any transfers between the various funding activities. For instance, funds cannot be moved from Enforcement to Taxpayer Services.

Treasury Inspector General for Tax Administration (TIGTA) continued assessments of IRS's transformation efforts

This evaluation is a continuation of TIGTA's ongoing assessments of the IRS's transformation efforts. The following are highlights of some of TIGTA's recently issued reports:

- In January 2023, TIGTA reported on the standup of the IRA Transformation and Implementation Office (Program Office) as well as its development of processes and procedures to monitor, measure, and track implementation efforts.³ The Program Office was responsible for strategically coordinating agencywide activities to develop the IRA Operational Plan (later known as the Strategic Operating Plan (SOP)). The Program Office was also responsible for engaging with IRS personnel and Department of the Treasury (Treasury Department) stakeholders, monitoring the implementation of the IRA tax provisions, and coordinating the organizational transformation efforts the IRS plans to undertake over the next decade. Finally, the Program Office worked closely with the Office of the Chief Financial Officer to establish processes and procedures to track and account for IRA appropriated funding.

² Pub. L. No. 118-5, 137 Stat. 10.

³ TIGTA, Report No. 2023-IE-R003, *Inflation Reduction Act: Assessment of the Internal Revenue Service Implementation Efforts* (Jan. 2023).

- In September 2023, TIGTA reported that after the passage of the IRA, the Secretary of the Treasury (Secretary) outlined expectations for the IRS for the 2023 Filing Season.⁴ These expectations were set to ensure that taxpayers see that real changes are being made by the IRS. We reported that the IRS met two of the Secretary's five expectations including reporting a level of service average of 85 percent as well as reducing the average wait time to answer a taxpayer's call to approximately three minutes. The IRS also provided taxpayers with the ability to respond to nine of the highest volume notices via its Document Upload Tool. However, the IRS was unable to meet the Secretary's expectations for the remaining three goals. Specifically, the IRS was unable to fully resolve its backlog of tax returns and other tax account inventory, fully staff all its Taxpayer Assistance Centers (TAC), or scan millions of individual paper-filed tax returns.
- In October 2023, TIGTA reported on IRA expenditures made from the passage of the legislation through June 30, 2023.⁵ TIGTA reported that as of June 30, 2023, the IRS had expended approximately \$1.95 billion or 2.5 percent of its \$78 billion in IRA funding. Most of the expenditures were for IRS employees' pay and benefits and contractors' support for advisory and assistance services. TIGTA plans to continue to provide quarterly reporting on the IRS's use of its IRA funding. These evaluations 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.

TIGTA's oversight plan

In addition to these evaluations, TIGTA also developed a strategic plan that outlines the audits, inspections, evaluations, and investigative focus for our planned oversight of the IRS's transformation efforts. The oversight work detailed in this plan aligns with the IRS's SOP and provides external stakeholders insight into how well the IRS is achieving its stated transformation goals. For example, our plan identifies oversight projects underway or planned for FYs 2023 to 2025. We will update and adjust our plan on an annual basis to reflect the current state of the IRS's transformation efforts.

Results of Review

After the passage of the IRA, the Secretary directed the IRS Commissioner to work closely with the Deputy Secretary of the Treasury (Deputy Secretary) to develop an SOP by February 17, 2023. The Secretary noted that the SOP should include details of how IRA funding is to be spent. The SOP was released to the public on April 6, 2023, with the IRS noting that the SOP outlines how the IRS will deliver transformational change for taxpayers.

Although the SOP was not completed by the February 17, 2023, due date, IRS management indicated that as the SOP was being developed, versions were being shared on a regular basis with IRS stakeholders and the Deputy Secretary for feedback. Each time this was done, numerous comments were provided that needed to be addressed. IRS management also

⁴ TIGTA, Report No. 2023-IE-R010, *Inflation Reduction Act: Assessment of the IRS's Efforts to Deliver Expected Improvements for the 2023 Filing Season* (Sept. 2023).

⁵ TIGTA, Report No. 2024-IE-R002, *Snapshot: The IRS's Inflation Reduction Act Spending Through June 30, 2023* (Oct. 2023).

indicated that the Treasury Department was not going to give the approval to release the SOP until all comments were appropriately addressed.

The SOP outlines five transformation objectives, which are comprised of 42 initiatives. The initiatives outline how the IRS plans to provide best-in-class customer service and transform how taxpayers interact with the IRS, modernize technology and analytics, reduce the Tax Gap by focusing on taxpayers with complex filings and high-dollar noncompliance, and become an employer of choice. IRS management noted that the SOP replaces the IRS's FY 2022-2026 Strategic Plan and will serve as the IRS's strategic plan and transformation vision for the IRS. The IRS plans to update the SOP annually.

In addition to outlining the specific initiatives, the SOP also includes specific milestones to be delivered in support of completing the initiatives. Our assessment of the 58 SOP milestones that were to be delivered in FY 2023, identified that the IRS completed 19 (33 percent) milestones, 36 (62 percent) were in progress, and three (5 percent) were delayed as of September 30, 2023, (Appendix II provides an overview on the status of each milestone). Transformation Strategy Office (TSO) leadership indicated that while the SOP provided a vision for the transformation, it also noted that planning will be ongoing and that the years provided for milestones were "best estimates" at the time the SOP was drafted. In many cases, the specific milestones for FY 2023 were purposely aggressive to spur action across the IRS and align stakeholders on the changes that are needed.

Finally, processes and procedures have yet to be developed to measure the IRS's overall progress on delivering its key transformation outcomes of *world-class service experience, digital-first organization, improved take-up of tax incentives by eligible taxpayers, effective enforcement, and employer of choice within Government and industry*. However, the IRS is in the process of developing its *Strategic Implementation Management System (SIMS)*. The IRS is currently making enhancements to SIMS and populating the system with the relevant data. Representatives from the TSO noted that SIMS will be the primary way that TSO leadership will monitor and manage the portfolio of IRA projects.

Issuance of the Required Strategic Operating Plan

On August 17, 2022, the Secretary sent a memorandum to the IRS Commissioner requesting the development of an SOP. In this memorandum, the Secretary indicated that while the requirement for the IRS to develop an SOP detailing how the IRA funding was to be used was taken out of the finalized IRA legislation, an SOP plan is critical to show transparency in the use of the supplemental IRA funding. The Secretary directed the IRS to work closely with the Deputy Secretary to develop and deliver this type of plan.

In addition, the Secretary further noted that the SOP should identify specific operational initiatives and associated timelines that would improve taxpayer service, modernize technology, and increase equity in tax administration by pursuing tax evasion by those who do not pay their tax owed. Finally, the Secretary indicated that the SOP should include details on how resources will be spent through FY 2031 on technology, service improvement, and personnel, as well as detailing the metrics the IRS will use to measure its transformation efforts.

SOP released on April 6, 2023

The SOP includes five transformation objectives that the IRS plans to deliver via its implementation of 42 initiatives. IRS management indicated they have identified over 400 projects to be completed to meet the five objectives. The objectives and initiatives are focused on improving services, expanding enforcement on taxpayers with complex tax filings and high-dollar noncompliance, and delivering cutting-edge technology to operate more efficiently. The SOP also includes specific milestones the IRS plans to meet by fiscal year. In response to the Secretary wanting metrics to be included in the SOP, the IRS included "*What Success Would Look Like*" for each initiative.

Although the SOP includes information on how the IRS plans to measure its overall transformation progress, no baselines nor information on the specific processes that will be used to measure its success was provided in the SOP. The SOP also does not include data regarding how much it will cost to implement the over 400 projects associated with the 42 initiatives. TSO management indicated that this information will be developed and captured in its formal tracking system that is currently being built. Figure 2 outlines the objectives and initiatives.

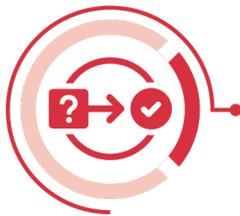
Figure 2: SOP Transformation Objectives and Initiatives



OBJECTIVE 1:

Dramatically improve services to help taxpayers meet their obligations and receive the tax incentives for which they are eligible.

- Initiative 1.1: Improve the availability and accessibility of customer service.
- Initiative 1.2: Expand digital services and digitalization.
- Initiative 1.3: Ensure employees have the right tools.
- Initiative 1.4: Improve self-service options.
- Initiative 1.5: Explore direct file.
- Initiative 1.6: Enable taxpayers to access their data.
- Initiative 1.7: Provide earlier legal certainty.
- Initiative 1.8: Deliver proactive alerts.
- Initiative 1.9: Help taxpayers understand and claim appropriate credits and deductions.
- Initiative 1.10: Make payments easy.
- Initiative 1.11: Build status-tracking tools for taxpayers.
- Initiative 1.12: Streamline multichannel customer assistance.



OBJECTIVE 2:

Quickly resolve taxpayer issues when they arise.

- Initiative 2.1: Identify issues during filing.
- Initiative 2.2: Deliver early and appropriate treatments for issues.
- Initiative 2.3: Develop taxpayer-centric notices.
- Initiative 2.4: Expand tax certainty and issue resolution programs.
- Initiative 2.5: Offer proactive debt resolution.
- Initiative 2.6: Expand engagement with non-filers.
- Initiative 2.7: Use improved data and analytics to tailor timely collections contacts.



OBJECTIVE 3:

Focus expanded enforcement on taxpayers with complex tax filings and a high-dollar noncompliance to address the Tax Gap.

- Initiative 3.1: Employ centralized, analytics-driven, risk-based methods to aid in the selection of compliance cases.
- Initiative 3.2: Expand enforcement for large corporations.
- Initiative 3.3: Expand enforcement for large partnerships.
- Initiative 3.4: Expand enforcement for high-income and high-wealth individuals.
- Initiative 3.5: Expand enforcement in areas where audit coverage has declined to levels that erode voluntary compliance.
- Initiative 3.6: Pursue appropriate enforcement for complex, high-risk and emerging issues.
- Initiative 3.7: Promote fairness in enforcement activities.



