U.S. GOVERNMENT ACCOUNTABILITY OFFICE
441 G St. N.W.
Washington, DC 20548

Comptroller General of the United States

Accessible Version

June 25, 2024

The Honorable Danny Werfel
Commissioner
Internal Revenue Service
1111 Constitution Ave., N.W.
Washington, DC 20224

Priority Open Recommendations: Internal Revenue Service

Dear Mr. Werfel:

The purpose of this letter is to provide an update on the overall status of the Internal Revenue Service's (IRS) implementation of GAO's recommendations and to call your continued personal attention to areas where open or partially implemented recommendations should be given high priority.[1] In November 2023, we reported that, on a government-wide basis, 75 percent of our recommendations made 4 years ago were implemented.[2] IRS's recommendation implementation rate was 83 percent. As of June 2024, IRS had 284 recommendations that were either open or partially implemented. Fully implementing these recommendations could significantly improve IRS's operations and lead to potential financial benefits.

In August 2022, Congress passed and the President signed the Inflation Reduction Act (IRA), which included tens of billions of dollars to bolster taxpayer services and enforcement of the tax code, among other purposes.[3] IRS delivered its *Inflation Reduction Act Strategic Operating Plan* in April 2023 and released an annual update to the plan in May 2024. In refining and carrying out its plan, IRS should work toward implementing our open recommendations, particularly those we highlight in this letter as being of the highest priority.

[1]Priority recommendations are those that GAO believes warrant priority attention from heads of key departments or agencies because they may significantly improve government operations, for example, by realizing large dollar savings; eliminating mismanagement, fraud, and abuse; or making progress toward addressing a high-risk or duplication issue.

[2]GAO, *Performance and Accountability Report: Fiscal Year 2023,* GAO-24-900483 (Washington, D.C.: Nov. 15, 2023).

[3]Pub. L. No. 117-169, tit. I, subtit. A, pt. 3, § 10301, 136 Stat. 1818, 1831-1833 (2022). In June 2023, the Fiscal Responsibility Act of 2023 rescinded about $1.4 billion of amounts appropriated for IRS by IRA. See Pub. L. No. 118-5, div, B, tit. II, § 251, 137 Stat. 10, 30-31 (2023). In March 2024, the Further Consolidated Appropriations Act of 2024 rescinded another $20.2 billion of amounts appropriated for IRS by IRA. See Pub. L. No. 118-47, div, B, tit. VI, § 640, div, D, tit. V, § 530, H. R. 2882, at 113, 249 (2024).

Since our July 2023 letter, IRS has implemented three of our 24 open priority recommendations.[4] Specifically:

- In February 2024, IRS implemented two related recommendations to update and integrate its plans for modernizing the information returns system.[5] Specifically, as part of a *Strategic Operating Plan* initiative, IRS revised plans for its Information Returns Modernization Program. The new plans lay out recent and upcoming improvements and milestones for modernizing its intake, processing, and use of information returns, including the 1099 series. The new plans also address how they integrate with IRS's broader modernization efforts, resources needed to achieve effective and timely modernization, and the proposed schedule and scope of the efforts. These plans will provide Congress and other decision-makers with an overall picture of what IRS is investing in with these modernization efforts.

- In April 2024, IRS completed its Direct File pilot that provided a free online filing option for taxpayers, consistent with our April 2022 recommendation.[6] During the 2024 filing season, taxpayers with simple tax situations and residing in certain states could prepare and file a tax return online at no cost. In May 2024, IRS announced that the agency will make Direct File a permanent option for filing federal tax returns starting in the 2025 tax season. IRS's Direct File system provides an additional option for taxpayers to electronically prepare and file a tax return.

We ask that you direct your continued attention to the remaining 18 priority recommendations. We are also adding twelve new priority recommendations related to managing agency transformation, ensuring taxpayer data security, improving taxpayer services, and improving

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[4]In addition to the three priority recommendations that IRS implemented, we closed two recommendations as no longer valid and determined that one recommendation no longer warranted priority attention.

We made two recommendations in September 2014 to improve how IRS defines large partnerships and analyzes the results of partnership audits. Changes in law replaced the partnership audit procedures (Bipartisan Budget Act of 2015 (BBA), Pub. L. No. 114-74, §§ 1101-02, 129 Stat. 584, 625-38 (2015)). The procedures no longer focused on the number of partners for passing through adjustments to income, credits, and deductions to the partners; rather, the partnership generally pays all additional tax liability. We determined that these recommendations are no longer valid. As discussed below, however, we have new recommendations related to large partnership audits. GAO, *Large Partnerships: With Growing Number of Partnerships, IRS Needs to Improve Audit Efficiency*, GAO-14-732 (Washington, D.C.: Sept. 18, 2014).

The recommendation we determined no longer warrants priority attention was for IRS to consider revising reporting requirements and analyzing risk associated with foreign retirement accounts. As part of its pandemic relief for taxpayers, IRS implemented filing exemptions and waived penalties, which decreased the filing burden on U.S. individuals who own foreign workplace retirement accounts. We continue to believe that this recommendation should be fully addressed. This recommendation will remain open until IRS conducts a systematic analysis to assess the risk of tax evasion posed by these arrangements. GAO, *Workplace Retirement Accounts: Better Guidance and Information Could Help Plan Participants at Home and Abroad Manage Their Retirement Savings*, GAO-18-19 (Washington, D.C.: Jan. 31, 2018).

[5]GAO, *Tax Administration: Better Coordination Could Improve IRS's Use of Third-Party Information Reporting to Help Reduce the Tax Gap,* GAO-21-102 (Washington, D.C.: Dec. 15, 2020).

[6]GAO, *IRS Free File Program: IRS Should Develop Additional Options for Taxpayers to File for Free,* GAO-22-105236 (Washington, D.C.: Apr. 28, 2022). For our initial report on the pilot, see GAO, *IRS Direct File: Actions Needed during Pilot to Improve Information on Costs and Benefits*, GAO-24-107236 (Washington, D.C.: Apr. 9, 2024). We have ongoing work and expect to issue a more extensive evaluation of the Direct File pilot later this year.

audit selection. This brings the total number of priority recommendations to 30. (See the Enclosure for the list of recommendations.)

The 30 priority recommendations fall into the following six areas.

Managing agency transformation. IRS's April 2023 *Strategic Operating Plan* describes a high-level vision to transform tax administration and the services provided to taxpayers using IRA funding. The plan articulates five transformation objectives with specific initiatives and projects. Many of the planned improvements depend on modernizing IRS's IT. The two priority recommendations in this area are for IRS to (1) demonstrate that it is following leading agency reform practices, such as establishing outcomes and performance measures; and (2) improve its reporting on IT modernization progress. Implementing these recommendations would help IRS achieve its transformation vision and assist Congress in assessing performance for the billions of dollars IRS intends to spend on modernizing its IT infrastructure.

