

# STRATEGIC PLAN

## OVERSIGHT OF THE IRS'S TRANSFORMATION EFFORTS



TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION

# STRATEGIC PLAN: Oversight of the IRS’s Transformation Efforts

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# STRATEGIC PLAN: Oversight of the IRS's Transformation Efforts

## Background

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On August 16, 2022, the President signed the *Inflation Reduction Act of 2022* (IRA) into law, marking one of the largest investments in clean energy in U.S. history.<sup>1</sup> The legislation 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. To help offset expenses and generate revenue for the clean energy investments, the IRA also includes imposing a minimum corporate tax of 15 percent and a 1 percent surcharge on corporate stock buybacks.

The legislation provided approximately \$79.4 billion in supplemental funding to the Internal Revenue Service (IRS) to be used through September 30, 2031, to improve taxpayer services, update antiquated computer systems, and increase compliance and enforcement actions against high-income taxpayers and large corporations that try to evade taxes. However, the current IRA funding was reduced to approximately \$57.8 billion because of the following funding rescissions:

- In June 2023, the enactment of the Fiscal Responsibility Act of 2023 resulted in the rescission of approximately \$1.4 billion to the IRA Enforcement funding activity.<sup>2</sup>
- In March 2024, the Further Consolidated Appropriations Act, 2024, resulted in a rescission of \$20.2 billion in the IRA Enforcement funding activity.<sup>3</sup>

IRS officials project that these rescissions will reduce revenues by more than \$100 billion through Fiscal Year (FY) 2034.

## IRS Supplemental Funding

**Taxpayer Services.** The legislation provides the IRS with more than \$3.1 billion to provide taxpayer services, including prefilling assistance and education, filing and account services, taxpayer advocacy services, and other services.

**Enforcement.** The legislation originally provided the IRS with more than \$45.6 billion for tax enforcement activities to determine and collect owed taxes, to provide legal and

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<sup>1</sup> Pub. L. No. 117-169, 136 Stat. 1818.

<sup>2</sup> Pub. L. No. 118-5, 137 Stat. 10.

<sup>3</sup> Pub. L. No. 118-47, 138 Stat. 460.

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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. The budget recissions from the Fiscal Responsibility Act of 2023 and the Further Consolidated Appropriations Act, 2024, have reduced the IRA Enforcement appropriation from \$45.6 billion to approximately \$24 billion.

**Operations Support.** The legislation provides the IRS with more than \$25.3 billion to support taxpayer services and enforcement programs, including rent 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.

**Business Systems Modernization.** The legislation provides the IRS with approximately \$4.8 billion to 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.

**Direct E-File Tax Return System.** The legislation also provided the IRS with \$15 million to establish a task force to design an IRS-run, free direct electronic filing system, and deliver to Congress, within nine months of the law's enactment, a report to include the cost, taxpayer expectations, and independent third-party opinions on overall feasibility.

## IRS Inflation Reduction Act Strategic Operating Plan

On April 6, 2023, the IRS issued its IRA Strategic Operating Plan (SOP), covering FYs 2023 through 2031. The IRS noted in the SOP that it had leveraged prior IRS planning efforts, including the Taxpayer First Act Report to Congress, new thinking around best practices and available technology capabilities, and current and past input from a wide range of stakeholders in tax administration. This SOP replaces the IRS's previous five-year strategic plan.

The SOP is structured to achieve five objectives, which will be accomplished through a series of initiatives and projects aligned to each.

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## Objectives

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

The SOP outlines the IRS's transformation vision as:

*We will make it easier for taxpayers to meet their tax responsibilities and receive tax incentives for which they are eligible. We will adopt a customer-centric approach that dedicates more resources to helping taxpayers get it right the first time, while addressing issues in the simplest ways appropriate. We will address noncompliance, using data and analytics to expand enforcement in certain segments. We will become an employer of choice across government and industry. These changes will enable us to serve all taxpayers more equitably and in the ways they want to be served.*

After implementing the SOP, the IRS refined the vision and its near-term priority efforts in its first annual update issued on May 2, 2024. The SOP update included outcomes, aligned to the five objectives in the SOP, with priority efforts and key results to deliver over the next two years. The update also looked back on what the IRS accomplished in the past year and included an accompanying document that summarized the current work underway and outlined the IRS's plans to make fundamental changes with IRA funding. The newly honed visions for taxpayer service and enforcement are as follows:



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## **New vision for taxpayer service:**