OBJECTIVE 4:

Deliver cutting-edge technology, data, and analytics to operate more effectively.

- Initiative 4.1: Transform core account data and Processing.
- Initiative 4.2: Accelerate technology delivery.
- Initiative 4.3: Improve technology operations.
- Initiative 4.4: Continue to ensure data security.
- Initiative 4.5: Maximize data utility.
- Initiative 4.6: Apply enhanced analytics capabilities to improve tax administration.
- Initiative 4.7: Strategically use data to improve tax administration.
- Initiative 4.8: Partner to expand insights.



OBJECTIVE 5:

Attract, retain, and empower a highly skilled, diverse workforce and develop a culture that is better equipped to deliver results for taxpayers.

- Initiative 5.1: Redesign hiring and onboarding.
- Initiative 5.2: Attract a talented and diverse workforce.
- Initiative 5.3: Improve the employee experience.
- Initiative 5.4: Help employees grow and develop.
- Initiative 5.5: Develop a data-savvy workforce.
- Initiative 5.6: Elevate workforce planning strategy.
- Initiative 5.7: Improve organizational structures and governance.
- Initiative 5.8: Build a culture of service and continuous improvement.

Source: SOP, FYs 2023 – 2031.

After the delivery of the SOP, IRS management indicated that the SOP is replacing the IRS's FY 2022-2026 Strategic Plan and will serve as the IRS's new strategic plan and transformation vision. The IRS plans to update the SOP annually. Management also noted that they plan to report to Congress quarterly on its actual obligations and number of full-time employees as well as provide IRA budget updates in its annual budget request. IRS officials indicated that the quarterly reports have been prepared. However, as of February 2024, they have not been provided to Congress due to the clearance process. Finally, IRS management noted that it would provide IRA budget updates as part of its annual appropriation request.

The IRA also requires the IRS to undertake the difficult and large-scale task of implementing 36 tax provisions

The IRA includes numerous investments in climate protection, including tax credits for households to offset energy costs, investments in clean energy production, and tax credits aimed at reducing carbon emissions. In addition, to help offset expenses and generate revenue for these clean energy investments, the IRA includes imposing a minimum corporate tax of 15 percent and a 1 percent surcharge on corporate stock buybacks. TIGTA's Office of Audit has ongoing and planned work evaluating the IRS's efforts to implement these tax provisions.⁶

Transformation and Strategy Office Governance Structure

The Treasury Deputy Secretary for Human Resources and Chief Human Capital Officer approved the IRS's request for reorganization to officially standup its TSO. The mission of the TSO is to oversee the successful transformation of the IRS. TSO officials stated that the TSO also has a value proposition,⁷ which they indicated is what differentiates the TSO from other parts of the IRS and enables the TSO to deliver on its mission. The key elements of this value proposition are:

- Enterprise-wide role focused on transformation.
- Mandate from the IRS Commissioner to drive cross-organizational prioritization of delivery of objectives and initiatives outlined in the SOP.
- Quick, expert resources to support the full scope of transformation efforts.
- Explicit focus to strengthen enterprise-wide culture to support transformation.

In its request for reorganization, the IRS notes that it will disband the IRS NEXT organization⁸ and transition the work to the TSO. As part of the formal standup of the TSO, a new position, Chief, TSO, was created and is a direct report to the IRS Commissioner and a new member of the Senior Executive Team. The Chief, TSO, will lead IRS efforts to deliver its transformation vision, including transformation of service, compliance, data, technology, human capital, governance, agency culture, and organizational structure. Specific responsibilities of the Chief, TSO, position include:

⁶ TIGTA published *Strategic Plan: Oversight of the IRS's Transformation Efforts*, which identifies reviews performed or planned to be performed to assess IRS implementation of these provisions.

⁷ A value proposition is an innovation, service, or feature intended to make a company or product attractive to customers.

⁸ The IRS NEXT organization was responsible for monitoring provisions of the Taxpayer First Act.

- Communicating and monitoring IRS progress toward executing enterprise priorities, including driving organizational culture, managing strategic planning activities, and overseeing other enterprise prioritization governance processes.
- Providing implementation support to strategic initiative leads, driving innovation, and coordinating major organizational changes.
- Overseeing IRS internal governance related to the SOP, including change management, stakeholder engagement, risk management, performance monitoring, and performance improvement, along with any future changes to the SOP.

The TSO is organizationally structured as follows with an IRS executive over each of its functional areas:

- ***Strategic Implementation Office*** - responsible for:
 - Developing a strategy that enables strategic prioritization, effective planning, and data-driven decision making.
 - Driving implementation of transformational initiatives, problem solving, cross-organizational alignment, and innovative issue resolution.
 - Delivering effective implementation support, rapid resource deployment, appropriate sequencing, and transparent tracking of progress.
- ***Culture and Communication Office*** - responsible for:
 - Engaging and supporting employees directly to strengthen the IRS's culture and support transformation.
 - Providing enterprise-wide and project level change management, including developing skills and tools.
 - Coordinating effective communication and the transformation at all levels, including effective engagement with the National Treasury Employees Union.
- ***TSO Operations Office*** - responsible for:
 - Leading the TSO budget process and supporting development, operations, and continued refinement of the TSO program management model.
 - Coordinating oversight and audit activities.
 - Providing administrative and operational support for the TSO staff to achieve the TSO mission.

TSO leadership noted that they currently have all its executives in place and are in the process of developing another request for organizational change to seek approval to hire staff to support these executives.

In addition, as part of the standup of the TSO, the IRS also assigned transformation leads to each of the SOP's five objectives.⁹ The transformation leads are responsible for monitoring progress across their assigned objective, including providing support to initiative leads to address roadblocks, and updating TSO leadership on progress. The transformation leads are

⁹ Objectives 1 and 4 have two transformation leads.

part of the TSO and report to the executive over the Strategic Implementation Office. Finally, the IRS also assigned initiative leads to each of the 42 initiatives outlined in the SOP. These leads are located within an IRS business unit and are responsible for defining and achieving initiative outcomes with the support of TSO leadership. The specific individuals assigned to a particular initiative were made based on the subject matter and proximity of the work that needed to be done around the initiatives.

New IRS organizational structure

In addition to the standup of the TSO, on December 13, 2023, the IRS Commissioner announced a new leadership structure noting this was a step designed to reflect the IRS's new transformation goals. The new structure will be put in place in early Calendar Year 2024, with the Commissioner noting that the new leadership structure will help the IRS work efficiently as an agency and ensure that progress keeps moving forward.

Another factor behind the change is it creates more specialization at the top of the IRS's organizational chart. According to the IRS, the new structure will allow for more specialization on emerging priorities in the transformation work while strengthening the senior leadership team's oversight capability and flexibility on pressing tax administration issues. The Deputy Commissioner for Services and Enforcement and the Deputy Commissioner for Operations Support will be replaced by a single Deputy IRS Commissioner. Reporting to the Deputy Commissioner will be four Chiefs:

- *Chief, Taxpayer Service* - responsible for many of the major taxpayer service functions currently handled by the Wage and Investment Division. This includes the filing season work and taxpayer-facing operations such as toll-free operations, tax return processing centers, TACs, tax forms, taxpayer correspondence, and publication development.
- *Chief Taxpayer Compliance Officer* - responsible for overseeing compliance operations in the Large Business and International Division, Small Business/Self-Employed Division, Tax Exempt and Government Entities Division, Criminal Investigation, Office of Professional Responsibility, Return Preparer Office, Whistleblower Office, and Enterprise Case Management.
- *Chief Information Officer* - responsible for the current IRS Information Technology (IT) organization.
- *Chief Operating Officer* - responsible for overseeing a variety of key offices including the Human Capital Office, the Office of the Chief Financial Officer, Procurement, Facilities Management and Security Services, Privacy Governmental Liaison and Disclosure, Research, Applied Analytics and Statistics, and the Risk Office.

The Commissioner indicated that the new structure would help top leadership to work together to drive faster and more effective progress, ultimately benefiting the work to improve the IRS, not just for taxpayers and the tax professional community but also for IRS employees.

Development of the transformation project tracking system is ongoing

TSO management informed us that in June 2023, they began developing a transformation project tracking system, referred to as SIMS. They are currently making enhancements to SIMS and populating the system with relevant data. Representatives from the TSO noted that SIMS

will be the primary way that TSO leadership will monitor and manage the portfolio of IRA projects.

TSO officials noted that they expect to use SIMS to start generating reports for external stakeholders in March 2024. According to IRS management, the first phase in developing the tracking system was focused on identifying the critical information that was needed, including what data were needed about the projects and objectives, and various levels of reporting on risk, cost, and resources. This phase focused on building out the hierarchy and checking the quality and integrity of the data. The next phase will be developing the portfolio management part of the system. SIMS will capture everything related to each of the projects, including requested and approved funding, outcomes, and key results.

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

The IRA legislation provides the IRS with almost \$78 billion, after the \$1.4 billion rescission, in supplemental funding to be expended through FY 2031. To monitor the use of the IRA funds, the IRS is using the same established procedures it uses to track its annual appropriation and spending. This involves a series of fund codes. Fund codes are how the IRS tracks the source of funds in its Integrated Financial System.¹⁰ The IRS reports on IRA spending based on these fund codes and uses the same funding activity structure it uses to report its discretionary spending. Those activities include:

- Business systems modernization.
- Examinations and collections.
- Filing and account services.
- Infrastructure.
- Information services.
- Investigations.
- Pre-filing taxpayer assistance and education.
- Regulatory.
- Shared services and support.