Ensuring taxpayer data security. Strong protections for taxpayers' personal and financial information are critical to maintaining public confidence in the tax system, avoiding data breaches that expose sensitive information to fraudsters, and minimizing disruptions to IRS operations. We identified two priority recommendations in this area. The first is for IRS to develop a guidance structure to better protect taxpayer information while at third-party providers. Without this structure, it is unclear how IRS will adapt to changing security threats in the future and ensure those threats are mitigated.

The second is for IRS to maintain a comprehensive inventory of systems that store or process taxpayer information. We also call your attention to the 34 recommendations related to information system control deficiencies following our fiscal year 2023 audit of IRS's financial statements.[7] Implementing these recommendations would reduce the risk of unauthorized access to, modification of, or disclosure of sensitive taxpayer data.

Providing quality taxpayer service. IRS has faced challenges in recent years meeting taxpayer service demands. IRS has reduced the backlog of tax returns left over from filing seasons during the COVID-19 pandemic. However, it continued to struggle with timely responses to taxpayer correspondence, which can result in repeat taxpayer inquiries. Delays in processing refunds can necessitate paying refund interest to taxpayers. IRS's *Strategic Operating Plan* includes an objective to improve services to taxpayers.

We identified eight priority recommendations in this area that are focused on IRS delivering high-quality customer service. For example, we recommended that IRS communicate estimated time frames for resolving its remaining backlog of taxpayer correspondence and finalize a modernization plan for its "Where's My Refund" tool. We also recommended that IRS determine reasons why it pays interest to taxpayers and take action to reduce payments within its control. These actions would help IRS identify efficiencies—potentially saving ten million dollars or more—and help improve taxpayer service. Quality service makes it easier for taxpayers to file their tax returns and pay any taxes owed.

Two recommendations are for IRS to use performance information to improve the taxpayer experience. Specifically, these are to identify (1) agency-wide and division performance goals,

[7]See GAO, *IRS Financial Reporting: Improvements Needed in Information System and Other Controls,* GAO-24-107185 (Washington, D.C.: Apr. 25, 2024) and GAO-24-107184SU (Limited Official Use Only version); and *Financial Audit: IRS's FY 2023 and FY 2022 Financial Statements,* GAO-24-106472 (Washington, D.C.: Nov. 9, 2023).

and (2) performance measures with targets for improving the taxpayer experience. Fully implementing these recommendations will help IRS achieve its transformational objective to improve taxpayer service.

Improving enforcement and audit selection. Auditing tax returns is a critical part of IRS's strategy to ensure tax compliance and address the tax gap, which is the difference between taxes owed and those paid on time. Identity theft schemes and erroneous claims of tax benefits, including those submitted by substandard return preparers, contribute to government losses of hundreds of billions of dollars annually. We identified twelve priority recommendations in this area.

Digitizing information from paper returns is key to having information readily available for enforcement and leveraging IRS's key fraud detection program, the Return Review Program. Two recommendations are for IRS to (1) implement the most cost-effective method to digitize information from paper returns, and (2) expand its Return Review Program capabilities to support other enforcement activities. Taking action on these recommendations could result in financial benefits of hundreds of millions of dollars, and help IRS efficiently use resources and implement relevant portions of its *Strategic Operating Plan*.

Three recommendations would help IRS combat tax fraud. Specifically, these are for IRS to (1) designate a dedicated unit to manage its business identify theft fraud efforts; (2) finalize an agency-wide strategy on paid tax preparer compliance; and (3) consolidate intake for its multiple referral systems for the public to report tax fraud. Fully implementing these recommendations would help IRS defend itself and taxpayers against identify theft fraud and unscrupulous tax preparers.

One of IRS's transformation objectives focuses enforcement on complex tax filings and high-dollar noncompliance. IRS plans to increase attention on large partnerships. Two recommendations are for IRS to (1) develop guidance to define and (2) measures to track large, complex partnership audits. Developing such a definition and specific outcome measures would help IRS develop plans, track resources used, and assess the results of these new investments in large partnership audits. Even a modest improvement in these audits could result in potentially millions of dollars of revenue.

IRS also plans to increase audit rates for high-income/high wealth individuals. Two recommendations are for IRS to (1) develop evaluation plans to evaluate the effectiveness of its models for selecting high-income/high wealth returns for audit and (2) use the plans to evaluate the models' effectiveness. Implementing these recommendations would help IRS enforce the tax laws, enhance federal government revenue, and reduce the risk of unnecessarily burdening compliant taxpayers.

According to IRS, sole proprietors—individuals who own an unincorporated business by themselves—are one of the largest contributors to the tax gap. Three recommendations would help IRS improve sole proprietor compliance. For example, we recommended that IRS assess the risks of noncompliance for sole proprietors separately from other business types and develop a communications plan to help sole proprietors meet their tax obligations. Implementing these recommendations would allow IRS to make strategic decisions about enforcement and outreach priorities to help it reduce the estimated $80 billion annual tax gap for sole proprietors.

Enhancing information reporting. IRS identifies potential fraud and noncompliance for enforcement action by matching information reported by third parties against information reported by taxpayers. According to IRS research, taxpayers are more likely to misreport income when little or no third-party information reporting exists than when substantial reporting exists.

We identified four priority recommendations in this area. These are to (1) systematically evaluate the suite of information returns; (2) develop a collaborative mechanism to coordinate among the stakeholders who are responsible for the intake, processing, and use of information returns; and (3) expand third-party information reporting for sole proprietors—which represent the largest portion of the individual underreporting tax gap. Implementing these recommendations would help IRS improve its intake, processing, and use of information returns to facilitate increased compliance and potentially reduce the tax gap.

The fourth recommendation is for IRS to clarify taxpayer reporting requirements for foreign-held virtual currencies. IRS has submitted a legislative proposal that would clarify these requirements and require taxpayers to report foreign-held virtual currencies. If enacted, it would address the intent of our recommendation to clarify reporting and could increase revenue by one billion dollars or more. IRS could also address this recommendation by providing taxpayers with a clear statement about current reporting requirements related to foreign virtual currency holdings.

Enhancing strategic human capital management. IRS faces capacity challenges with skills gaps in mission-critical roles and must cultivate a well-equipped, diverse, flexible, and engaged workforce to address internal challenges and effectively enforce tax laws. With the influx of IRA funding, it is critical that IRS implement two priority recommendations. Specifically, these are to (1) execute a detailed workforce planning strategy, and (2) develop a plan to more efficiently use expensive employee overtime. Implementing our recommendations would position IRS to identify future workforce needs, address skills gaps, and ensure that overtime is used strategically when it is necessary to meet objectives.

