



# Transforming the Internal Revenue Service

*Improving Service, Ensuring Fairness, Protecting Taxpayers*



## The IRS Mission

*"Provide America's taxpayers top-quality service by helping them understand and meet their tax responsibilities and enforce the law with integrity and fairness to all"*

## A cornerstone of the U.S. government and economy

By ensuring taxpayers pay what they owe and receive the credits and deductions for which they are eligible, the IRS collects funds to run the government, and administers economic incentives pursuant to laws enacted by Congress.

- ▶ IRS collects about \$4.9 trillion per year, roughly 96% of the nation's gross revenue.
- ▶ The tax law includes more than 150 credits, deductions and other tax preferences which the IRS administers.



## Historical underinvestment led to unmet taxpayer needs

The IRS budget decreased 22% in real terms since 2010 and staffing levels are nearly identical to those in 1974.

### A shrinking workforce has made it more difficult for taxpayers to get the service they deserve

For 35 years, IRS staffing increases remained relatively consistent with GDP growth. Since 1995, real GDP has increased 76% while IRS staffing fell 32%.

- **Taxpayers struggled to reach us:** Only 19% of calls were answered in FY2022, with a 22-minute average wait time.
- **Taxpayers struggle to get it right:** 13 million math error notices were sent, and 21% of eligible taxpayers didn't claim the Earned Income Tax Credit in 2021.

### Outdated technology slows down internal processes and makes it hard to meet taxpayer expectations

The IRS has been forced to freeze technology investment while large financial institutions have steadily increased theirs.

- **Slow processing and inventory backlog:** 4.6M individual returns and 3.3M business paper returns were waiting to be processed in January 2022.
- **Limited digital filing options:** 93% of taxpayers prefer e-filing, but 22% of filings were still submitted on paper in 2021.

### Increasingly complex tax administration and limited enforcement ability lead to growing tax gap

Taxpayer segments more likely to have opaque sources of income have grown. While total return filings increased by 13% from 2010-2021, filings by passthrough entities increased by 26%.

- **Minimal enforcement in priority segments:** The IRS audited 4.4% of passthrough entity returns for tax year 2010, but only 0.1% for tax year 2017 (the most recent tax year with nearly all audits closed), and audit rates have continued to decrease.
- **Growing tax gap:** About \$688 billion in 2021 and expected to increase if status quo is maintained.

# Our Vision for Taxpayers

With funding provided by the Inflation Reduction Act (IRA), the IRS has three objectives to help taxpayers and the nation:

- ▶ Ensure taxpayers can easily contact the IRS – whether in person, on the phone or on the web – and get help navigating complex tax laws and accessing the credits they deserve;
- ▶ Identify the growing number of wealthy taxpayers – including individuals, large corporations and complex partnerships – who are shielding income to evade their tax responsibility and collecting from them what is owed; and
- ▶ Address the growing risk of tax scams and schemes by protecting honest taxpayers from them and rooting out the nefarious actors that perpetrate them.

Achieving this ambitious agenda will require that we rebuild areas in the IRS that have suffered from more than a decade of underfunding that preceded the IRA. A critical change involves providing our workforce with the right tools – including training, technology and smarter processes – so we are ready now and in the future to meet our core mission of supporting taxpayers and the nation.



## Tax Administration of the Future

**A world class customer service operation** where taxpayers can engage with the IRS in a fully digital manner if they choose, where helpful tools for taxpayers to navigate the complexity of our tax laws are deployed and then refreshed and updated regularly based on taxpayer feedback, and where our customer service workforce is maintained at the right size and with the right resources and training to always be ready to meet the taxpayer demand for assistance.

**New capacities**, including specialized skills, in place to unpack the complex filings of high-income taxpayers and large corporations and partnerships so Americans have confidence that all taxpayers, regardless of means, are doing their part to meet their responsibilities under our tax laws.

**An organization and infrastructure rooted in modern technology** that provides taxpayers increased confidence that data is secure and that we are prepared to more rapidly meet new requirements or responsibilities that may emerge in the future.

# Strategic Operating Plan

## Five Objectives to Transform the IRS



## We will reshape the taxpayer experience to make it more convenient and easier to understand.

The way taxpayers engage with the IRS of the future will look different.