Successful delivery of the IRS’s transformation efforts is based on the assumption that IRA funds will be used solely to support transformation efforts, while day-to-day operations are adequately funded by its annual appropriation

Management officials from the Office of the Chief Financial Officer stated that for FY 2023, the IRS used \$1.8 billion in IRA funding to cover budget shortfalls in its annual appropriation, with \$800 million of this shortfall needed to deliver Taxpayer Service. Office of the Chief Financial Officer management noted that \$800 million in supplemental funding was needed for Taxpayer

¹⁰A 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.

Service to ensure that the IRS met the promised level of service for answering telephone calls and for processing taxpayer correspondence.

In its 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 *i.e.*, the same amount the IRS received for FY 2023, the IRS would need to make up the \$818 million shortfall to maintain its current services. This would require the IRS to once again use its IRA funding to cover its annual appropriation shortfall. The continued use of IRA supplemental funding to cover appropriation shortfalls ultimately means less funds available for the IRS to continue with its transformation efforts. Additionally, the FY 2023 enacted budget eliminated funding for the Business Systems Modernization funding activity, which created a further budget shortfall. IRS management estimates that if the IRS's annual appropriation continues to be underfunded, IRA funding will only cover approximately two-thirds of the IRS's planned transformation efforts.

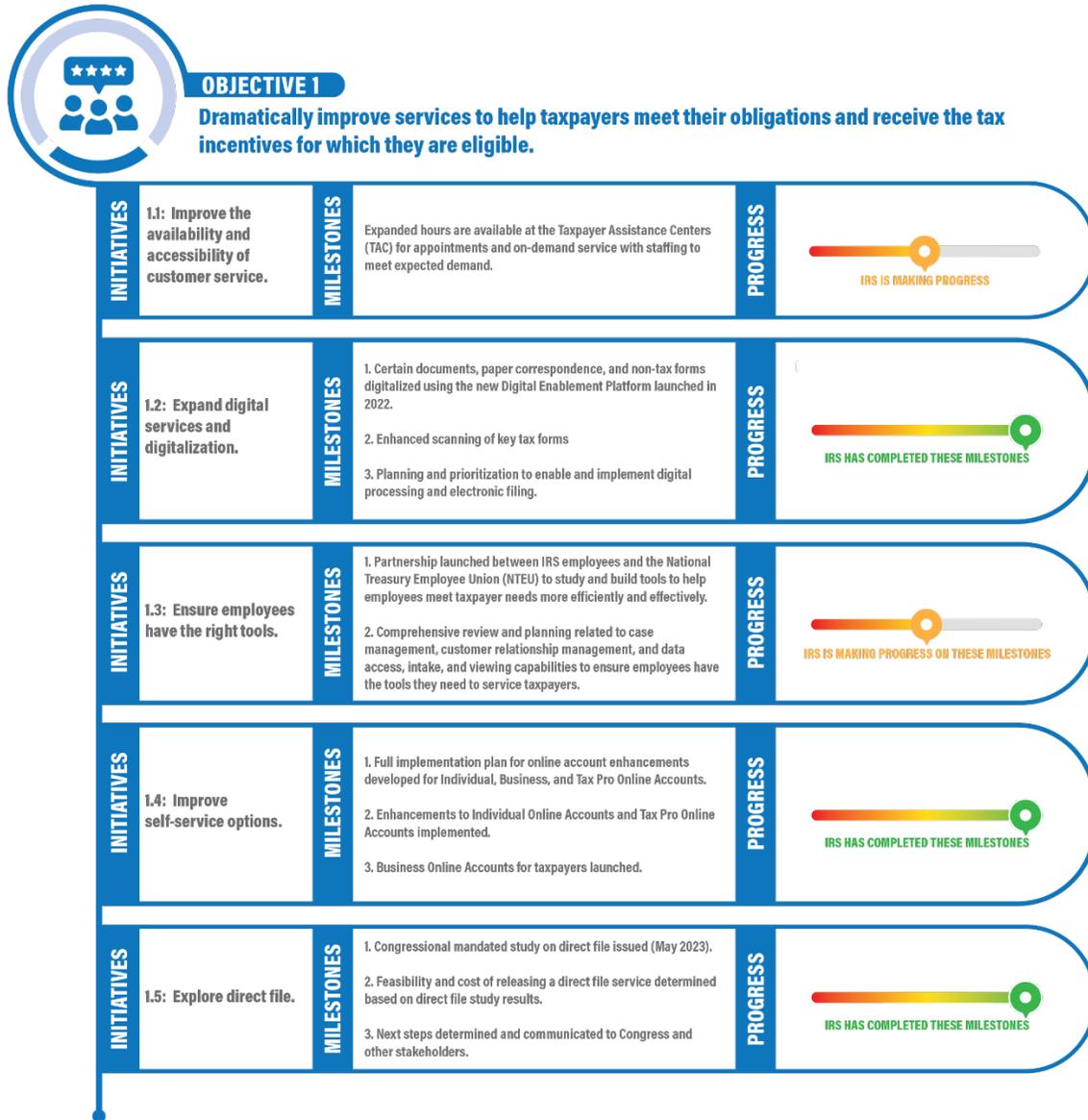
During his testimony in April 2023, the IRS Commissioner informed Congress that the historic funding provided under the IRA would allow the IRS to transform tax administration and taxpayer service in ways not possible under its annual appropriation. The Commissioner indicated that years of underfunding has 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 to work if Congress continues annual funding for steady-state maintenance of agency operations.

Status of Fiscal Year 2023 – Timely Delivery of Planned Milestones

Our review of the SOP identified 58 milestones that the IRS noted would be delivered in FY 2023. In our discussions with management officials, we found that the IRS completed 19 (33 percent) of their planned 58 milestones, 36 (62 percent) were in progress, and 3 (5 percent) are delayed. TSO leadership indicated that while the SOP provided a vision for the transformation, it also noted that planning will be ongoing and that the years provided for milestones were “best estimates” at the time the SOP was drafted. In many cases, the specific milestones for FY 2023 were purposely aggressive to spur action across the IRS and align stakeholders on the changes that are needed. TSO leadership also indicated that they are pleased that by leveraging the SOP as a catalyst for change there have been over 90 percent of the FY 2023 milestones that have either been completed or have made significant progress and they are particularly proud of the benefits these activities have brought to American taxpayers, including improving level of service, enabling response to a large number of notices, and providing more online tools and capabilities. Figure 3 provides a summary by each of the five transformation objectives and status of the milestones to be delivered.¹¹

¹¹ Appendix II provides more detailed explanation for each of the FY 2023 milestones included in the SOP.

Figure 3: Status of FY 2023 Milestones



Inflation Reduction Act: Continued Assessment of Transformation Efforts – Evaluation of Fiscal Year 2023 Delivery of Initiatives



OBJECTIVE 1 CONTINUED

Dramatically improve services to help taxpayers meet their obligations and receive the tax incentives for which they are eligible.

INITIATIVES	1.9: Help taxpayers understand and claim appropriate credits and deductions.	MILESTONES	<p>1. Key tax credits and deductions identified as the focus of initial efforts: outreach and community partnership plans developed, including key details such as communication channels, partnership opportunities and messaging.</p> <p>2. Policies and procedures identified and prioritized for revision to reduce taxpayer burdens.</p>	PROGRESS	<p>1 </p> <p>2 </p>
INITIATIVES	1.10: Make payments easy.	MILESTONES	Online Account payment features expanded so taxpayers can schedule payments, cancel scheduled payments, and save bank information.	PROGRESS	
INITIATIVES	1.11: Build status-tracking tools for taxpayers.	MILESTONES	Current refund and amended return status-tracking tools refined in Online Accounts to provide more transparent messaging for taxpayers that explains processing status, errors and issues, and next steps.	PROGRESS	
INITIATIVES	1.12: Streamline multichannel customer assistance.	MILESTONES	<p>1. Digital options built and implemented to allow taxpayers to communicate back and forth with the IRS across different channels, including enhanced options to submit documents online.</p> <p>2. Number of credentialing service providers for identity-proofing expanded, more services made available to authenticated taxpayers, and access expanded for certain types of taxpayers, such as Individual Taxpayer Identification Number (ITIN) holders and international taxpayers.</p> <p>3. Technology tested to link identity information between certain service channels.</p>	PROGRESS	

Inflation Reduction Act: Continued Assessment of Transformation Efforts – Evaluation of Fiscal Year 2023 Delivery of Initiatives



OBJECTIVE 2

Quickly resolve taxpayer issues when they arise.

INITIATIVES	2.2: Deliver early and appropriate treatments for issues.	MILESTONES	New research identified to foster our understanding of prevalent issues and most effective treatments for those issues.	PROGRESS	<p>IRS IS MAKING PROGRESS</p>
INITIATIVES	2.3: Develop taxpayer-centric notices.	MILESTONES	Prioritization plan developed for revising and implementing updated digitalized notices.	PROGRESS	<p>IRS HAS COMPLETED</p>
INITIATIVES	2.4: Expand tax certainty and issue resolution programs.	MILESTONES	Outreach and campaigns expanded to increase awareness of tax certainty programs and their benefits to taxpayers with complex issues.	PROGRESS	<p>IRS IS MAKING PROGRESS</p>
INITIATIVES	2.5: Offer proactive debt resolution.	MILESTONES	Improvements to online installment agreement portal launched.	PROGRESS	<p>IRS IS MAKING PROGRESS</p>
INITIATIVES	2.6: Expand engagement with non-filers.	MILESTONES	Pilot program for new non-filer treatments launched.	PROGRESS	<p>IRS IS MAKING PROGRESS</p>

Inflation Reduction Act: Continued Assessment of Transformation Efforts – Evaluation of Fiscal Year 2023 Delivery of Initiatives



OBJECTIVE 3

Focus expanded enforcement on taxpayers with complex tax filings and a high-dollar noncompliance to address the Tax Gap.