In April 2023, we issued our biennial update to our High-Risk List. This list identifies government operations with greater vulnerabilities to fraud, waste, abuse, and mismanagement. It also identifies the need for transformation to address economy, efficiency, or effectiveness challenges.[8] One of our high-risk areas—enforcement of tax laws—centers directly on IRS. In refining and carrying out its *Inflation Reduction Act Strategic Operating Plan*, IRS should work toward implementing our high-risk and priority open recommendations, particularly those that it previously said the agency lacked resources to implement.

Several other government-wide, high-risk areas also have direct implications for IRS and its operations. These include (1) improving the management of IT acquisitions and operations, (2) improving strategic human capital management, (3) managing federal real property, (4) ensuring the cybersecurity of the nation, and (5) improving the government-wide personnel security clearance process.

In addition to IRS's high-risk area, we urge your continued attention to the other government-wide high-risk issues as they relate to IRS. Progress on high-risk issues has been possible through the concerted actions and efforts of Congress, the Office of Management and Budget (OMB), and the leadership and staff in agencies, including within IRS. In March 2022, we issued

[8]GAO, *High- Risk Series: Efforts Made to Achieve Progress Need to Be Maintained and Expanded to Fully Address All Areas*, GAO-23-106203 (Washington, D.C.: Apr. 20, 2023).

a report on key practices to successfully address high-risk areas, which can be a helpful resource as your agency continues to make progress to address high-risk issues.[9]

We also recognize the key role Congress plays in providing oversight and maintaining focus on our recommendations to ensure they are implemented and produce their desired results. Legislation enacted in December 2022 included a provision for GAO to identify any additional congressional oversight actions that can help agencies implement priority recommendations and address any underlying issues relating to such implementation.[10]

There are various strategies Congress can use in addressing our recommendations, such as incorporating them into legislation. Congress can also use its budget, appropriations, and oversight processes to incentivize executive branch agencies to act on our recommendations and monitor their progress. For example, Congress can hold hearings focused on IRS's progress in implementing GAO's priority recommendations, withhold funds when appropriate, or take other actions to provide incentives for agencies to act. Moreover, Congress could follow up during the appropriations process and request periodic updates.

Congress also plays a key role in addressing any underlying issues related to the implementation of these recommendations. For example, Congress could pass legislation providing an agency explicit authority to implement a recommendation or requiring an agency to take certain actions to implement a recommendation.

Copies of this report are being sent to the Director of OMB and the appropriate congressional committees. In addition, the report will be available on the GAO website at Priority Open Recommendation Letters | U.S. GAO.

I appreciate IRS's continued commitment to these important issues. If you have any questions or would like to discuss any of the issues outlined in this letter, please do not hesitate to contact me or Jessica Lucas-Judy, Director, Strategic Issues, at lucasjudyj@gao.gov or (202) 512-6806, or James R. McTigue, Jr., Director, Strategic Issues, at mctiguej@gao.gov or (202) 512-6806. Contact points for our Offices of Congressional Relations and Public Affairs may be found on

[9]GAO, *High-Risk Series: Key Practices to Successfully Address High-Risk Areas and Remove Them from the List,* GAO-22-105184 (Washington, D.C.: Mar. 3, 2022).

[10]James M. Inhofe National Defense Authorization Act for Fiscal Year 2023, Pub. L. No. 117-263, div. G, tit. LXXII, subtit. A, § 7211(a)(2), 136 Stat. 2395, 3668 (2022); H.R. Rep. No. 117-389 (2022) (accompanying Legislative Branch Appropriations Act, H.R. 8237, 117th Cong. (2022)).

the last page of this report. Our teams will continue to coordinate with your staff on all of the 284 open recommendations, as well as those additional recommendations in the high-risk areas for which IRS has a leading role. Thank you for your attention to these matters.

Sincerely,

Michelle A. Sager
Managing Director, Strategic Issues

Enclosure

cc: The Honorable Shalanda D. Young, Director, OMB
The Honorable Janet L. Yellen, Secretary, Department of the Treasury

Enclosure

Priority Open Recommendations to the Internal Revenue Service

Managing Agency Transformation

IRS Reform: Following Leading Practices and Improving Cost Estimation Policies Could Benefit Agency Efforts. GAO-24-106091. Washington, D.C.: February 14, 2024.

Year Recommendation Made: 2024

Recommendation: As the Internal Revenue Service (IRS) implements its agency reform efforts, the Commissioner of Internal Revenue should ensure that IRS can demonstrate that it is following relevant leading agency reform practices.

Action needed: IRS agreed with this recommendation. In its comments on our February 2024 report, IRS stated that it is in the process of implementing leading agency reform practices but did not provide supporting evidence. For example, one of the leading practices involves considering high-risk issues. In June 2023, IRS officials told us they were working to map the April 2023 *Inflation Reduction Act Strategic Operating Plan*'s objectives and initiatives to our unimplemented priority recommendations. As of May 2024, IRS does not have an estimated completion date for this effort. Further, in May 2024, IRS released an update to the *Strategic Operating Plan*. However, IRS has not provided information to show how its plan would address those recommendations we have highlighted as being of the highest priority.

To fully implement this recommendation, IRS needs to show how it is using the leading practices to inform its planning and assess its reform efforts. Following leading practices will help ensure IRS is successful in making the transformational tax administration reforms described in its *Strategic Operating Plan.*

High-risk area: Enforcement of Tax Laws

Director: James R. McTigue, Jr., Strategic Issues

Contact information: mctiguej@gao.gov or (202) 512-6806

Information Technology: IRS Needs to Complete Planning and Improve Reporting for Its Modernization Programs. GAO-24-106566. Washington, D.C.: March 19, 2024.

Year Recommendation Made: 2024

Recommendation: The Commissioner of the IRS should include information including a history of programs' cost and schedule goals and showing how the quarterly cost and schedule performance aligns with fiscal year and overall goals for the programs in its quarterly reports to Congress.

Action needed: IRS agreed with this recommendation. In its March 2024 letter responding to our draft report, IRS stated that the performance history of cost and schedule goals is readily available upon request. However, in our report, we did not state that IRS does not have this information. Rather, we recommended that IRS proactively include this information in its quarterly reports to Congress. This would provide additional background and clarity on IRS's efforts to modernize the agency's IT.

High-risk area: Improving the Management of IT Acquisitions and Operations

Director: David B. Hinchman, Information Technology and Cybersecurity

Contact information: hinchmand@gao.gov or (214) 777-5719

Ensuring Taxpayer Data Security

Taxpayer Information: IRS Needs to Improve Oversight of Third-Party Cybersecurity Practices. GAO-19-340. Washington, D.C.: May 9, 2019.

Year Recommendation Made: 2019

Recommendation: The Commissioner of Internal Revenue should develop a governance structure or other form of centralized leadership, such as a steering committee, to coordinate all aspects of IRS's efforts to protect taxpayer information while at third-party providers.