- ▶ **Taxpayers will have easy access** to their data and tools to help them use it
- ▶ **They will find it easier to interact with us** via electronic filing and communication options
- ▶ **We will provide more education, outreach, and proactive alerts** to help taxpayers meet obligations and claim appropriate credits and deductions
- ▶ **We will use a holistic approach** to help taxpayers meet their tax obligations and receive credits and tax incentives due
- ▶ **Employees will have the tools and information necessary** to quickly and effectively meet the needs of taxpayers
- ▶ **Taxpayers will be able to interact with us in the ways they prefer,** including expanded online accounts and phone, in-person, and chat assistance

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

- 1.1 **Improve the availability and accessibility of customer service:** Taxpayers will be able to receive on-demand customer service or schedule service ahead of time
- 1.2 **Expand digital services and digitalization:** Taxpayers will be able to file all documents securely and exchange correspondence electronically
- 1.3 **Ensure employees have the right tools:** Employees will have the right tools and information to quickly and effectively meet the needs of taxpayers
- 1.4 **Improve self-service options:** Taxpayers will have access to secure online accounts where they can view their account and profile information, make changes, interact with the IRS, and manage preferences for payments, refunds, and communications
- 1.5 **Explore direct file:** The IRS will explore providing taxpayers the option to file certain tax returns directly with the IRS online
- 1.6 **Enable taxpayers to access their data:** Taxpayers will be able to access, download, and seamlessly share their tax data and IRS history
- 1.7 **Provide earlier legal certainty:** Taxpayers will have greater upfront clarity and certainty through additional guidance on tax issues
- 1.8 **Deliver proactive alerts:** Taxpayers will be able to receive alerts to help them meet filing and payment obligations, understand opportunities to claim certain incentives and learn about life changes that could impact their taxes
- 1.9 **Help taxpayers understand and claim appropriate credits and deductions:** Taxpayers, including individuals and small businesses, will receive education and assistance in claiming available incentives
- 1.10 **Make payments easy:** Taxpayers will be able to make payments more easily and seamlessly through all service channels
- 1.11 **Build status tracking tools for taxpayers:** Taxpayers will be able to use new status tracking tools to see real-time status updates, next steps, and estimated time to process documents and resolve issues
- 1.12 **Streamline multichannel customer assistance:** Taxpayers will be able to quickly, securely, and accessibly get the help they need, resolve more issues in a single contact, and experience minimal delays during interactions with us

## When taxpayers make filing errors, they will hear from us faster with clear, accessible ways to resolve issues.

The IRS will interact with taxpayers with greater transparency about the mistakes it finds and will give taxpayers manageable ways to correct those mistakes quickly and completely.



- ▶ **Installment agreement offered** to a taxpayer unable to pay taxes at time of filing
- ▶ **Inquiry** for potential misreporting
- ▶ **Pre-filing programs offered** for tax certainty programs
- ▶ **Educate** underserved taxpayers on how to correct issues in filed returns
- ▶ **Notice** to eligible taxpayers who may have missed a credit
- ▶ **Digital alerts** for simple mistakes

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## Quickly resolve taxpayer issues when they arise

- 2.1 **Identify issues during filing:** The IRS will send taxpayers notifications about potential issues as they file returns to help them correct errors and claim credits and deductions
- 2.2 **Deliver early and appropriate treatments for issues:** The IRS will provide taxpayers with timely and tailored post-filing treatments to resolve issues and omissions on their tax returns
- 2.3 **Develop taxpayer-centric notices:** The IRS will send taxpayers notices they can understand, delivered in ways they prefer, with clear explanations of issues and steps to resolution
- 2.4 **Expand tax certainty and issue resolution programs:** Taxpayers will be able to resolve potential compliance issues up front through expanded pre-filing and tax certainty programs
- 2.5 **Offer proactive debt resolutions:** The IRS will proactively offer taxpayers appropriate options for past-due payment resolution
- 2.6 **Expand engagement with non-filers:** The IRS will provide early, tailored outreach to taxpayers who do not file on time
- 2.7 **Use improved data and analytics to tailor timely collections contacts:** The IRS will provide early, tailored contacts to all taxpayers with past-due balances, and only escalate to more intensive treatments when appropriate

## Improved enforcement will devote more resources to high-dollar noncompliance to address the tax gap.

We will use data more effectively to save the time and expense of examinations for compliant taxpayers. We will also use the least onerous interventions to collect outstanding payments.