INITIATIVES	3.2: Expand enforcement for large corporations.	MILESTONES	First wave of specialists hired and onboarded to work toward increasing compliance coverage rates for large corporations.	PROGRESS	<p>IRS IS MAKING PROGRESS</p>
INITIATIVES	3.3: Expand enforcement for large partnerships.	MILESTONES	First wave of hires dedicated to large partnerships hired and onboarded to work toward increasing compliance coverage rates for large partnerships.	PROGRESS	<p>IRS IS MAKING PROGRESS</p>
INITIATIVES	3.4: Expand enforcement for high-income and high-wealth individuals.	MILESTONES	First wave of specialists hired and onboarded to increase compliance coverage rates for high-income and high-wealth individuals.	PROGRESS	<p>IRS IS MAKING PROGRESS</p>
INITIATIVES	3.5: Expand enforcement in areas where audit coverage has declined to levels that erode voluntary compliance.	MILESTONES	First wave of specialists hired and onboarded to work toward increasing compliance coverage rates for key segments.	PROGRESS	<p>IRS IS MAKING PROGRESS</p>

Inflation Reduction Act: Continued Assessment of Transformation Efforts – Evaluation of Fiscal Year 2023 Delivery of Initiatives



OBJECTIVE 4

Deliver cutting-edge technology, data, and analytics to operate more effectively.

INITIATIVES	4.1: Transform core account data and Processing.	MILESTONES	Modernized Information Returns intake platform deployed to provide a free online portal for businesses to file Form 1099-series information returns.	PROGRESS	 IRS HAS COMPLETED
INITIATIVES	4.2: Accelerate technology delivery.	MILESTONES	Product-and-platform operating model developed to incorporate perspectives from the IRS's businesses and IT teams into faster technology delivery.	PROGRESS	 IRS IS MAKING PROGRESS
INITIATIVES	4.3: Improve technology operations.	MILESTONES	<ol style="list-style-type: none"> 1. Initial operating capabilities for multiple cloud environments delivered to enable opportunities to design, develop, test and deliver applications and services at scale. 2. Cloud-based robotic process automation (RPA) platform developed to automate high-volume, manual processes and onboard an initial use case, with additional use cases to follow in outyears. 	PROGRESS	 IRS IS MAKING PROGRESS ON THESE MILESTONES
INITIATIVES	4.4: Continue to ensure data security.	MILESTONES	Malicious activity prevention enhanced to include connecting continuous-monitoring devices to the IRS network and detecting and responding to anomalous traffic and threat patterns.	PROGRESS	 IRS IS MAKING PROGRESS
INITIATIVES	4.5: Maximize data utility.	MILESTONES	<ol style="list-style-type: none"> 1. Process created for establishing enterprise data and meta-data standards. 2. Data stewardship pilot program launched. 3. Initial enterprise data catalog published, to be updated annually. 4. Initial inventory of the IRS's data assets conducted to support planning and change management for migrating authoritative data stores and rebuilding essential functionality into the Enterprise Data Platform (EDP), to be updated as needed. 	PROGRESS	 IRS HAS COMPLETED THESE MILESTONES
INITIATIVES	4.7: Strategically use data to improve tax administration.	MILESTONES	Enhanced governance strategy for advanced analytics defined.	PROGRESS	 IRS IS MAKING PROGRESS
INITIATIVES	4.8: Partner to expand insights.	MILESTONES	<ol style="list-style-type: none"> 1. To support research and evidence-building, new statistical data incorporating state-of-the-art privacy protections produced and publicly released. 2. New Office of Management and Budget standard application process adopted to annually facilitate the engagement of non-IRS researchers in high-value tax administration-related projects. 3. Statistical service established to safely support production of special tabulations and reports to aid the Department of the Treasury and other agencies in evidence-building and program evaluation, as permitted under law. 	PROGRESS	<ol style="list-style-type: none"> 1 IRS HAS COMPLETED 2 IRS HAS COMPLETED 3 IRS IS MAKING PROGRESS

Inflation Reduction Act: Continued Assessment of Transformation Efforts – Evaluation of Fiscal Year 2023 Delivery of Initiatives

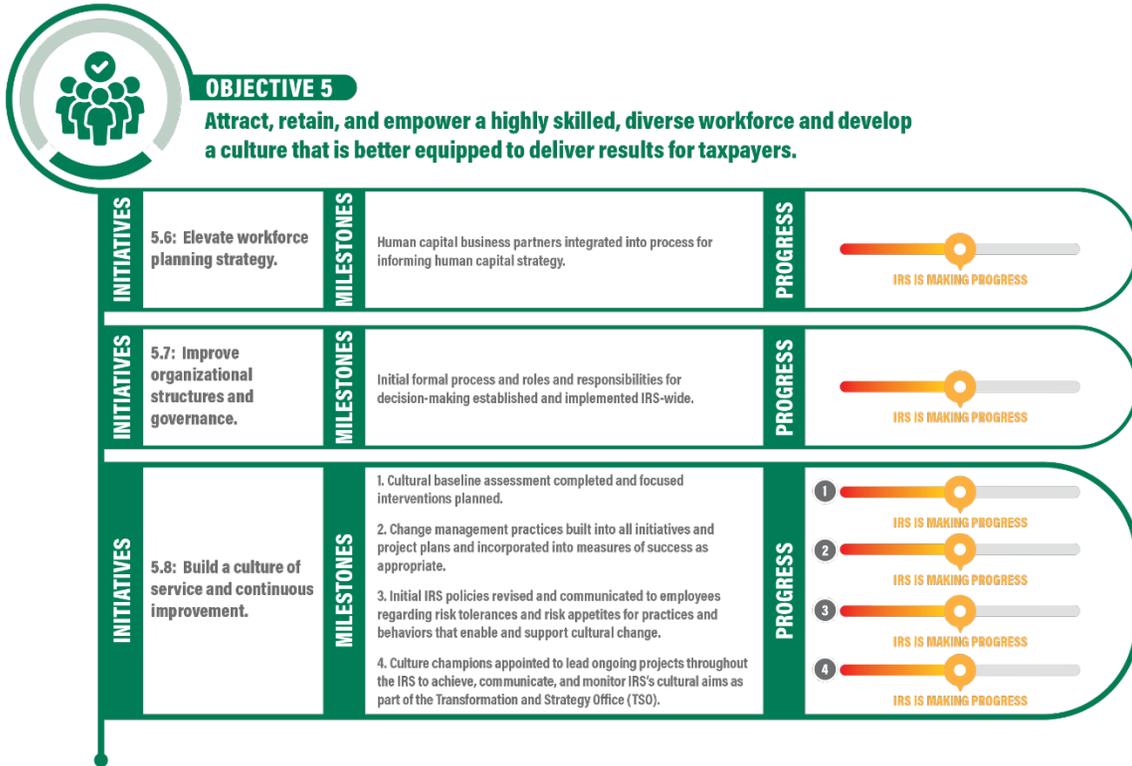


OBJECTIVE 5

Attract, retain, and empower a highly skilled, diverse workforce and develop a culture that is better equipped to deliver results for taxpayers.

INITIATIVES	MILESTONES	PROGRESS
5.1: Redesign hiring and onboarding.	<ol style="list-style-type: none"> Hiring plan driven by business demand delivered. Additional geographic options for hiring pursued 	
5.2: Attract a talented and diverse workforce.	<ol style="list-style-type: none"> Unified, enterprise-wide recruiting strategy developed. Revamped IRS career page goes live online. Pilot of "Lifting Communities Up" talent hub successfully launched. Recruiters engaged to guide recruits through the application process. 	<ol style="list-style-type: none"> IRS HAS COMPLETED IRS IS DELAYED IRS IS MAKING PROGRESS IRS IS MAKING PROGRESS
5.3: Improve the employee experience.	<ol style="list-style-type: none"> Flexible work options piloted across various roles. Most significant facility investments addressed. Plan designed for delivering new employee awards and educating managers about reward options and procedures. 	<ol style="list-style-type: none"> IRS IS DELAYED IRS IS MAKING PROGRESS IRS IS MAKING PROGRESS
5.4: Help employees grow and develop.	<ol style="list-style-type: none"> IRS-wide leadership, mentorship, and coaching programs established. 	
5.5: Develop a data-savvy workforce.	<ol style="list-style-type: none"> Recruitment and hiring plan developed. 	

Inflation Reduction Act: Continued Assessment of Transformation Efforts – Evaluation of Fiscal Year 2023 Delivery of Initiatives



Source: IRA SOP, FYs 2023 – 2031 and information provided by the IRS regarding the status of the milestones.

Measuring Overall Transformation Progress

Processes and procedures have not been developed to measure the IRS's overall progress on delivering its key transformation outcomes. In its SOP, the IRS details that it will measure the overall progress of the transformation according to the following transformation outcomes:

- *World-class service experience.* Improved customer satisfaction metrics.
- *Digital-first organization.* Digital options for all taxpayer interactions with the IRS, alongside the continued option for taxpayers to interact in their preferred mode, such as telephone or in person.
- *Improved take-up of tax incentives by eligible taxpayers.* Increased eligible participation rate of credits and deductions, as well as decreased inadvertent errors and improper payments.
- *Effective enforcement.* Reduce the Tax Gap between taxes owed and paid.
- *Employer of choice within Government and industry.* Improved Federal Employee Viewpoint Survey results.

In our discussion with TSO officials, they indicated that they are currently developing processes to measure the IRS's progress on delivering its transformation outcomes. For example, TSO leadership indicated that in July 2023, they started mapping out a measurement outcome framework. In addition, they have held small sessions with over 20 stakeholder groups to assist in the development of this framework. Finally, TSO leadership indicated that outcomes and key results are currently being documented, including the baseline performance measures that will be used to measure success. All IRA projects will be tied to the outcomes and results.