Action needed: IRS agreed with the intent of this recommendation but did not agree to implement it. In February 2024, IRS executives reiterated the need for additional explicit authority to establish security requirements for the information systems of paid preparers and others who electronically file returns. IRS reported that to effectively establish data safeguarding policies and enforce compliance with those policies, a centralized leadership structure would require statutory authority for IRS to do so. IRS stated that without such authority, implementing the recommendation would be an inefficient, ineffective, and costly use of resources.

We continue to believe that IRS could implement this recommendation without additional statutory authority. IRS has ongoing activities aimed at protecting taxpayer information at third-party providers, and our recommendation is to coordinate such activities. We also disagree that convening a governance structure or other centralized form of leadership would be inefficient, ineffective, or costly.

To fully implement this recommendation, IRS needs to develop a structure to coordinate across the seven different offices that are already working on information security-related activities, such as updating existing standards, monitoring Authorized e-file Provider program compliance, and tracking security incident reports. Without this structure, it is unclear how IRS can respond to changing security threats and ensure threats are mitigated.

High-risk area: Enforcement of Tax Laws and Ensuring the Cybersecurity of the Nation

Director: Jessica Lucas-Judy, Strategic Issues

Contact information: lucasjudyj@gao.gov or (202) 512-6806

Security of Taxpayer Information: IRS Needs to Address Critical Safeguard Weaknesses. GAO-23-105395. Washington, D.C.: August 14, 2023.

Year Recommendation Made: 2023

Recommendation: The Commissioner for Internal Revenue should ensure that the IT Cybersecurity office, in collaboration with the Privacy, Governmental Liaison and Disclosure office, maintain a comprehensive inventory of IRS systems that process or store taxpayer information.

Action needed: IRS agreed with this recommendation. As of March 2024, IRS reported the agency would implement it by February 2025. Specifically, IRS reported the Chief Information Officer, in collaboration with the Privacy, Governmental Liaison and Disclosure office, will maintain a comprehensive inventory of IRS systems that process or store taxpayer information. To implement this recommendation, IRS needs to update its databases and sources that inform its inventory to ensure they have complete and accurate information on whether systems process or store taxpayer information. Implementing this recommendation would help IRS ensure it has implemented safeguards to protect taxpayer information on all of its relevant systems.

High-risk area: Enforcement of Tax Laws

Director: Jessica Lucas-Judy, Strategic Issues

Contact information: lucasjudyj@gao.gov or (202) 512-6806

Providing Quality Taxpayer Service

Tax Filing: 2021 Performance Underscores Need for IRS to Address Persistent Challenges. GAO-22-104938. Washington, D.C.: April 11, 2022.

Year Recommendations Made: 2022

Recommendation: The Commissioner of Internal Revenue should estimate time frames for resolving IRS's correspondence backlog, monitor and update these estimates periodically, and communicate this information to taxpayers and stakeholders.

Action needed: IRS agreed with the recommendation. Officials said IRS would continue with its efforts to manage its correspondence inventory and return it to normal levels. In March 2024, IRS launched a new web page, “Processing status for tax forms,” on IRS.gov. This web page shows the receipt date (month and year) of the correspondence that IRS is currently processing. While the “Processing status of tax forms” web page shows approximately how long IRS is taking to begin processing correspondence after receiving it, it does not provide information on how long taxpayers can expect to wait for a response once IRS begins to process it.

To fully implement this recommendation, IRS needs to clearly communicate estimated time frames for resolving correspondence so taxpayers know when to reasonably expect a response or refund. Without clear, timely information on IRS’s processing time frames for addressing taxpayer correspondence, taxpayers may continue to call, write, or visit IRS in person to try to obtain this information. IRS will continue to struggle to meet demands for taxpayer customer service and in processing returns.

Recommendation: The Commissioner of Internal Revenue should direct responsible IRS business units to regularly identify, monitor, and report on the primary reasons for individual and business-related refund interest payments and associated dollar amounts, and report this information, as appropriate, to IRS leadership, Treasury, and Congress.

Action needed: IRS disagreed with this recommendation. As of April 2024, IRS maintains its position that interest is prescribed by statute, and it does not consider interest paid a reliable or meaningful business measure. We maintain that interest payments are an expense to the U.S. government, and monitoring them could help IRS and Congress know how, if at all, the expense could be reduced. To implement this recommendation, IRS needs to identify why it pays interest and share this information with IRS leadership, Treasury, and Congress, as appropriate.

Recommendation: The Commissioner of Internal Revenue should take steps to reduce the amount of refund interest paid for those cases within IRS's control.

Action needed: IRS agreed with this recommendation. IRS stated that it would look for ways to reduce refund interest payments related to the return backlog resulting from the COVID-19 pandemic. This included hiring additional staff, redirecting existing resources, and utilizing automation to improve processing timeliness. As of April 2024, IRS reported it continued using direct hiring authority to help hire additional processing staff and that it had implemented scanning of paper returns.

We support IRS's efforts to fully address its pandemic-related backlog and process returns and correspondence in a timely manner. However, this alone will likely not reverse the annual growth of refund interest payments, which have increased since fiscal year 2015. In April 2024, IRS reported that it paid $10.2 billion in refund interest in fiscal year 2023. Further, refund interest payments can be due to both retroactive legislative benefits and delays in IRS processing times.

Without identifying, monitoring, and reporting on the primary reasons for refund interest payments, and associated dollar amounts, IRS is not in a position to ensure that any steps it takes in response to this recommendation directly affect any reduction in refund interest payments.

Recommendation: The Commissioner of Internal Revenue should work with Treasury to develop and implement a modernization plan for “Where’s My Refund” that fully addresses taxpayer needs and requirements.

Action needed: IRS agreed with this recommendation. In February 2023, IRS provided us findings from completed research on user needs and expectations for “Where’s My Refund.” It found that users expected a more modern interface, were frustrated with the authentication process and inability to use the tool many times per day, and desired more information on their refunds. In March 2024, IRS officials reported that they had updated refund status messages in “Where’s My Refund” and had made the application more mobile friendly. However, IRS has not provided a modernization plan for “Where’s My Refund” that fully addresses taxpayer needs, such as those in its research report.

To fully implement this recommendation, IRS needs to develop a modernization plan that better addresses taxpayer needs. Without clear leadership direction and a timeline for modernizing “Where’s My Refund,” IRS will face workload challenges and associated costs when taxpayers call or write IRS because they cannot obtain the information they need through “Where’s My Refund.”

Potential Financial Benefit if Implemented: Ten million or more dollars

High-risk area: Enforcement of Tax Laws

Director: Jessica Lucas-Judy, Strategic Issues

Contact information: lucasjudyj@gao.gov or (202) 512-6806

Tax Administration: Taxpayer Input Could Strengthen IRS's Online Services. GAO-20-71. Washington, D.C.: December 19, 2019.