*"All taxpayers can meet all of their responsibilities, including all interactions with the IRS, in a completely digital manner if they prefer."*

## **New vision for enforcement:**

*"Noncompliant taxpayers, in particular the largest and most complex filers, pay what they owe because the IRS has the workforce and advanced technology needed to enforce fairness in the tax system and narrow the tax gap."*

In the SOP update, the IRS stated, *"long-term success is dependent on annual appropriations that include increases to maintain current funding levels, as well the mandatory funding proposed in the President's FY 2025 budget. With secure funding levels, the IRS will be able to continue to build on these early accomplishments and be empowered to use the remaining IRA funding as it was intended to transform the IRS."*

## **Direct File Report to Congress and Pilot**

The IRS delivered the required report to the Secretary of the Treasury on May 16, 2023, which subsequently led to the development of a pilot program. The Direct File Pilot was designed to support a limited set of tax situations and to test the technology, customer support, state integration, fraud detection, and overall taxpayer experience. The IRS developed a phased approach to implementing the Direct File pilot during the 2024 Filing Season where Phase A of the pilot was conducted with IRS employees who volunteered to file their tax return using Direct File. The Treasury Inspector General for Tax Administration's (TIGTA) review of Phase A of the pilot program found two opportunities for the IRS to update the eligibility checker to clarify eligibility requirements and potentially reduce taxpayer confusion and burden. Upon completing the rollout of Phase A, the IRS proceeded to Phase C of the pilot program but did not meet two of its firm criteria. Specifically, all Direct File content was not available in Spanish, and there were known issues that could affect the accuracy of tax returns. TIGTA also found that security and testing improvements are needed as the Direct File Pilot team did not appropriately complete two of its required artifacts and did not complete the required continuous monitoring security assessment for the cloud platform upon which the Direct File Pilot resides.

## **Implementation of Energy Tax Provisions**

The IRA also requires the IRS to undertake the difficult and large-scale task of tracking and implementing 36 tax provisions. These provisions include numerous new and expanded energy credits for homeowners, businesses, vehicles, fuel, manufacturing, *etc.*

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The IRA also modifies and extends several credits, including the tax credit for nonbusiness energy property, the new energy efficient home credit, and the tax credit for alternative refueling property expenditures.

## TIGTA's Oversight Plan

As part of the IRA legislation, TIGTA received \$403 million for enhanced oversight of IRS operations. The oversight work detailed in this plan aligns with the IRS's SOP. Specifically, TIGTA's Oversight Plan details the audits, inspections, and evaluations that address all five of the previously mentioned IRS objectives outlined in its SOP. The oversight work conducted will provide external stakeholders insight into how well the IRS is achieving each of its stated goals over the next 10 years. This includes assessing IRS efforts to manage the transformation, processes to monitor and measure implementation and accountability, delivery of specific initiatives to meet its five SOP objectives, and implementation of energy security and clean energy provisions in the IRA.

Our Oversight Plan provides specific oversight projects underway, completed or planned to be conducted and outlines our investigative focus. We will update and adjust our plan on an annual basis to reflect the current state of the IRS's transformation efforts. This annual assessment of our oversight strategy is to ensure that our ongoing and planned work is adjusted if necessary to continue to provide relevant and timely coverage of IRS transformation efforts.

## TIGTA's Offices

- **Office of Audit.** TIGTA's Office of Audit will monitor how IRA provisions are implemented. This office will also continue to review the IRS's operational support programs that may be impacted by the IRS's transformation efforts. Additionally, the Office of Audit will assess whether the IRS is achieving progress in modernizing its systems, improving taxpayer services, and ensuring that enforcement and compliance activities are balanced with an increased focus on high-wealth individuals, large corporations, and large complex partnerships. Finally, in addition to the audits detailed in our Oversight Plan, the Office of Audit will continually monitor IRA provisions to assess whether additional audits are needed or audits need to be adjusted and/or refocused.
- **Office of Inspections and Evaluations.** TIGTA's Office of Inspections and Evaluations provides more expeditious oversight in order to deliver information to stakeholders quickly. This office plans to assess emerging issues relating to the

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IRS's implementation of its SOP. This includes ongoing evaluation of the IRS's Transformation and Strategy Office oversight and management of the IRS's enterprise-wide change efforts; development of processes to monitor and measure the milestones associated with the specific operational initiatives; quarterly and cumulative reporting on the IRS's use of IRA funding to implement its SOP, *etc.*

- **Office of Investigations.** TIGTA's Office of Investigations administers investigative programs that protect the integrity of the IRS and detect and prevent fraud and other misconduct within IRS programs. This includes investigating allegations of criminal violations and administrative misconduct by IRS employees as well as protecting the IRS against external attempts to corrupt or threaten its employees. This office continues to project an increase in criminal investigations involving threats, abuse of position, impersonation, and bribery resulting from the IRS's increased enforcement operations. It also anticipates an increase in procurement fraud and oversight-related investigations in areas peripheral to the IRS's staff increase, such as employee misconduct, embezzlement, and the unauthorized access to and disclosure of taxpayer information.