Successful delivery of most of the 42 initiatives is directly contingent on the IRS timely completing its modernization of its core information technology structure

Successful modernization of systems and the development and implementation of new information technology applications are critical to the IRS's ability to meet its evolving business needs and enhancing the services it provides to taxpayers. Modernization is necessary to deliver efficient taxpayer services and enforcement with enhanced user experiences. In carrying out its responsibilities of administering the tax laws, the IRS relies extensively on information technology investments to support its mission-related operations.¹²

In its SOP, the IRS notes that the successful delivery of its transformation objectives is interdependent on each other. The IRS also states that the key dependency for many initiatives in the SOP is the modernization of its core IT infrastructure, which includes some of the oldest information technology systems in the Federal Government. As previously mentioned, the SOP contains a total of 42 initiatives that outline strategic bodies of work, including key projects, that will drive the IRS's transformation. Our review of these 42 initiatives identified that 35 (83 percent) are dependent upon one or more of eight information technology initiatives to be completed for Objective 4. More specifically, 28 (67 percent) of the 42 initiatives are directly dependent on the IRS delivery of Initiative 4.5 (maximize data utility). This initiative is focused

¹² TIGTA, Report No. 2023-20-006, *Annual Assessment of the IRS's Information Technology Program for Fiscal Year 2022* (Apr. 2023).

on improving the storage and management of data to support improved taxpayer services and enforcement. To accomplish this initiative, the SOP notes that the IRS will identify which data are needed for business purposes, ingest the right data in timely ways, ensure that it is complete and accurate, and put mechanisms in place to allow appropriate access to data while protecting taxpayer privacy. The SOP included four milestones for Initiative 4.5 that were to be delivered in FY 2023. Management noted that all four of the milestones were completed in FY 2023. Figure 4 depicts the 28 initiatives relying on the delivery of Initiative 4.5.

Figure 4: Interdependencies of Initiative 4.5



Source: IRS Strategic Operating Plan (April 2023).

Addressing the Commitment to Not Use Inflation Reduction Act Funding to Increase Audits of Households or Small Businesses Making Under \$400,000 a Year

The Secretary noted that IRA funding will go toward auditing more high-income taxpayers who are responsible for a disproportionate share of unpaid taxes. The increase in these types of audits is estimated to raise hundreds of billions of dollars in revenue. The Secretary directed that any additional resources, including new personnel or auditors who are hired, shall not be used to increase the share of small businesses or households below the \$400,000 threshold that are audited, relative to historical levels. While the SOP did not include specifics on how the IRS was going to ensure it met this commitment, IRS leadership stated that they are continuing to

develop their proposal to comply with the Secretary’s mandate. As of December 2023, the following decisions have been made:

- The measure of income will be based on the Total Positive Income¹³ rather than the Adjusted Gross Income.¹⁴ According to the IRS, total Positive Income is a better measurement because it reflects a taxpayer’s income rather than Adjusted Gross Income which reflects multiple adjustments that may offset the income.
- The measurement timeframe will begin with Tax Year 2023 returns filed in Calendar Year 2024, with Tax Year 2018 being the base year to compare audit rates.

TIGTA’s Office of Audit is currently conducting a review of the methodology the IRS is using to establish the historical audit rates.¹⁵

Going forward, TIGTA’s Office of Inspections and Evaluations plans to assess the SOP milestones on an annual basis. Appendix II provides more detailed information for each of the FY 2023 milestones included in the SOP.

¹³ Total Positive Income is the source of all positive amounts shown for the various sources of income reported on the individual tax return, and therefore, excludes losses.

¹⁴ Adjusted Gross Income is gross income minus adjustments. Gross income includes wages, dividends, capital gains, business income, and retirement distributions as well as other income. Adjustments to income include such items as educator expenses, student loan interest, alimony payments, or contributions to a retirement account.

¹⁵ Audit #20243008010 – *Methodology for Measuring Compliance With the Mandated High-Income Taxpayer Audit Threshold.*

Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this evaluation was to assess the IRS's SOP to determine whether it provides a clear framework on the IRS's plans to transform itself to improve taxpayer service, modernize technology, and increase equity in tax administration. To accomplish our objective, we:

- Evaluated whether the SOP addresses the Secretary's requirements and included:
 - Specific operational initiatives and associated timelines to improve taxpayer service, modernize technology, and increase equity in tax administration.
 - How the IRS plans to monitor compliance with the requirements that audit rates for individuals and small businesses earning less than \$400,000 will not be more than historical levels.
 - How resources will be spent through 2031 on technology, service improvement, and IRS personnel.
 - Milestones for initiatives and metrics for evaluating the success of the programs.
- Interviewed IRS executives and determined why the SOP was not delivered by February 17, 2023.

Performance of This Review

This review was performed with information obtained from the TSO located in Washington, D.C., during the period March through November 2023. We conducted this evaluation in accordance with the Quality Standards for Federal Offices of Inspector General.

Major contributors to the report were Debra Kisler, Director; and Tom Dori, Senior Evaluator.

Data Validation Methodology

We did not use data from computer-based systems for this evaluation. The information and data were testimonial evidence and were not validated.

Status of Fiscal Year 2023 Milestones

This appendix presents the information that was provided to us by IRS management regarding the FY 2023 milestones included in the SOP.



OBJECTIVE 1:
Dramatically improve services to help taxpayers meet their obligations and receive the tax incentives for which they are eligible.

Objective 1 includes 12 initiatives that need to be completed to meet the transformation objective. For FY 2023, the IRS had 19 milestones included in the SOP for the initiatives in Objective 1. As of September 30, 2023, for these 19 milestones, the IRS reports it has completed nine, is making progress on nine, and one milestone is currently delayed.

Objective 1 FY 2023 Milestones

FY 2023 Milestone	Status
<p>Expanded hours are available at the TACs for appointments and on-demand service with staffing to meet expected demand. (Initiative 1.1)</p>	<p>The IRS is making progress toward this milestone and anticipates completion by the end of Calendar Year 2023.</p> <ul style="list-style-type: none"> Field Assistance is in the pre-filing season planning stages to deliver expanded Taxpayer Experience Days in selected locations during Filing Season 2024.¹ Field Assistance is in the pre-filing season planning stages to deliver expanded hours at selected TACs during Filing Season 2024. Nine Community Site Visits were held in FY 2023 after the filing season. Additional events will be held during FY 2024.²
<p>Certain documents, paper correspondence, and non-tax forms digitalized using the new Digital Enhancement Platform launched in 2022. (Initiative 1.2)</p>	<p>The IRS has completed this milestone. The Digital Enhancement Platform was launched in December 2022 to intake correspondence and Automated Under Reporter and Correspondence Exam legacy systems. The processing path for Scanning-as-a-Service was also launched in December 2022.</p>

¹ Taxpayer Experience Days are select Saturday openings of TACs which provide walk-in services to taxpayers.

² Community Site Visits were renamed as Temporary Pop-Up Centers.

**Inflation Reduction Act: Continued Assessment of Transformation
Efforts – Evaluation of Fiscal Year 2023 Delivery of Initiatives**

Enhanced scanning of key tax forms, *e.g.*, Form 940, *Employer's Annual Federal Unemployment (FUTA) Tax Return*, Form 941, *Employer's Quarterly Federal Tax Return*, and Form 1040, *U.S. Individual Income Tax Return*. (Initiative 1.2)

The IRS has **completed** this milestone. The IRS has scanned more than 1 million forms, including more than 480,000 Forms 940; 579,000 Forms 941; and 90,000 Forms 1040.

Planning and prioritization to enable and implement digital processing and electronic filing. (Initiative 1.2)

The IRS has **completed** this milestone. The IRS has deployed the capability for taxpayers to use the Document Upload Tool to provide documentation and responses to IRS notices and letters. Additionally, the IRS deployed Digitalization Content Retrieval in December 2022, and an enhancement to this system providing search and reporting capabilities was deployed in June 2023.

Partnership launched between IRS employees and the National Treasury Employees Union to study and build tools to help employees meet taxpayer needs more efficiently and effectively. (Initiative 1.3)

The IRS is **making progress** toward this milestone. Ongoing efforts are underway to deliver employee tools, meet hardware and software needs, and prioritize training. Upon completion, the National Treasury Employees Union and TSO will partner to ensure employee's needs are met.

Comprehensive review and planning related to case management; customer relationship management; and data access, intake, and viewing capabilities to ensure employees have the tools they need to service taxpayers. (Initiative 1.3)

The IRS is **making progress** toward this milestone. The IRS is collectively working on delivering a modernized case management system and the Exam line of business deliveries are underway. Additionally, there was a kick-off meeting for Customer Relationship Management to ensure Enterprise alignment on Customer Relationship Management capabilities and to determine if the IRS should start with Customer Relationship Management or whether there is greater value with viewing capabilities in the services area.

Full implementation plan for online account enhancements developed for Individual, Business, and Tax Pro Online Accounts. (Initiative 1.4)

The IRS has **completed** this milestone. The implementation plan for online account enhancements by account type has been created based on the backlog and the SOP, and the capabilities are all included in the next two-year deliveries.

Enhancements to Individual Online Accounts and Tax Pro Online Accounts implemented. (Initiative 1.4)

The IRS has **completed** this milestone. Display bank name and view returned payments enhancements have been implemented on Individual Online Accounts. The cancelled payments featured is ready, but not yet customer facing. Additionally, enhancements for viewing pending/scheduled payments, storing multiple bank accounts, and validating bank information for Tax Pro Accounts will be implemented by the end of October 2023.

Business Online Accounts for taxpayers launched. (Initiative 1.4)

The IRS has **completed** this milestone. The IRS delivered Business Online accounts to the public for sole proprietors and single member Limited Liability Corporations. The IRS is on track to open business tax accounts to partnerships and S corporations in January 2024. The remaining entities will be delivered in January 2025.