Year Recommendations Made: 2020

Recommendation: The Commissioner of the IRS should work with relevant officials to set a target to reduce taxpayer burden through the development of new online services.

Action needed: IRS initially did not agree with this recommendation. IRS stated that its taxpayer burden measurement methodology is not designed to evaluate the effect of specific online services. We continue to believe that IRS should set a target. In April 2024, officials with IRS's Office of Online Services stated that they will consider suitable metrics for assessing taxpayer burden related to the agency's online services portfolio and will provide an update on their efforts within fiscal year 2024.

The additional funding from the Inflation Reduction Act makes it important that IRS address this recommendation. IRS's *Strategic Operating Plan* contains an objective to improve services to taxpayers—including online services—with a goal of decreasing filing burdens for taxpayers. However, without targets for reducing taxpayer burden, IRS cannot determine the success of new online services in helping drive progress toward this goal.

Recommendation: The Commissioner of the IRS should direct the Commissioner of Wage and Investment (W&I) to work with the Director of the Office of Online Services (OLS) to ensure that future decisions regarding whether to renew the Free File agreement incorporate findings from a comprehensive examination of the benefits and costs of the agreement as it relates to long term plans for IRS's online services, including plans to file amended returns electronically.

Action needed: IRS agreed with this recommendation. A March 2021 IRS analysis addressed a portion of the recommendation by identifying potential benefits, such as the lower cost of processing electronic returns compared to paper ones. However, IRS did not discuss how the Free File program should be coordinated with online services offered to taxpayers, such as online accounts.

In April 2024, IRS and Free File, Inc. extended the term of their agreement until October 2029. IRS officials reported in April 2024 that they had not analyzed the potential benefits and costs of the Free File program prior to renewing the agreement because, in their view, no requirements were added. IRS officials also stated that the agency had not analyzed how the Free File program should relate to longer-term plans to expand IRS online services. IRS officials believe that the Free File program would not conflict with plans for expanding online services. However, our prior work found that IRS did not sufficiently consider potential benefits and costs before signing prior extensions of the Free File agreement and circumstances have continued to evolve with IRS's Direct File program.

To fully implement this recommendation, IRS needs to undertake a more complete analysis of the current Free File agreement to inform decisions about the future direction of online services for individual taxpayers. Without a more rigorous examination, IRS is not positioned to manage the risks of its reliance on the Free File agreement or consider how Free File fits within its portfolio of IRS-provided online services.

High-risk area: Enforcement of Tax Laws

Director: Jessica Lucas-Judy, Strategic Issues

Contact information: lucasjudyj@gao.gov or (202) 512-6806

Taxpayer Service: IRS Could Improve the Taxpayer Experience by Using Better Service Performance Measures. GAO-20-656. Washington, D.C.: September 23, 2020.

Year Recommendations Made: 2020

Recommendation: The Commissioner of Internal Revenue should identify agency-wide and division performance goals that align with IRS's strategic service goals and objectives for an improved taxpayer experience.

Recommendation: The Commissioner of Internal Revenue should identify performance measures with targets for improving the taxpayer experience that link with the related performance goals.

Actions needed: IRS agreed with both of these recommendations. IRS's *Strategic Operating Plan* aims to improve the taxpayer experience and says the Transformation and Strategy Office will manage the implementation of all plan objectives, including setting key performance indicators. As of March 2024, IRS officials indicated that various IRS offices and staff were discussing potential IRS-wide and IRS divisional performance goals. According to IRS, these goals might be included in a dashboard that IRS is developing. The dashboard would report various measures to support IRS leadership decisions on improving the taxpayer experience. IRS intends for these goals and these measures to support the *Strategic Operating Plan* and its related objectives. IRS plans to deliver an initial prototype of the measures' dashboard to IRS leadership by July 2024.

To fully implement these recommendations, IRS needs to clearly state performance goals for desired improvements in the taxpayer experience and specify their related measures with targets. Without such performance information, it will be challenging for IRS and stakeholders to assess progress made toward an improved taxpayer experience and providing top-quality service.

High-risk area: Enforcement of Tax Laws

Director: Jessica Lucas-Judy, Strategic Issues

Contact information: lucasjudyj@gao.gov or (202) 512-6806

Improving Enforcement and Audit Selection

Tax Fraud and Noncompliance: IRS Could Further Leverage the Return Review Program to Strengthen Tax Enforcement. GAO-18-544. Washington, D.C.: July 24, 2018.

Year Recommendations Made: 2018

Recommendation: The Commissioner of Internal Revenue should implement the most cost-effective method to digitize information provided by taxpayers who file returns on paper.

Action needed: IRS agreed with this recommendation. IRS has taken steps to modernize the processing of individual and business paper returns in recent years. This includes accessing electronic amended returns, an internet portal for businesses to e-file forms, and pilot programs to test scanning solutions for millions of individual paper tax returns during the 2023 filing season. These efforts are yielding results. During the 2023 filing season, fewer individual and business paper returns were filed. Less than 4 percent of individual returns were paper in 2023 compared to 8 percent in the 2019 filing season.

However, as of April 2024, IRS has not decided on a final scanning solution to support its goal to digitally process 100 percent of paper-filed tax returns and information documents, consistent with this recommendation. Doing so would allow IRS to reduce processing time, use the Return Review Program (RRP) fraud filters on all paper and electronic forms, and allow more pre-refund compliance checks or investigations, among other benefits.

Recommendation: Based on its evaluation of RRP, the Commissioner of Internal Revenue should expand RRP to support identified activities.[11]

Action needed: IRS agreed with this recommendation. IRS has taken steps to expand its use of RRP's technology. For example, in October 2022, IRS started using RRP to check for fraud and other withholding errors on digitized amended returns, helping examiners prioritize thousands of amended returns for manual review.

RRP's technology has the potential to support key objectives outlined in IRS's *Strategic Operating Plan.* For example, one way to resolve taxpayer issues more quickly is to enhance systemic checks on tax returns to identify issues at the point of filing and notify taxpayers. Another priority is to expand enforcement on taxpayers with complex filings and high-dollar noncompliance. Expanded enforcement could be supported by expanding RRP to analyze all individual and business tax returns—not just those seeking refunds.

To fully implement this recommendation, IRS needs to continue leveraging RRP's capabilities to enhance tax enforcement, and other benefits in areas such as underreporting and audit selection. These are key components of IRS's efforts to increase the collection of hundreds of billions of owed tax revenue.

Potential Financial Benefit if Implemented: Hundreds of millions of dollars

High-risk area: Enforcement of Tax Laws

Director: James R. McTigue, Jr., Strategic Issues

Contact information: mctiguej@gao.gov or (202) 512-6806

Identity Theft: IRS Needs to Better Assess the Risks of Refund Fraud on Business-Related Returns. GAO-20-174. Washington, D.C.: January 30, 2020.