## Office of Audit and Office of Inspections and Evaluations Oversight Work

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### Managing Transformation – Implementation and Accountability

IRS management notes that the IRS Transformation and Strategy Office will oversee and report the IRS's progress on timely delivering Service-wide projects/initiatives identified in the IRS's SOP, as well as annually update the SOP. The Office will also oversee the development of IRS initiatives and provide guidance and oversight to ensure success in support of the agency's strategic goals. The Office will also oversee collaborative problem-solving efforts within the IRS, bringing together experts from across the agency, as well as external stakeholders, to identify solutions to critical problems impeding the IRS's transformation efforts or necessary to improve business processes.



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## **Inflation Reduction Act: Assessment of the Internal Revenue Service Implementation Efforts**

Assessed the IRS's standup of the IRA Transformation Office as well as its development processes and procedures to monitor, measure, and track implementation efforts of all IRA tax-related provisions. (Completed: [Report No. 2023-IE-R003](#), January 2023)

## **Inflation Reduction Act: Assessment of the IRS's Efforts to Deliver Expected Improvements for the 2023 Filing Season**

Assessed the IRS's efforts to meet the Secretary of the Treasury's expectations for the 2023 Filing Season. (Completed: [Report No. 2023-IE-R010](#), September 2023)

## **Quarterly Snapshot: The IRS's Inflation Reduction Act Spending Through June 30, 2023**

Assessed the IRS's use of IRA funding through June 30, 2023. (Completed: [Report No. 2024-IE-R002](#), October 2023)

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

Assessed the IRS's use of IRA funding through September 30, 2023. (Completed: [Report No. 2024-IE-R007](#), January 2024)

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

Assessed the IRS's efforts to monitor and measure milestone deliverables associated with operational initiatives and related projects outlined in the IRS's SOP, and the impact on transformation efforts should delays occur. (Completed: [Report No. 2024-IE-R010](#), March 2024)

## **Quarterly Snapshot: The IRS's Inflation Reduction Act Spending Through December 31, 2023**

Assessed the IRS's use of IRA funding through December 31, 2023. (Completed: [Report No. 2004-IE-R011](#), April 2024)

## **Quarterly Snapshot: The IRS's Inflation Reduction Act Spending Through March 31, 2024**

Assessed the IRS's use of IRA funding through March 31, 2024. (Completed: [Report No. 2024-IE-R015](#), June 2024)

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## **Quarterly Snapshot: The IRS's Inflation Reduction Act Spending Through June 30, 2024**

Assess the IRS's use of IRA funding through June 30, 2024.

(Completed: [Report 2024-IE-R020](#), September 2024)

## **Use of IRA Funding**

Provide quarterly reporting on the IRS's use of IRA funding.

## **Continued Assessment of IRS Transformation Efforts – Fiscal Year 2024 Initiatives**

Assess the IRS's continued efforts to monitor and measure delivery of operational initiative milestones.

## **Filing Season 2024 - Delivery of Key Customer Service Options**

Assess the IRS efforts to meet customer service and transformation expectations for the 2024 Filing Season.

## **Strategic Operating Plan Update**

Determine whether the Strategic Operating Plan update continues to provide a clear framework of the IRS's plan to transform tax administration.

## **Snapshot of Business Systems Modernization Spending**

Provide an overview of the IRS's use of IRA funding for business systems modernization projects from Fiscal Year 2022 through Fiscal Year 2024.

## **Management Oversight of Selected IRA Information Technology Contracts**

Assess the effectiveness of management oversight of selected IRA information technology contracts.

## **Oversight of Select Non-Information Technology IRA Contracts**

Assess the effectiveness of management oversight for selected non-information technology IRA contracts.