Inflation Reduction Act: Continued Assessment of Transformation Efforts – Evaluation of Fiscal Year 2023 Delivery of Initiatives

Congressional mandated study on direct file issued. (Initiative 1.5)	The IRS has completed these milestones and delivered the mandated report to Congress on time on May 16, 2023. Also, on May 16, 2023, the IRS announced that it had been directed to move forward with a pilot for Filing Season 2024 and has communicated this to Congress and other stakeholders. Plans for the pilot are underway. ³
Feasibility and cost of releasing a direct file service determined based on direct file study results. (Initiative 1.5)	
Next steps determined and communicated to Congress and other stakeholders. (Initiative 1.5)	
Key tax credits and deductions identified as the focus on initial efforts: outreach and community partnership plans developed, including key details such as communications channels, partnership opportunities and messaging. (Initiative 1.9)	The IRS is making progress toward this milestone. The initiative team has identified key credits and deductions and has gathered current outreach and community partnership plans. The development of action plans is underway to expand targeted outreach.
Policies and procedures identified and prioritized for revision to reduce taxpayer burden. (Initiative 1.9)	The IRS is delayed toward meeting this milestone. Policies and procedures have been reviewed for key credits and deductions and development of action plans is underway.
Online Account payment features expanded so taxpayers can schedule payments, cancel scheduled payments, and save bank information. (Initiative 1.10)	The IRS is making progress toward this milestone. Filing season enhancements to Individual Online Accounts and Business Online Accounts continue. Additionally, Tax Pro professionals will have the ability to make payments on behalf of their clients; business tax accounts will have the ability to make payments, schedule payments, cancel scheduled payments, and save bank account information.
Current refund and amended return status-tracking tools refined in Online Accounts to provide more transparent messaging for taxpayers that explains processing status, errors and issues and next steps. (Initiative 1.11)	The IRS is making progress toward this milestone. The IRS is on track to deliver enhancements to the <i>Where's My Refund?</i> tool in December 2023 and to go live in January 2024.
Digital options built and implemented to allow taxpayers to communicate back and forth with the IRS across different channels, including enhanced options to submit documents online. (Initiative 1.12)	The IRS is making progress toward this milestone. The initiative team is on track to deliver business policy for sole proprietors, partnerships, S corporations, and single member limited liability corporation entity type access in business tax accounts for Filing Season 2024.
Number of credentialing service providers for identity-proofing expanded, more services made available to authenticated taxpayers, and access expanded for certain types of taxpayers, such as Individual Taxpayer Identification Number holders and international taxpayers. (Initiative 1.12)	<p>The IRS is making progress toward this milestone.</p> <ul style="list-style-type: none"> • The IRS integrated Login.gov at Identity Assurance Level 1 for two IRS online applications. Form 990-N, <i>Electronic Notice (e-Postcard) for Tax-Exempt Organizations Not Required to File Form 990 or Form 990-EZ</i>, and Foreign Account Tax Compliance Act Qualified Application and Account Management System do not require identity proofing. • The IRS launched identity proofing for Individual Taxpayer Identification Number

³ TIGTA's Office of Audit has two ongoing reviews regarding the Direct File Program. One is assessing the security of the IRS Direct File System (Audit #202320024 – *IRS Direct File System Security*); and the other one is assessing the IRS's plan to develop and pilot an IRS-run Direct File System (Audit #2024400811 – *Direct File Pilot Program*).

Inflation Reduction Act: Continued Assessment of Transformation Efforts – Evaluation of Fiscal Year 2023 Delivery of Initiatives

holders and taxpayers living abroad for Identity Assurance Level 2 applications requiring identity proofing.

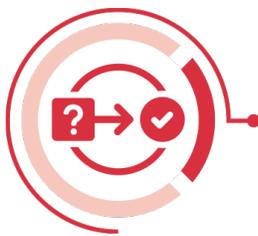
- The IRS is expanding 24/7 customer support to more than 240 languages for the video chat verification option.

Additionally, alternative credentialing service provider options are being researched, 24/7 customer support has been expanded to more than 240 languages for the video chat verification option, and 2,586 previously blocked users have been re-evaluated and un-restricted.

Technology tested to link identity information between certain service channels. (Initiative 1.12)

The IRS is **making progress** toward this milestone. The initiative team is on track to launch a nationwide in-person proofing capability for Filing Season 2024.

Source: The SOP and information provided by the IRS regarding the status of the milestones.



**OBJECTIVE 2:
Quickly resolve taxpayer issues when they arise.**

Objective 2 includes seven initiatives that need to be completed to meet the transformation objective. For FY 2023, the IRS had five milestones included in the SOP for the initiatives in this objective. The IRS reported it has completed one of the milestones and is making progress for the other four milestones.

Objective 2 FY 2023 Milestones

FY 2023 Milestone	
New research identified to foster the IRS's understanding of prevalent issues and the most effective treatments for those issues. (Initiative 2-2)	The IRS is making progress toward this milestone. The IRS has identified some research that can be used to improve its understanding of prevalent issues and the most effective treatment streams of taxpayers moving forward.
Prioritization plan developed for revising and implementing updated digitalized notices. (Initiative 2.3)	The IRS has completed this milestone. The IRS has developed and received approval of an adjustable and workable prioritization plan that incorporates enterprise, business, and taxpayer priorities, by bringing together subject matter experts from the IRS offices that issue notices or are impacted by notices and soliciting the input of external stakeholders.
Outreach and campaigns expanded to increase awareness of tax certainty programs and their	The IRS is making progress toward this milestone. <ul style="list-style-type: none"> • On April 25, 2023, the Large Business and International Division published an Interim

Inflation Reduction Act: Continued Assessment of Transformation Efforts – Evaluation of Fiscal Year 2023 Delivery of Initiatives

benefits to taxpayers with complex issues. (Initiative 2.4)

Guidance Memorandum setting forth guidance for considering Advance Pricing Agreement submissions from taxpayers.

- Six additional projects that mainly impact the Large Business and International Division but could touch other taxpayer populations have been identified and are under development.
- Initiative leads are continuing efforts to obtain data and input from additional Business Operating Divisions to address Tax Certainty and Issues Resolution Programs.

Improvements to the online installment agreement portal launched. (Initiative 2.5)

The IRS is **making progress** toward this milestone. The IRS updated the self-service payment plan functionality in Online Account for individual taxpayers. Through May 2023, taxpayers have completed more than 1.3 million self-service payment plan transactions via the IRS.gov website. The IRS is currently working on expanding self-service payment plan functionality in online accounts for businesses and tax professionals.

Pilot program for new non-filer treatments launched. (Initiative 2.6)

The IRS is **making progress** toward this milestone. The IRS completed development of soft notices for the Individual Master File to ensure delivery of the pilot program for new non-filer treatments.

Source: The SOP and information provided by the IRS regarding the status of the milestones.



OBJECTIVE 3:
Focus expanded enforcement on taxpayers with complex tax filings and a high-dollar noncompliance to address the Tax Gap.

Objective 3 includes seven initiatives that need to be completed to meet the transformation objective. For FY 2023, the IRS had four milestones included in the SOP for the initiatives in this objective. The IRS reported it is making progress on all four milestones.

Objective 3 FY 2023 Milestones

FY 2023 Milestone	Status
<p>First wave of specialists hired and onboarded to work toward increasing compliance coverage rates for large corporations. (Initiative 3.2)</p> <p>First wave of hires dedicated to large partnerships hired and onboarded to work toward increasing compliance coverage rates for large partnerships. (Initiative 3.3)</p>	<ul style="list-style-type: none"> • The IRS is making progress toward meeting these milestones. In FY 2023, the IRS experienced barriers in the hiring process outside of the TSO’s control. The barriers to posting job announcements have been resolved; however, the first wave of revenue agents and specialists for large corporations, large partnerships, high-income and high wealth individuals, and key segments have yet to be hired and onboarded. Additionally, the

Inflation Reduction Act: Continued Assessment of Transformation Efforts – Evaluation of Fiscal Year 2023 Delivery of Initiatives

First wave of specialists hired and onboarded to increase compliance coverage rates for high-income and high-wealth individuals. (Initiative 3.4)

First wave of specialists hired and onboarded to work toward increasing compliance coverage rates for key segments. (Initiative 3.5)

external applications that have been received are far below the IRS targeted goal and there is an overall shortage of individuals with the desired background and experience, which has created further challenges in hiring. The IRS is exploring options to better promote the job announcements to yield more high-quality applications, referrals, and accepted job offers.

Source: The SOP and information provided by the IRS regarding the status of the milestones.



**OBJECTIVE 4:
Deliver cutting-edge technology, data, and analytics to operate more effectively.**

Objective 4 includes eight initiatives that need to be completed to meet the transformation objective. For FY 2023, the IRS had 13 milestones included in the SOP for the initiatives in this objective. The IRS reported that seven of the milestones have been completed and they are making progress on the other six.

Objective 4 FY 2023 Milestones

FY 2023 Milestone	Status
Modernized Information Returns Intake platform deployed to provide a free online portal for businesses to file Form 1099-series information returns. (Initiative 4.1)	<p>The IRS has completed this milestone.</p> <ul style="list-style-type: none"> At the start of Filing Season 2023, the IRS delivered a free, modernized online portal, the Information Returns Intake System, for businesses to file Form 1099-series information returns. The Information Returns Modernization program delivered expanded bulk-filing capabilities to the broader public in June 2023. As of July 2023, more than 3,500 unique users have submitted more than 67,000 forms. Moving forward, the IT organization is continuing to invest and improve the Information Returns Intake System intake and processing capabilities that will support near and long-term volume expectations associated with new cryptocurrency Form 1099-DA (digital assets). This will be delivered in December 2024 for Filing Season 2025.
Product-and-platform operating model developed to incorporate perspectives from the IRS’s businesses and IT organization teams into faster technology delivery. (Initiative 4.2)	<p>The IRS is making progress toward this milestone. Components of this effort are being delivered, while the full realization of the milestone will not occur until FY 2024, as the scope is continually being refined. Progress includes: <u>Strategic Portfolio Management Tool:</u></p>

Inflation Reduction Act: Continued Assessment of Transformation Efforts – Evaluation of Fiscal Year 2023 Delivery of Initiatives

- The Strategic Portfolio Management for Portfolio and Project Management tool supporting the IRA SOP was deployed to production on February 28, 2023.
- By July 2023, the tool was enhanced and configured to include resourcing data, stakeholder analysis, key performance indicators, project cost data, additional dependencies, dashboard reports, and flagging for escalation. IRA initiatives and project data were uploaded into production. Users were provided access to the tool in production to begin managing IRA initiatives and projects.
- The Strategic Portfolio Management tool now provides visibility and transparency into the IRA portfolio with over 400 projects currently in the tool and over 300 users with access, including IRA executive leads, IRA initiative leads, and project managers, as well as read-only and administrative users.
- Planning is underway and funding is available to design a tool supporting the entire IT portfolio.