[11]In January 2022, IRS implemented a previous priority recommendation to evaluate the costs and benefits of expanding RRP to analyze individual returns not claiming refunds to support other enforcement activities.

Year Recommendation Made: 2020

Recommendation: The Commissioner of Internal Revenue should designate a dedicated entity to provide oversight of agency-wide efforts to detect, prevent, and resolve business identity theft (business IDT) refund fraud, consistent with leading practices. This may involve designating one business unit as a lead entity or leveraging cooperative relationships between business units to establish a business IDT leadership team. This entity should have defined responsibilities and authority for managing fraud risk.

Action needed: IRS agreed with the recommendation. As of March 2024, IRS reported that it continues to assess the optimal structure to address business IDT, and that Return Integrity and Compliance Services is and will continue to be the principal office in its business IDT efforts. As we reported in January 2020, Return Integrity and Compliance Services is responsible for the pre-refund detection of business IDT, which is only one aspect of IRS's agency-wide efforts to detect, prevent, and resolve business IDT.

To fully implement this recommendation, IRS needs to assign or designate a lead entity and demonstrate that it has defined responsibilities and authority for managing fraud risk, consistent with leading practices. A dedicated lead entity could help provide a strategic direction, coordination across business units, and oversight for IRS's efforts to combat the evolving threat of business IDT.

High-risk area: Enforcement of Tax Laws

Director: James R. McTigue, Jr., Strategic Issues

Contact information: mctiguej@gao.gov or (202) 512-6806

Paid Tax Return Preparers: IRS Efforts to Oversee Refundable Credits Help Protect Taxpayers but Additional Actions and Authority Are Needed. GAO-23-105217. Washington, D.C.: November 30, 2022.

Year Recommendation Made: 2023

Recommendation: The Commissioner of Internal Revenue should finalize the Service-wide Return Preparer Strategy and identify the resources needed to implement it.

Action needed: IRS agreed with this recommendation. IRS's *Strategic Operating Plan* describes initiatives that could help paid preparers improve the accuracy of returns they submit, such as by notifying preparers of potential issues, but does not contain additional information on agency-wide preparer compliance efforts. As of March 2024, IRS reported that it aligned the Service-wide Return Preparer Strategy with the *Strategic Operating Plan*'s objectives and initiatives. In April 2024, IRS provided a draft crosswalk of this alignment. However, IRS noted this crosswalk was drafted during the early stages of developing a centralized compliance organization, which IRS has since decided not to implement.

Even with the crosswalk, it is unclear how IRS plans to implement the Service-wide Return Preparer Strategy. For example, it is unclear how IRS plans to establish a governance structure to centralize compliance activities—the first goal of the Service-wide Return Preparer Strategy—when plans to develop a centralized compliance organization have been reversed. Further, IRS has not documented the resources it needs to implement the preparer strategy.

To fully implement this recommendation, IRS needs to capitalize on the planning efforts it has already made and identify the remaining steps toward a more coordinated approach to paid preparer compliance and resource needs. Implementing a Service-wide Return Preparer Strategy could benefit taxpayers and their representatives by helping them prepare more accurate tax returns and could help IRS efficiently allocate resources across its paid preparer compliance activities.

High-risk area: Enforcement of Tax Laws

Director: James R. McTigue, Jr., Strategic Issues

Contact information: mctiguej@gao.gov or (202) 512-6806

IRS Referral Programs: Opportunities Exist to Strengthen Controls and Increase Coordination across Overlapping Programs. GAO-16-155. Washington, D.C.: February 23, 2016.

Year Recommendation Made: 2016

Recommendation: The Commissioner of Internal Revenue should direct the referral programs to coordinate on a plan and timeline for developing a consolidated, online referral submission. This could better position IRS to leverage specialized expertise while exploring options to further consolidate the initial screening operations.

Action needed: IRS agreed with our recommendation. As of May 2024, IRS had taken some action to establish a mechanism to coordinate on a plan and timeline for developing a consolidated, online referral submission. In March 2023, IRS began using its electronic document upload tool to digitize paper information referrals received. In May 2023, IRS launched an online portal for the public to submit information referrals on potential tax law violations.

However, as of May 2024, IRS continues to offer different paper forms for the public to report other types of tax fraud, such as abusive schemes and return preparer misconduct. The multitude of forms and instructions can confuse taxpayers about which form to use or cause them to file their report incorrectly.

To fully implement this recommendation, IRS must establish a timeline for consolidating intake for its multiple public referral programs. Without further progress on efforts to consolidate referral intake, IRS faces continued public confusion and inefficiencies in receiving and routing referrals to the correct enforcement unit.

High-risk area: Enforcement of Tax Laws

Director: Jessica Lucas-Judy, Strategic Issues

Contact information: lucasjudyj@gao.gov or (202) 512-6806

Tax Enforcement: IRS Audit Processes Can Be Strengthened to Address a Growing Number of Large, Complex Partnerships. GAO-23-106020. Washington, D.C.: July 27, 2023.

Year Recommendations Made: 2023

Recommendation: The Commissioner of Internal Revenue should develop guidance defining large, complex partnerships and the characteristics of those entities.[12]

Action needed: IRS agreed with the recommendation. In April 2024, officials reported they are working with IRS research officials to understand the partnership population and identify more specific segments of partnerships.

To fully implement this recommendation, IRS will also need to develop guidance based on the characteristics of the large partnership population it identifies as an enforcement priority. Doing so will better inform management by tracking audit resources used and results and help IRS better focus on the cases that will help it achieve its goals.

Recommendation: The Commissioner of Internal Revenue should identify and implement measures for tracking progress toward agency objectives that reflect the definitions and guidance for large, complex partnerships, which should include creating additional activity codes for IRS to track audit resources used and results.[13]

Action needed: IRS partially agreed with this recommendation. IRS officials reported in April 2024 that they do not agree that creating additional activity codes is necessary. They believe that the agency's existing codes are sufficient to track staffing and audit results of partnership compliance efforts. In its May 2024 annual update to its *Strategic Operating Plan*, IRS stated that it plans to increase audit rates for partnerships with $10 million or more in assets from 0.1 percent in tax year 2019 to 1 percent in tax year 2026 using IRA funds. However, we found that IRS's existing activity codes for partnership audits are not based on the assets partnerships hold and instead based on overly broad categories of how many taxpayers are members of the partnership.

Without activity codes organized by asset size similar to those for large corporate audits, it will be difficult to track progress for the planned goal. To fully implement this recommendation, IRS needs to create measures and activity codes that align with its current focus on large, complex partnerships as part of the *Strategic Operating Plan*. Doing so will allow IRS to identify these entities and track progress towards the agency objective of increasing enforcement activities of large, complex partnerships.