## IRA Strategic Operating Plan Objectives

### Objective 1



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

In its SOP, the IRS states that it plans to reshape the taxpayer experience to make it more convenient and easier to understand. This includes taxpayers having easy access to their data and finding it easier to interact with the IRS via electronic filing, expanded online accounts, telephone, in-person, and chat assistance. The IRS also plans to provide more education, outreach, and proactive alerts to help taxpayers meet obligations and claim appropriate credits and deductions. Additionally, IRS employees will have the tools and information necessary to meet the needs of taxpayers quickly and effectively.

### Oversight of Objective 1

#### **Interim Results of the 2023 Filing Season**

Evaluated whether the IRS timely and accurately processed individual paper and electronically filed tax returns during the 2023 Filing Season.

(Completed: [Report No. 2023-40-029](#), May 2023)

#### **Actions Are Needed to Address Inaccurate, Incomplete, and Inconsistent Taxpayer Assistance Center Information Provided to Taxpayers**

Determined whether taxpayers could easily obtain accurate information regarding the IRS's Taxpayer Assistance Centers such as hours of operation, office addresses, and local telephone numbers. (Completed: [Report No. 2023-IE-R006](#), July 2023)

#### **Inflation Reduction Act: Assessment of a Free and Electronic Direct Filing Tax Return System**

Assessed the IRS's compliance with the requirements to deliver a report to Congress regarding the development of a direct electronic filing tax return system and evaluated the use of the funding provided for this proposal.

(Completed: [Report No. 2024-408-002](#), October 2023)

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## **Progress Update on Tax Return Scanning Initiatives**

Evaluated the IRS's efforts to scan paper-filed individual tax returns into an electronic format for the 2023 Filing Season.

(Completed: [Report No. 2024-408-013](#), December 2023)

## **Actions Need to Be Taken to Address Inaccurate Internet Search Engine Taxpayer Assistance Center Location Information Which Poses a Threat to Employee Safety**

Assessed the accuracy of the IRS's contact information when performing internet searches. (Completed: Report [2024-IE-R009](#), February 2024)

## **Actions Need to Be Taken to Ensure the Success of the Lifting Communities Up Initiative in Expanding Services and Assistance to Taxpayers in Underserved Populations**

Evaluated the IRS's efforts to expand operations into economically distressed areas to improve tax administration and the services provided to taxpayers in these areas.

(Completed: [Report No. 2024-IE-R012](#), May 2024)

## **Opportunities Exist to Improve Taxpayer Service to Underserved, Underrepresented, and Rural Communities**

Assessed the IRS's efforts to expand accessibility and availability of customer service to meet SOP goals by geographically depicting current customer service options provided to underserved, underrepresented and rural communities, limited English proficient taxpayers, and elderly and small businesses. (Completed: [Report No. 2024-IE-R014](#), June 2024)

## **Inflation Reduction Act: Interim Results of the Direct File Pilot**

Interim report assessed the IRS's plans to develop and pilot an IRS-run Direct File System in Filing Season 2024. (Completed: [Report No. 2024-408-031](#), June 2024)

## **Improvements Are Needed to Ensure That Local Taxpayer Advocate Service Telephone Lines Are Properly Monitored**

Determined the readiness of Taxpayer Advocate Service local telephone lines and consistency of information posted online. (Completed: [2024-IE-R018](#), July 2024)

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## **Additional Actions Are Needed to Clearly Inform Taxpayers in Federally Declared Disaster Areas of Balance Due Payment Postponement Timeframes**

Evaluated the breakdown in processes and procedures that resulted in the incorrect sending of notices to taxpayers. (Completed: [Report No. 2024-IE-R019](#), September 2024)

## **The Direct File Pilot Deployed Successfully; However, Security and Testing Improvements Are Needed**

Assessed the security of the IRS Direct File System. (Completed: [Report No. 2024-200-050](#), September 2024)

## **Filing Season 2024 - Readiness of Taxpayer Assistance Centers**

Assess the IRS's efforts to ensure Taxpayer Assistance Centers are operational and taxpayers are afforded simple, fast, accessible, and courteous customer service.

## **Filing Season 2024 – Readiness of Customer Service Telephone Lines**

Determine whether toll-free telephone lines are operational, and taxpayers are afforded simple, fast, and accessible customer service.

## **Operational Readiness of Facilitated Self-Assistance Kiosks Located at Taxpayer Assistance Centers**

Assess the effectiveness and efficiency of the kiosks located at the Taxpayer Assistance Centers.