### Tailor the solution to the taxpayer

Use risk analytics to tailor treatments



Proceed with most effective and least burdensome approach appropriate for each taxpayer



Swiftly identify and appropriately resolve non-compliance

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## Focus expanded enforcement on taxpayers with complex tax filings and high-dollar noncompliance to address the tax gap

- 3.1 **Employ centralized, analytics-driven, risk-based methods to aid in the selection of compliance cases:** The IRS will use improved analytics to aid in the selection of cases predicted to be at risk of noncompliance, choosing enforcement treatments that maximize opportunities to improve and sustain taxpayer compliance while ensuring fairness in selection
- 3.2 **Expand enforcement for large corporations:** The IRS will increase enforcement activities to help ensure tax compliance of large corporate taxpayers
- 3.3 **Expand enforcement for large partnerships:** The IRS will increase enforcement activities to help ensure tax compliance of large partnerships
- 3.4 **Expand enforcement for high-income and high-wealth individuals:** The IRS will increase enforcement activities to help ensure tax compliance of high-income and high-wealth individuals
- 3.5 **Expand enforcement in areas where audit coverage has declined to levels that erode voluntary compliance:** The IRS will increase enforcement activities in other key areas where audit coverage has declined while complying with Treasury's directive not to increase audit rates relative to historic levels for small businesses and households earning \$400,000 per year or less
- 3.6 **Pursue appropriate enforcement for complex, high-risk, and emerging issues:** The IRS will enhance detection of noncompliance and increase enforcement activities for complex, high-risk, and novel emerging issues, including digital assets, listed transactions, and certain international issues
- 3.7 **Promote fairness in enforcement activities:** The IRS will help promote fairness for all taxpayers by addressing noncompliance appropriately in a balanced manner

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## We will invest in technology to make our operations more effective and efficient for employees and taxpayers.

Enhanced data and technology will benefit IRS employees and taxpayers.



Taxpayers will have the tools they need to access their data and self-serve via online accounts



Employees will have the systems, technology, and access to data they need to effectively serve taxpayers

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

- 4.1 Transform core account data and processing:** The IRS will modernize the systems used to access and process taxpayer data
- 4.2 Accelerate technology delivery:** The IRS will deliver faster and better results by accelerating design, development, and delivery of user-centered technology by shifting to a “product and platform” operating model that incorporates business and technology perspectives
- 4.3 Improve technology operations:** The IRS will enhance core technology processes and platforms to support the delivery of expanded capabilities for taxpayers and employees
- 4.4 Continue to ensure data security:** The IRS will continue to protect taxpayer data and IRS systems from cyber threats as we transform
- 4.5 Maximize data utility:** The IRS will improve the storage and management of data to support improved taxpayer services and enforcement
- 4.6 Apply enhanced analytics capabilities to improve tax administration:** IRS employees will use data and insights to enhance delivery of tax administration and improve the taxpayer experience
- 4.7 Strategically use data to improve tax administration:** The IRS will use enhanced data and explore additional innovative analytic techniques to improve strategic planning, decision-making, and compliance measurement
- 4.8 Partner to expand insights:** The IRS will engage with external partners to develop new insights to generate value for taxpayers and policymakers



## The IRS will transition to a different mix of workforce skills and capabilities to meet transformation objectives.

The IRS will attract broad and more diverse talent who are motivated by our mission and the opportunity for service.

### Who does the work

#### Types of skills

Technologists, data scientists, technical tax experts and specialists, customer service, project management

#### Types of workers

Full-time and part-time employees, independent workers, temporary workers, workers on rotation, interns/fellows

### When and where we work

#### Schedules and locations

Flexible policies to allow us to compete for the best talent, including flexible schedules and locations, while effectively meeting business needs