Potential Financial Benefit if Implemented: Millions of dollars

High-risk area: Enforcement of Tax Laws

Director: James R. McTigue, Jr., Strategic Issues

Contact information: mctiguej@gao.gov or (202) 512-6806

Tax Compliance: Opportunities Exist to Improve IRS High-Income/High-Wealth Audits. GAO-24-106112. Washington, D.C.: Jan.11, 2024.

Year Recommendations Made: 2024

[12]This recommendation replaced a GAO-14-732 recommendation closed as no longer valid.

[13]This recommendation replaced a GAO-14-732 recommendation closed as no longer valid.

Recommendation: The Commissioner of Internal Revenue should develop evaluation plans that include relevant evaluation questions and appropriate evaluation designs to evaluate the effectiveness of IRS's models for selecting high-income/high-wealth (HI/HW) returns for audit.

Recommendation: The Commissioner of Internal Revenue should use IRS's evaluation plans to evaluate the effectiveness of its models for selecting HI/HW returns for audit.

Actions needed: IRS agreed with these recommendations. In its 2024 annual update to its *Strategic Operating Plan*, IRS stated that it plans to increase audit rates for wealthy individual taxpayers with income of $10 million or more from 11 percent in tax year 2019 to 16.5 percent in tax year 2026 using IRA funds. As we reported in January 2024, IRS is attempting to improve its computer models that help select HI/HW returns for audit. However, IRS has not provided information on the status of developing or using plans to evaluate its selection models.

To fully implement these recommendations, IRS will need to develop evaluation plans that follow key practices for designing evaluations, such as including relevant evaluation questions. It must also use these plans to determine the effectiveness of its selection models. Doing so will help IRS to select returns for audit that have the most significant noncompliance.

High-risk area: Enforcement of Tax Laws

Director: James R. McTigue, Jr., Strategic Issues

Contact information: mctiguej@gao.gov or (202) 512-6806

Sole Proprietor Compliance: Treasury and IRS Have Opportunities to Reduce the Tax Gap. GAO-24-105281. Washington, D.C.: October 19, 2023.

Year Recommendation Made: 2024

Recommendation: The Commissioner of Internal Revenue should ensure that the Small Business/Self-Employed (SB/SE) Division assesses the risks of sole proprietor noncompliance, including defining objectives and the risk tolerance SB/SE is willing to accept, as part of its broader efforts to enforce compliance among small businesses.

Action needed: IRS disagreed with this recommendation. As of May 2024, IRS stated that it assesses noncompliance risk at every step when identifying the returns likeliest to result in non-compliance. IRS also stated that its efforts in identifying noncompliance, combined with its education and outreach to encourage voluntary compliance, demonstrate its holistic approach to addressing noncompliance by all small businesses, including sole proprietors. IRS said that there is no consistent set of attributes that apply to all sole proprietors which would make it useful to address these taxpayers separately from other small business taxpayers. We maintain that sole proprietors are different from other business types and warrant separate risk assessments and outreach.

To fully implement this recommendation, IRS needs to conduct a risk assessment for sole proprietors, distinct from other businesses. Without a comprehensive risk assessment, SB/SE is limited in its ability to make strategic decisions related to enforcement and outreach priorities.

Recommendation: The Commissioner of Internal Revenue should analyze existing data and forthcoming Form 1099-K data to better understand and gain insights into sole proprietor noncompliance and taxpayer burden that may be unique to sole proprietors and use that information to make decisions on enforcement and outreach priorities for sole proprietors.

Action needed: IRS agreed with this recommendation. As of May 2024, IRS stated that it would analyze Form 1099-K data, using both past and future analyses of Form 1099-K data to identify compliance opportunities. If IRS's planned analyses assess noncompliance and taxpayer burden among sole proprietors and IRS uses its findings to inform enforcement and outreach priorities, it would satisfy this recommendation. Without such an assessment, IRS and policy makers will not have potentially key insights into the effect of the change on taxpayer burden and tax compliance.

Recommendation: The Commissioner of Internal Revenue should develop and implement a communications plan focused on outreach and education to improve sole proprietor compliance, particularly when tax laws or IRS guidance change. This should include mechanisms to ensure IRS communicates relevant information to sole proprietors in a timely manner and engages stakeholders, as appropriate.

Action needed: IRS disagreed with this recommendation. As of May 2024, IRS stated that it incorporates sole proprietor audiences as a part of its broader compliance communications and outreach plans and conducts programs and events of interest to sole proprietors across the country. IRS also stated that it will continue to identify additional opportunities to expand and deepen communication with and outreach to this taxpayer segment to help them understand their tax obligations.

However, IRS continues to incorporate these communications as part of a broader audience of businesses. To fully implement this recommendation, IRS should tailor communications to sole proprietors since some—including those who do not realize that they are sole proprietors—may not know to seek out information for small businesses on the IRS website to understand their tax filing obligations.

High-risk area: Enforcement of Tax Laws

Director: James R. McTigue, Jr., Strategic Issues

Contact information: mctiguej@gao.gov or (202) 512-6806

Enhancing Information Reporting

Tax Administration: Better Coordination Could Improve IRS's Use of Third-Party Information Reporting to Help Reduce the Tax Gap. GAO-21-102. Washington, D.C.: December 15, 2020.

Year Recommendations Made: 2021

Recommendation: The Commissioner of Internal Revenue should research, evaluate, and develop potential recommendations to expand third-party information reporting to include more information on sole proprietors' income and expenses.

Action needed: IRS neither agreed nor disagreed with this recommendation. IRS officials reported that IRS will research and evaluate the tax administration benefits and taxpayer burdens of expanding third-party information reporting for sole proprietors' income and expenses. IRS officials reported that the agency was compiling a list of ideas that were proposed in the past but were never adopted, and soliciting additional ideas within IRS. As of February 2024, IRS reported that it needed additional time to complete the analysis and develop a summary report, which it expects to complete in September 2024.

Continued research on expanding third-party information reporting will help IRS develop additional recommendations to better understand sole proprietor income and expenses. To fully implement this recommendation, IRS needs to complete its research. Without options to help improve compliance for sole proprietorships, IRS is missing an opportunity to help address a significant part of the tax gap.

Recommendation: The Commissioner of Internal Revenue should develop a plan and schedule to systematically evaluate the suite of information returns with a goal of improving compliance and reducing fraud and reporting burden. The evaluation should consider such factors as filing requirement thresholds, deadlines for filing, corrections and amendment data, and the potential to consolidate similar forms, and include recommendations for needed changes.

Action Needed: IRS neither agreed nor disagreed with this recommendation. However, in July 2021, IRS agreed to conduct an evaluation of a select group of information returns that are used for enforcement purposes. IRS plans to use the results of the study to determine if these forms continue to provide value and if changes to the current form revision processes are needed. For each of the selected returns, IRS will examine the revisions considered or made, and categorize each according to the factors we recommended. As of February 2024, IRS reported it needs additional time to complete this analysis and expects to complete this evaluation by September 2024.