Demand Management Tool. Planning is underway to define the tool and reporting requirements for IRS business and IT organization partners.

Data-Driven Approaches for Investment Decision Making. Effort is underway to implement Version 1 of Technology Business Management, including service catalog, taxonomy, and spending transparency. Technology Business Management will be used to provide transparency of investments to business functionality.

Initial operating capabilities for multiple cloud environments delivered to enable opportunities to design, develop, test, and deliver applications and services at scale. (Initiative 4.3)

The IRS is **making progress** toward this milestone.

- The IRS has expanded use of Integrated Enterprise Portal Cloud for IRS-developed solutions. The Integrated Enterprise Portal Cloud has since been implemented with several IRS solutions, including Individual Online Account, Business Online Account, and Information Returns Modernization. The IRS is enhancing the Integrated Enterprise Portal environment by increasing connectivity bandwidth and improving testing capability with IRS legacy systems to allow for continued growth of the Integrated Enterprise Portal for solutions like the Enterprise Tax Calculator and Direct File.
- The IRS will evaluate the use of Treasury Cloud for future solutions and continue to leverage cloud based FedRAMP software as a service solution to implement technology platforms and accelerate delivery.

Inflation Reduction Act: Continued Assessment of Transformation Efforts – Evaluation of Fiscal Year 2023 Delivery of Initiatives

<p>Cloud-based robotic process automation platform developed to automate high-volume, manual processes and onboard initial use cases to follow in out years. (Initiative 4.3)</p>	<p>The IRS is making progress toward this milestone. The cloud-based robotic process automation solution has been successfully staged and is scheduled for deployment (go-live) in November 2023.</p>
<p>Malicious activity prevention enhanced to include connecting continuous-monitoring devices to the IRS network and detecting and responding to anomalous traffic and threat patterns. (Initiative 4.4)</p>	<p>The IRS is making progress toward this milestone. This milestone is referring to work the IRS is doing to modernize network intrusion detection with automatic capabilities that enhance proactive prevention of attacks to the IRS network.</p>
<p>Process created for establishing enterprise data and meta-data standards. (Initiative 4.5)</p>	<p>The IRS has completed this milestone. On July 19, 2022, the Data and Analytics Advisory Group voted to adopt the following:</p> <ul style="list-style-type: none"> • Establish the Geopolitical Entities, Names, and Codes Standard as the IRS county code standard, replacing the Federal Information Processing Standard that was withdrawn in 2008. • Authorize the Data Council to lead the process for defining new data standards. The Data Council will assess the need for a standard, identify the appropriate standard, and make recommendations to the Chief Data and Analytics Officer for review and approval.
<p>Data stewardship pilot program launched. (Initiative 4.5)</p>	<p>The IRS has completed this milestone. A newly formed Data Cadre kickoff meeting was held on October 20, 2022, and lessons learned sessions were held in June 2023 with Data Cadre leads, the Chief Data and Analytics Officer, Deputy Chief Data and Analytics Officer, Executive Director, Data Management Division, and Research, Applied Analytics and Statistics (RAAS).</p>
<p>Initial enterprise data catalog published to be updated annually. (Initiative 4.5)</p>	<p>The IRS has completed this milestone. As of May 22, 2023, the Enterprise Data Catalog is live. It will support metadata for individual and business taxpayer account data. As of July 23, 2023, the Enterprise Data Catalog populated for Customer Account Data Engine 2 was loaded to the Enterprise Data Platform.</p>
<p>Initial inventory of the IRS’s data assets conducted to support planning and change management for migrating authoritative data stores and rebuilding essential functionality into the Enterprise Data Platform to be updated as needed. (Initiative 4.5)</p>	<p>The IRS has completed this milestone. The initial inventory of the IRS’s data assets for migration to the Enterprise Data Platform has been completed. The IRS continues to update the Enterprise Data Platform data ingestion roadmap based on shifting IRA priorities, including Clean Energy. The IRS has a process in place to work with the IT organization and Enterprise Data Platform to reconfigure all data ingestion sequencing as needed to meet IRA priorities. Additionally, the IRS will submit a refreshed IRS Data Inventory to the Treasury Department in February 2024, per requirements.</p>
<p>Enhanced governance strategy for advanced analytics defined. (Initiative 4.7)</p>	<p>The IRS is making progress toward this milestone.</p> <ul style="list-style-type: none"> • On June 2, 2023, the IRS provided recommendations to enhance the existing data

Inflation Reduction Act: Continued Assessment of Transformation Efforts – Evaluation of Fiscal Year 2023 Delivery of Initiatives

governance framework and proposed changed language to existing charters for data governance bodies, such as the Data Analytics Advisory Group, the Data Council, *etc.*, and relevant internal guidance. Associated updates are currently in progress.

- On July 17, 2023, the IRS proposed a strategy for data and advanced analytics/artificial intelligence governance to RAAS stakeholders and members of the Data Analytics Strategic Integration Board and Data Analytics Advisory group.
- On July 21, 2023, the IRS, in collaboration with the Acting Chief Information Officer and Deputy Chief Privacy Officer, presented the proposed data and analytics/artificial intelligence governance strategy to the IRS Commissioner, Deputy Commissioners, and other senior advisors.

To support research and evidence-building, new statistical data incorporating state-of-the-art privacy protections is produced and publicly released. (Initiative 4.8)

The IRS has **completed** this milestone.

- In February 2023, the IRS awarded an interagency agreement to the Census Bureau and delivered the Statistics of Income Individual Income Tax File so that the Census Bureau can add a code for the best estimate of race and ethnicity. The resulting data will be protected using a differential privacy approach and will be delivered with the necessary statistical tools to allow users to properly estimate non-sampling error. The file will advance the Treasury Department work looking at the impact of tax law provisions on taxpayers in different demographic groups and be used to produce tabulations for eventual public release.
- In May 2023, the IRS released joint work with the Census Bureau that included statistical tabulations and analysis that report Economic Impact Payment data by recipient race and ethnicity.
- In June 2023, the IRS hired a new employee who will focus primarily on developing and implementing statistical methods using formal privacy approaches to producing and protecting aggregated statistical data.
- In June 2023, the IRS released a beta-version of a fully synthetic Tax Year 2015 individual income tax public-use file to selected users for testing and feedback and are partnering with procurement on a contract to produce additional files.

New Office of Management and Budget standard application process adopted to annually facilitate the

The IRS has **completed** this milestone.

- The IRS participated in an interagency working group that resulted in the stand-up of the

Inflation Reduction Act: Continued Assessment of Transformation Efforts – Evaluation of Fiscal Year 2023 Delivery of Initiatives

engagement of non-IRS researchers in high-value tax administration-related projects. (Initiative 4.8)

standard application portal in December 2022. In May 2023, the IRS successfully led a call for proposals to use tax data to address high-value tax administration-related projects.

Applications for these projects were accepted in June 2023, resulting in 114 submissions, which are currently being reviewed through the Joint Statistical Research Program.

- The IRS became a member of the Standard Application Portal Office of Management and Budget Governance Board overseeing the standard application portal and was designated executive champion for future technical improvements.
- In February 2023, the IRS introduced updated documentation for managing the Statistics of Income Statistical Research Program. Feedback from RAAS stakeholders has been incorporated.
- The IRS worked with the IRS IT organization’s Cyber Security group to implement additional security controls for researchers who will work with tax data on research projects. Accomplishments include complete logging of queries and outputs, disabling the use of remote media on IRS issued laptops, and eliminating the ability for laptop users to send e-mail to non-IRS users.

Statistical service established to safely support production of special tabulations and reports to aid the Department of the Treasury and other agencies in evidence-building and program evaluation, as permitted under law. (Initiative 4.8)

The IRS is **making progress** toward this milestone.

- In March 2023, the IRS received approval to hire additional staff to support production of ad hoc statistical reports as permitted under I.R.C. Section 6108(b) and to assist Treasury Department users requesting access to tax data under I.R.C. Section 6103(j).
- In June 2023, the IRS established a memorandum of understanding with Georgetown and Yale Universities that will support an environment scan of technologies and approaches for an automated query system that could address relatively straightforward requests for aggregated statistical data. This work is intended to support requests from government agencies, including Federal, State, local, and tribal governments.
- In June 2023, the IRS developed a draft memorandum of understanding to support research by the Office of Economic Policy as permitted under I.R.C. Section 6103(j). This project will evaluate the impact of the Coronavirus Disease 2019 Pandemic on small businesses and will be the first project Statistics of Income and RAAS works with a Treasury

Inflation Reduction Act: Continued Assessment of Transformation Efforts – Evaluation of Fiscal Year 2023 Delivery of Initiatives

Department group other than the Office of Tax Analysis.

Source: The SOP and information provided by the IRS regarding the status of the milestones.



OBJECTIVE 5:
Attract, retain, and empower a highly skilled, diverse workforce and develop a culture that is better equipped to deliver results for taxpayers.

Objective 5 includes eight initiatives that need to be completed to meet the transformation objective. For FY 2023, the IRS had 17 milestones included in the SOP for the initiatives in this objective. The IRS reported that two of the milestones have been completed, 13 of the milestones are making progress and two milestones are currently delayed.