## **Professionalism of Services Provided on IRS Telephone Lines**

Assess the professionalism and courteousness of services provided to taxpayers on IRS telephone lines.

## **Availability of Services at Taxpayer Assistance Centers**

Evaluate the year-round availability of services provided at select Taxpayer Assistance Centers.

## **Compliance With the Office of Management and Budget's Guidance on Artificial Intelligence**

Assess the IRS's compliance with the Office of Management and Budget's memorandum M 24-10, *Advancing Governance, Innovation, and Risk Management for Agency Use of Artificial Intelligence*.



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## **Customer Service Options for Taxpayers Living Abroad**

Assess the availability and accessibility of customer service options offered to taxpayers living abroad.

## **National Distribution Center**

Determine the cost-benefit of the National Distribution Center fulfillment services and distribution of products to IRS internal and external customers.

## **Use of Artificial Intelligence in Tax Administration**

Assess the IRS's current and planned use and expansion of artificial intelligence in tax administration.

## **Making Taxpayer Payments Easier**

Assess efforts to enable taxpayers to make payments easier and seamlessly through all service channels.

## **Continued Evaluation of the Direct File Pilot Program**

Assess the IRS's plans to develop and pilot an IRS-run Direct File System in Filing Season 2024.

## **Electronic Signature Strategy**

Evaluate the effectiveness of the implementation of e-Signature Services.

## **Continued Assessment of Efforts to Digitize Paper Tax Returns for Processing**

Evaluate the IRS's efforts to digitize the processing of paper-filed individual tax returns. [Read our previous report.](#)

## **Expanded Research Credit for Small Businesses**

Determine whether controls ensure that taxpayers who claim the Research Credit are eligible and claim the correct amount.

## **Chat Applications**

Determine if the IRS's chat applications are providing effective and efficient service to help taxpayers meet their tax obligations.

## **Evaluation of the IRS's Efforts to Improve Taxpayer Notices**

Assess the IRS's efforts to update and modernize taxpayer notices, including the ability of taxpayers to electronically receive and reply to notices.

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## **2024 Filing Season Face-to-Face Service Provided at Taxpayer Assistance Centers**

Assess the accuracy of the face-to-face service and the taxpayer experience at Taxpayer Assistance Centers during the 2024 Filing Season.

## **Communicating Tax Credits and Deductions to Taxpayers**

Assess efforts to help taxpayers understand and claim appropriate credits and deductions on their tax returns.

## **Direct File System Expansion**

Assess the IRS's Direct File System in the 2025 Filing Season.

## **Development and Security of the Direct File System for the 2025 Filing Season**

Determine if the IRS adequately develops the Direct File System and protecting taxpayer data. [Read our previous report.](#)

### Objective 2



Quickly resolve taxpayer issues when they arise.

In its SOP, the IRS states that it plans for taxpayers making filing errors to hear from the IRS faster with clear, accessible ways to correct those mistakes quickly and completely. The IRS will also reach out to taxpayers when they may owe taxes and when they may have missed credits or deductions.

## **Oversight of Objective 2**

### **Handling of Misdirected Lockbox Mail**

Determine if processes and procedures are adequate to ensure misdirected lockbox mail is timely processed.

### **Small Business/Self-Employed Division's Nonfiler Strategic Plan**

Assess the Small Business/Self-Employed Division's current approach to address nonfilers.

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## **Transforming Collection to Offer Proactive Debt Resolution**

Assess the transformation of the IRS's Collection function to proactive debt resolution.

## **Manual Refunds Associated With Deceased Taxpayers**

Assess the IRS's processes and procedures for ensuring the timeliness and validity of manual refunds associated with deceased taxpayers.

### Objective 3



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

In its SOP, the IRS states that it plans to devote more resources to high-dollar noncompliance to address the Tax Gap. Pursuant to the Department of the Treasury's directive, small businesses and households earning \$400,000 or less will not see audit rates increase relative to historical levels. As such, the IRS plans to increase its focus on segments of taxpayers with complex issues and complex returns where audit rates are minimal, such as those related to large partnerships, large corporations, and high-income and high-wealth individuals.