### How we work

#### Tools

Automation, integrated systems, advanced analytics

#### Mindsets

Data-driven, cross-functional collaboration, customer-first, problem solving



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

- 5.1 Redesign hiring and onboarding:** The IRS will implement fast, streamlined hiring processes that address challenges known today, use data to match candidates to the right jobs, and deliver more effective onboarding programs
- 5.2 Attract a talented and diverse workforce:** The IRS will build new talent pipelines and attract a workforce that reflects the diversity of the people we serve
- 5.3 Improve the employee experience:** The IRS will improve the employee experience by offering more flexibility, building a more collaborative team culture, and better equipping personnel
- 5.4 Help employees grow and develop:** The IRS will deliver growth and learning opportunities by developing attractive career pathways for all employees, integrating training and skill-building, and better equipping managers to lead high-performing teams
- 5.5 Develop a data-savvy workforce:** The IRS will create hiring and training programs to build a data-savvy workforce that uses the improved data environment to serve taxpayers and meet mission goals more effectively
- 5.6 Elevate workforce planning strategy:** The IRS will leverage workforce planning best practices to forecast and meet hiring demand more effectively to avoid disruption and satisfy business needs
- 5.7 Improve organizational structures and governance:** The IRS will implement new organizational structures and distributed and transparent decision processes to support more collaborative, effective, and efficient tax administration
- 5.8 Build a culture of service and continuous improvement:** The IRS will build a customer-centric culture by empowering employees and leaders to put the customer first and rewarding outstanding service

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## We will integrate equity, diversity, inclusion and accessibility into how we transform the IRS.

The IRS is committed to a diverse and inclusive workplace culture that supports tax administration with equity and fairness for all.

### Attract and retain a diverse IRS workforce by...

- ▶ Monitoring, evaluating and improving workforce diversity and inclusion metrics
- ▶ Building new talent pipelines and attract a workforce that reflects the diversity of the people we serve
- ▶ Embedding equity, diversity, inclusion and accessibility in our employee experience

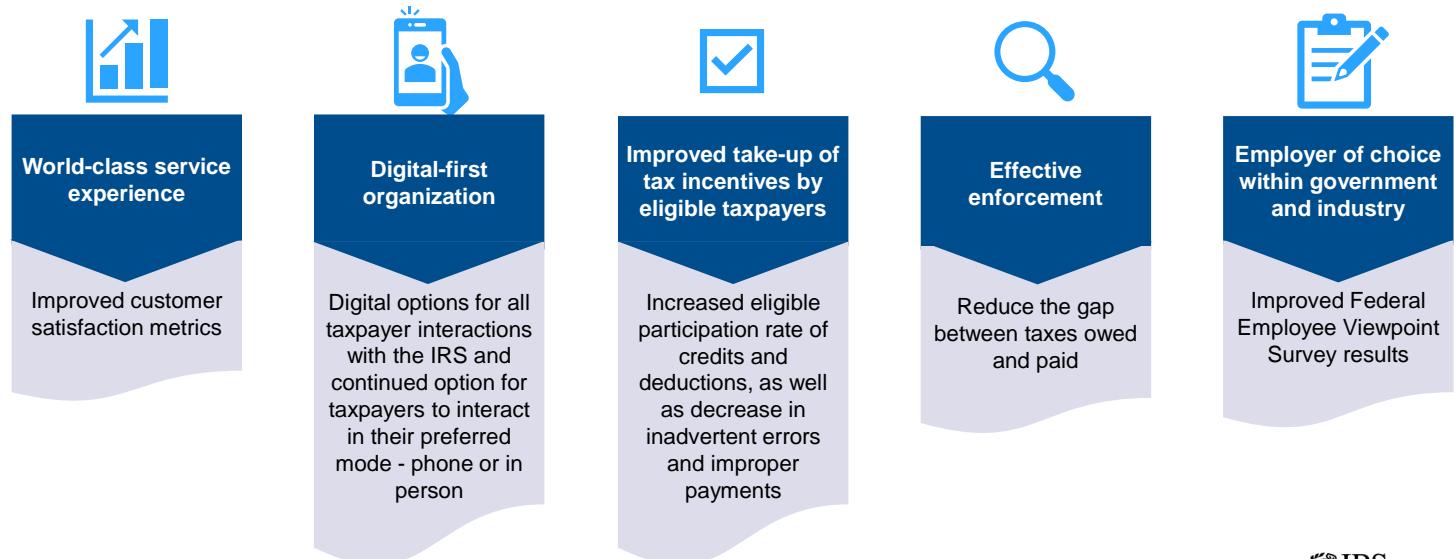


### Promote equity and fairness in the taxpayer experience by...

- ▶ Continually refining our approaches to compliance and enforcement to improve fairness in tax administration and maintain accountability to taxpayers
- ▶ Developing procedures to regularly evaluate the fairness of systems, compliance strategies, and treatments

# What success will look like

In addition to detailed tracking of Strategic Operating Plan performance indicators, high level success will look like this:



# Managing the Change: Transformation and Strategy Office (TSO)

## Essential characteristics of the TSO:

- ▶ Lean talent and IRS veterans
- ▶ Enable business units vs. taking over functions
- ▶ Align deadlines to IRS “moments of truth”
- ▶ Business units own the mix of new initiatives

**Strategy:** Ensure the cumulative efforts underway yield outcomes aligned to our vision

**Nudge:** Ask the right questions of IRS business units to drive innovative thinking (“avoid digitizing the mess”)

**Communications:** Ensure all internal and external stakeholders have clarity on objectives, progress, what is coming next

**Project Management:** Centrally manage “to do” list, clarify priorities, troubleshoot risk areas

# Managing Change

Given the breadth of this work, prioritizing our work and focus is key.

- ▶ In prioritizing the projects that have the biggest impact for taxpayers, we are placing key emphasis on our limited but growing information technology and human capital capacities that enable this transformation.
- ▶ We're placing a major focus on how our employees engage with this transformation.
- ▶ Our internal change management and communication efforts play a central role in ensuring our employees understand these investments for taxpayers equate to investments in their employee experience.
- ▶ Towards that end, we are continuously listening to our employees, taking their feedback to inform our decisions, and connecting the changes they see to their feedback and the investments we continue making both for them and taxpayers.



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## IRS investments are already paying off.



### Taxpayer Service

#### Level of Service

- ▶ Improved level of service during filing season 2023

#### Customer Callback

- ▶ Expanded Customer Callback services to 95% of callers seeking live assistance

#### New Taxpayer Assistance Centers (TACs)

- ▶ Opened or reopened 50 TACs
- ▶ Increased staffing by 31% over last fiscal year
- ▶ Served 235,000 more taxpayers this year

#### Voice and ChatBots

- ▶ Nine taxpayer-facing voicebots in operation today, in addition to 10 chatbots.
- ▶ Help taxpayers with a wide range of issues, including securing account transcripts, getting answers to questions about balances due and getting help from the Taxpayer Advocate Service.

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# IRS investments are already paying off.



## Online Accounts

### Business Tax Account

- ▶ Sole proprietors with EINs with existing individual online accounts can access business tax account to view their business profile and manage authorized users.

### Tax Professional Online Account

- ▶ Tax pros can link their CAF number in their profile to view and/or withdraw from their active authorizations online in real time. Tax professionals can also view their client's balance due amount(s).

### Individual Online Account

- ▶ Enhanced capabilities for individual accounts include virtual assistance and live chat. Taxpayers can now validate their bank accounts and save multiple accounts, eliminating the need to re-enter bank account information every time they make a payment.

# IRS investments are already paying off.



## Digital Tools

### Document Upload Tool

- ▶ Taxpayers can respond to a variety of notices and letters online, eliminating the need to mail responses to the IRS.

### Mobile-Adaptive Forms

- ▶ First three forms adaptive for mobile device screens and can be submitted electronically when completed

### Information Returns Intake System (IRIS)

- ▶ Free, secure, and accurate electronic filing service that requires no special software
- ▶ Available to any business; helpful to small businesses that send paper Forms 1099
- ▶ Filers can use the platform to create, upload, edit, and view information, as well as downloading completed copies of Forms 1099-series for distribution and verification

## IRS investments are already paying off.



### Paperless Processing

#### Scanners

- ▶ Replacing old scanners and purchase nearly 900 high-capacity, desktop and handheld scanners to use in various situations

#### Digitalization

- ▶ Scanned more than one million forms through October 2023
  - 480,000 Form 940
  - 579,000 Form 941
  - 90,000 Form 1040

## IRS investments are already paying off.



### More Equitable Compliance Efforts

#### Ensuring Large Corporations and High-Income, High-Wealth Individual Taxpayers Pay Taxes Owed

- ▶ Increasing compliance activities of U.S. subsidiaries of foreign companies who distribute goods in the US and do not pay their fair share of tax on the profit they earn from US activity
- ▶ Using data analytics to identify large corporate taxpayers for audit by starting an additional 60 audits of the largest corporate taxpayers based on that data
- ▶ Prioritizing high-income cases where high income, high wealth individuals have not filed their taxes or failed to pay recognized tax debt, by beginning to contact about 1,600 new taxpayers in this category that owe hundreds of millions of dollars in taxes