Objective 5 FY 2023 Milestones

FY 2023 Milestone	Status
Hiring plan driven by business demand delivered. (Initiative 5.1)	The IRS is making progress toward this milestone. The Commissioner has approved the final consolidated FY 2024 demand forecast. This approved forecast was delivered to Human Capital Office Talent Acquisition to inform the development, approval, and execution of the FY 2024 Strategic Hiring Plan.
Additional geographic options for hiring pursued. (Initiative 5.1)	The IRS is making progress toward this milestone. <ul style="list-style-type: none"> The IRS is collaborating with RAAS to conduct a full analysis of positions by position description and business operating division to understand all remote work opportunities. The IRS is collaborating with the Human Capital Office Research function to receive and utilize a State-by-State post of duty analysis by business unit to inform current state analysis. The IRS established the Lifting Communities Up initiative which has identified sites to consider for expansion. Pilots for geographic expansion in Puerto Rico and the Mississippi Delta have started.
Unified, enterprise-wide recruiting strategy developed. (Initiative 5.2)	The IRS has completed this milestone. An enterprise-wide recruiting strategy for revenue agents was developed and shared with the Human Capital Office and business units. Additionally, the IRS developed an enterprise-wide FY 2024 Strategic Recruitment Plan and is developing a Recruitment Guide outlining methodology, roles and responsibilities, and recruiting capabilities and channels for key recruiting stakeholders.

Inflation Reduction Act: Continued Assessment of Transformation Efforts – Evaluation of Fiscal Year 2023 Delivery of Initiatives

<p>Revamped IRS career page goes live online. (Initiative 5.2)</p>	<p>The IRS is delayed in meeting this milestone. The IRS is collaborating with the Human Capital Office to revamp the career page; however, this effort is dependent upon securing a vendor which has been delayed, thus delaying meeting this milestone.</p>
<p>Pilot of “Lifting Communities Up” talent hub successfully launched. (Initiative 5.2)</p>	<p>The IRS is making progress toward this milestone. The IRS is assisting the Executive Director with Lifting Communities Up efforts including drafting a three-phase recruitment plan to support a talent hub pilot.</p>
<p>Recruiters are engaged to guide recruits through the application process. (Initiative 5.2)</p>	<p>The IRS is making progress toward this milestone. The IRS is developing a two-track recruiter concierge process for traditional USAJOBS applicants and non-traditional resume-based candidates.</p>
<p>Flexible work options piloted across various roles. (Initiative 5.3)</p>	<p>The IRS is delayed in meeting this milestone. The IRS is looking to onboard a new project lead for this milestone. The IRS performed an external scan on best practices for flexible work from other Federal agencies and is evaluating the feasibility of various options for the IRS.</p>
<p>Most significant facility investments addressed. (Initiative 5.3)</p>	<p>The IRS is making progress toward meeting this milestone. The IRS partnered with Facilities Management and Security Services to address major deficiencies in key working locations. The IRS launched a survey to assess the impact of opening supply stations at the Ogden, Utah, and Memphis, Tennessee, campuses.</p>
<p>Plan designed for delivering new employee awards and educating managers about reward options and procedures. (Initiative 5.3)</p>	<p>The IRS is making progress toward this milestone. The IRS delivered a plan to TSO leadership in September 2023, presenting three options for improving employee recognition and educating managers about reward options and procedures.</p>
<p>IRS-wide leadership, mentorship, and coaching programs established. (Initiative 5.4)</p>	<p>The IRS is making progress toward this milestone. The IRS sprint teams made up of representatives from across the Compliance Business Units are doing an external scan on best practices in the areas of immersive learning, coaching, and mentoring.</p>
<p>Recruitment and hiring plan developed. (Initiative 5.5)</p>	<p>The IRS has completed this milestone. The IRS presented the finalized version of the FY 2024 Specialized Data Employee Recruitment and Hiring Plan to the Chief Data and Analytics Officer and Objective 5 Lead as well as key business unit stakeholders.</p>
<p>Human capital business partners integrated into process for informing human capital strategy. (Initiative 5.6)</p>	<p>The IRS is making progress toward this milestone.</p> <ul style="list-style-type: none"> • The IRS established a process for hiring demand collection from business units with leadership review and approval. • The Commissioner approved the final consolidated FY 2024 demand forecast. • The IRS delivered the approved forecast to Human Capital Office Talent Acquisition to

Inflation Reduction Act: Continued Assessment of Transformation Efforts – Evaluation of Fiscal Year 2023 Delivery of Initiatives

	<p>inform the development, approval, and execution of the FY 2024 Strategic Hiring Plan.</p> <ul style="list-style-type: none"> The IRS created a core project team of subject matter experts from each business unit who will partner with the Workforce Planning Team to further refine the process for enterprise-wide strategic workforce planning for FY 2025 and beyond.
<p>Initial formal process and roles and responsibilities for decision-making established and implemented IRS-wide. (Initiative 5.7)</p>	<p>The IRS is making progress toward this milestone. The IRS completed a review of its existing governance structure and is currently assessing the data to inform recommendations to leadership on the overarching system and enterprise policy for governance. Additionally, the Treasury Department approved the Request for Organizational Change.</p>
<p>Cultural baseline assessment completed and focused interventions planned. (Initiative 5.8)</p>	<p>The IRS is making progress toward meeting this milestone. The IRS is developing a Service-wide pulse survey, Health of the Workforce initiative, and a Community of Practice to create a cultural baseline in FY 2024.</p>
<p>Change management practices built into all initiatives and project plans and incorporated into measures of success as appropriate. (Initiative 5.8)</p>	<p>The IRS is making progress toward meeting this milestone. The IRS has assigned a lead change management practitioner to support each objective. These practitioners are supporting various change management planning and activities at the initiative and project level, where necessary.</p>
<p>Initial IRS policies revised and communicated to employees regarding risk tolerances and risk appetites for practices and behaviors that enable and support cultural change. (Initiative 5.8)</p>	<p>The IRS is making progress toward meeting this milestone. The TSO has partnered with the Chief Risk Officer to review the FY 2024 Risk Tolerance approach to drive cultural change.</p>
<p>Culture champions appointed to lead ongoing projects throughout the IRS to achieve, communicate, and monitor the IRS’s cultural aims as part of the TSO. (Initiative 5.8)</p>	

Source: The SOP and information provided by the IRS regarding the status of the milestones.

Management’s Response to the Draft Report



Transformation & Strategy Office

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, DC 20224

February 16, 2024

MEMORANDUM FOR DEPUTY INSPECTOR GENERAL FOR INSPECTIONS AND EVALUATIONS

FROM: David Padrino
Transformation and Strategy Officer

David A. Padrino
Digitally signed by David A. Padrino
Date: 2024.02.16 14:40:49 -05'00'

SUBJECT: Draft Evaluation Report – Inflation Reduction Act: Continued Assessment of Transformation Efforts – Evaluation of Fiscal Year 2023 Delivery of Initiatives (#IE-23-007-I)

Thank you for the opportunity to review your draft report and address your report observations. As you know, the Inflation Reduction Act (IRA) was historic legislation that provides IRS with funding to dramatically improve taxpayer service, upgrade our technology, and ensure high-income taxpayers, large corporations and complex partnerships pay taxes owed. Upon its passage, the Secretary of the Treasury directed the IRS Commissioner to develop an operational plan that outlines how IRS will deliver transformational change for taxpayers. IRS immediately went to work on a Strategic Operating Plan (SOP), which it released on April 6, 2023.

The SOP outlined IRS’s vision for transformation and included 42 initiatives under the following 5 objectives.

Objective 1	Dramatically improve services to help taxpayers meet their obligations and receive the tax incentives for which they are eligible.
Objective 2	Quickly resolve taxpayer issues when they arise.
Objective 3	Focus expanded enforcement on taxpayers with complex tax filings and a high-dollar noncompliance to address the Tax Gap
Objective 4	Deliver cutting-edge technology, data, and analytics to operate more effectively.
Objective 5	Attract, retain, and empower a highly skilled, diverse workforce and develop a culture that is better equipped to deliver results for taxpayers.

Short and longer-term milestones were included in the SOP for these initiatives. As we advised, FY23 milestones were purposely aggressive to spur action and transformation across the IRS. We are making remarkable progress in our efforts to transform the IRS and the pace of change is accelerating as we use the historic funding from the IRA. At the end of December, an additional 7 FY23 milestones were completed. With 98% of the FY23 milestones completed or in progress (45% complete and 53% in progress), it is evident that the SOP is serving as a catalyst for transforming the administration of the tax system and the services provided to taxpayers.

Inflation Reduction Act: Continued Assessment of Transformation Efforts – Evaluation of Fiscal Year 2023 Delivery of Initiatives

2

The collaboration and partnership between the IRS and our partners have resulted in an improved level of service during filing season 2023, expanded customer callback services to 95% of the callers seeking live assistance, enhanced capabilities for individual and tax professional online accounts, established a new business tax account online, enabled taxpayers to digitally submit all correspondence and responses to notices in support of paperless processing, and expanded enforcement efforts related to high-income individuals, large corporations and complex partnerships, to name a few.

We have begun work to convert the strategic vision laid out in the SOP into an implementable plan that can be executed and managed effectively, ensuring alignment across the IRS on expected timelines and prioritized outcomes, and delivering impactful improvements for taxpayers.

We look forward to your continued evaluations to ensure IRS is using the Inflation Reduction Act funding to transform IRS operations to improve tax administration.

If you have any questions, please contact Tommy Smith, Director, Strategic Integration at 202-317-5017

Abbreviations

FY	Fiscal Year
IRA	Inflation Reduction Act
IRS	Internal Revenue Service
IT	Information Technology
RAAS	Research Applied Analytical and Statistics
SIMS	Strategic Implementation Management System
SOP	Strategic Operating Plan
TAC	Taxpayer Assistance Center
TIGTA	Treasury Inspector General for Tax Administration
TSO	Transformation Strategy Office



**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.