To fully implement this recommendation, IRS needs to complete its review of the suite of information returns. Without completing this comprehensive evaluation of information returns and their characteristics, IRS risks gathering information that it cannot use effectively in some areas and burdening filers and taxpayers and not gathering enough information for enhancing compliance in other areas.

Recommendation: The Commissioner of Internal Revenue should develop a collaborative mechanism to coordinate among the internal stakeholders who are responsible for the intake, processing, and use of information returns, as well as to improve outreach to external stakeholders in relation to information returns.

Action Needed: IRS neither agreed nor disagreed with this recommendation. In March 2024, IRS reported that the Deputy Commissioner for Service and Enforcement continues to work to ensure improved coordination and collaboration among IRS's business operating divisions. In addition, IRS reported it established a Joint Strategic Emerging Issues Team and launched the Information Returns Intake System, a modernized system third parties can use to file information returns.

As part of its *Strategic Operating Plan*, IRS also reported it plans to implement a streamlined organizational structure, with four chief officers responsible for various functions within IRS, reporting directly to a new Deputy Commissioner. One of these new chief officers will be the Chief Taxpayer Compliance Officer, who will have responsibility in developing an agency-wide approach to use data to inform audit selection, including data from information returns. This effort will also be supported by the development of a new single source data platform that will include information return data for all the business operating divisions.

Until IRS completes these efforts and implements a collaborative mechanism with a coordinated approach to using information returns, IRS risks missing opportunities to improve the effectiveness of its development, intake, processing, and use of information returns.

High-risk area: Enforcement of Tax Laws

Director: James R. McTigue, Jr., Strategic Issues

Contact information: mctiguej@gao.gov or (202) 512-6806

Virtual Currencies: Additional Information Reporting and Clarified Guidance Could Improve Tax Compliance. GAO-20-188. Washington, D.C.: February 12, 2020.

Year Recommendation Made: 2020

Recommendation: The Commissioner of Internal Revenue should clarify the application of reporting requirements under the Foreign Account Tax Compliance Act (FATCA) to virtual currency.[14]

Action needed: IRS disagreed with this recommendation. In an August 2020 letter, IRS said it intends to focus on developing guidance regarding information reporting on certain virtual currency transactions involving U.S. businesses instead of clarifying the application of reporting requirements under FATCA to virtual currency. IRS stated that additional guidance on FATCA requirements may be appropriate in the future as the workings of foreign virtual currency exchanges become more transparent over time. In our February 2020 report, we found that many virtual currency stakeholders were uncertain about how, if at all, FATCA requirements apply to virtual currency and would benefit from clarifications to the guidance.

In March 2023, IRS informed us that it submitted a proposal to require reporting by certain taxpayers of foreign digital asset accounts under Section 6038D of the Internal Revenue Code. This proposal was included in the administration's fiscal year 2024 and 2025 revenue proposals.

If enacted, the proposal would address the intent of our recommendation by clarifying the application of reporting requirements under FATCA to virtual currency. IRS could also implement this recommendation by providing taxpayers with a clear statement about the current requirements under FATCA related to foreign virtual currency accounts. Lack of clarity about these requirements could lead to underreporting, which deprives IRS of data needed to address offshore tax evasion, or overreporting, which creates unnecessary burdens and costs for taxpayers.

Potential Financial Benefit if Implemented: A billion or more dollars

High-risk area: Enforcement of Tax Laws

Director: James R. McTigue, Jr., Strategic Issues

Contact information: mctiguej@gao.gov or (202) 512-6806

[14]Subtitle A of Title V of the Hiring Incentives to Restore Employment Act is commonly referred to as Foreign Account Tax Compliance Act (FATCA). Pub. L. No. 111-147, §§ 501-541, 124 Stat. 71, 97-117 (2010).

Enhancing Strategic Human Capital Management

Internal Revenue Service: Strategic Human Capital Management Is Needed to Address Serious Risks to IRS's Mission. GAO-19-176. Washington, D.C.: March 26, 2019.

Year Recommendation Made: 2019

Recommendation: The Commissioner of Internal Revenue should fully implement the workforce planning initiative, including taking the following actions: (1) conducting enterprise strategy and planning, (2) conducting workforce analysis, (3) creating a workforce plan, (4) implementing the workforce plan, and (5) monitoring and evaluating the results.

Action needed: IRS agreed with this recommendation. In March 2021, IRS reported it had established a workforce plan, including an enterprise strategy, and had initiated the associated workforce analysis needed to implement the initiative. Our review of the workforce plan found IRS was scheduled to implement the plan and have a process in place to monitor and evaluate the results by December 2021. However, IRS reported in December 2021 that it was providing additional time to facilitate concurrence with key stakeholder organizations across IRS. As of March 2024, IRS has delayed implementation to July 2024.

IRS's *Strategic Operating Plan* emphasizes developing a highly skilled and diverse workforce and aims to upgrade IRS's workforce planning strategy. Fully implementing our recommendation will provide a comprehensive inventory of IRS's current workforce that will allow IRS to develop competency and staffing requirements to conduct agency-wide activities associated with identifying and addressing skills gaps.

High-risk area: Enforcement of Tax Laws and Strategic Human Capital Management

Director: James R. McTigue, Jr., Strategic Issues

Contact information: mctiguej@gao.gov or (202) 512-6806

2019 Tax Filing: IRS Successfully Implemented Tax Law Changes but Needs to Improve Service for Taxpayers with Limited-English Proficiency. GAO-20-55. Washington, D.C.: January 15, 2020.

Year Recommendation Made: 2020

Recommendation: The Commissioner of Internal Revenue should direct the Wage and Investment division to develop and implement a strategy, in collaboration with its strategic workforce planning initiative, for the efficient use of overtime.

Action needed: IRS agreed with this recommendation. IRS stated that its existing process within the Wage and Investment division for the use and approval of overtime is sufficient, so it would not take any further action. However, as we reported in January 2020, offices in the Wage and Investment division had exceeded their overtime allocations in several of the preceding years.

In February 2024, IRS officials told us that they used direct hire authority to help hire about 5,700 customer service representatives for the 2024 filing season. Even with the additional staff, IRS officials said they planned to use overtime to address a backlog of correspondence. We continue to believe that a strategy, in collaboration with IRS's strategic workforce planning initiative, would help ensure the efficient use of overtime. If not well managed, overtime can be costly, contribute to skills gaps, and could negatively affect employee morale.

Potential Financial Benefit if Implemented: Less than one million dollars

High-risk area: Enforcement of Tax Laws

Director: Jessica Lucas-Judy, Strategic Issues

Contact information: lucasjudyj@gao.gov or (202) 512-6806