## **Oversight of Objective 3**

### **The Internal Revenue Service Is Developing a Digital Asset Monitoring and Compliance Strategy**

Assessed the development of the IRS's strategy to monitor digital assets and address noncompliance. (Completed: [Report 2024-IE-R005](#), December 2023)

### **The IRS Has Made Limited Progress Developing the Methodology to Comply With the Treasury Directive to Not Increase the Audit Rate for Taxpayers With Incomes Below \$400,000 Due to Planning and Implementation Challenges**

Evaluated the IRS's methodology to determine compliance with the mandate that audits of taxpayers earning less than \$400,000 should not experience increased audit rates from additional resources provided in the IRA. (Completed: [Report No. 2024-308-043](#), August 2024)

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## **Review of the Corporate Alternative Minimum Tax Implementation Identified Weaknesses in the Pre-Rulemaking Process**

Assessed processes and procedures to implement the Corporate Alternative Minimum Tax provision included in the IRA and to ensure future compliance.

(Completed: [Report No. 2024-308-036](#), September 2024)

## **Actions Were Not Taken to Timely Strengthen Practitioner Priority Service Telephone Line Authentication Controls**

Assess the actions taken by the IRS to address an ongoing fraud scheme involving the Practitioner Priority Service telephone line.

## **Use of Artificial Intelligence in Examination Case Selection**

Determine the effectiveness of Large Business and International and Small Business/Self-Employed Divisions' Artificial Intelligence models in selecting returns and issues for examination.

## **Expanding Audits of High-Income Taxpayers**

Evaluate examination plans to use IRA resources to increase enforcement on high-income taxpayers while not increasing audit rates on taxpayers earning less than \$400,000 per year.

## **Safeguarding and Disposition of Digital Assets**

Assess the processes to account for and safeguard digital assets seized by the IRS's Criminal Investigation.

## **Enforcement Investment Decisions Under the IRA**

Assess the decision-making process for IRA enforcement investment decisions.

## **Identifying Partnership Noncompliance**

Determine if the IRS is using available information effectively to identify partnership noncompliance.

## **Earned Income Tax Credit Audit Strategy**

Assess changes to the Earned Income Tax Credit examination strategy to ensure case selection processes are fair and equitable.

## **Compliance With Body Worn Camera Requirements**

Evaluate the IRS's compliance with the use of Body Worn Cameras, as required by Executive Order 14074, Advancing Effective, Accountable Policing and Criminal Justice Practices to Enhance Public Trust and Public Safety.

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## **Fraudulent Filing of Form 941, Employer's Quarterly Federal Tax Return**

Assess the adequacy of actions taken to prevent fraudulent filing of Forms 941, Employer's Quarterly Federal Tax Return.

## **Overpayments Generated by Dishonored Checks**

Assess the IRS's processes and procedures to identify and prevent erroneous refunds from dishonored checks.

## **Maximizing Proceeds From the Public Auctions of Seized Property**

Assess the IRS Collection Division's efforts to maximize the proceeds from the public auctions of seized property.

## **Management and Oversight of Seized Property**

Assess the IRS Criminal Investigation's management and oversight of seized property.

## **Tax-Related Identity Theft – Fraudulent Use of Missing Children's Sensitive Tax Data**

Evaluate the IRS's efforts to identify and address tax-related identity theft relating to the use of tax information associated with missing children.

## **Tax Relief for Taxpayers Wrongfully Detained, Kidnapped, or Taken Hostage**

Assess the IRS's policies and procedures to grant tax relief to taxpayers who are wrongfully detained, kidnapped, or taken hostage.

## **Verification of Tax Lien Filings**

Assess the IRS's procedures to ensure the timeliness and accuracy of tax lien filings at select local recording offices.

## **Addressing Non-filing With the Foreign Account Tax Compliance Act**

Assess the effectiveness of IRS enforcement of egregious Foreign Account Tax Compliance Act nonfilers.<sup>4</sup>

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<sup>4</sup> Pub. L. No. 111-147, 124 Stat. 71 (2010).



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## **Compliance Assurance Process**

Determine if the Compliance Assurance Process is assisting the IRS with enforcement of complex tax filings and identifying high-dollar noncompliance. [Read our previous report.](#)

## **Casualty and Theft Write-Offs of Cryptocurrency Losses**

Assess the effectiveness of IRS controls to detect and prevent questionable carryforward credits on tax returns reporting cryptocurrency losses.

## **Compliance With Puerto Rico's Act 22**

Determine what actions the IRS is taking to pursue high-income individuals claiming benefits in Puerto Rico without meeting the residence and source rules involving U.S. possessions.

## Objective 4



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

In its SOP, the IRS states that it plans to invest in technology to make its operations more effective and efficient for employees and taxpayers. Many of the initiatives in the IRS's SOP are dependent on the modernization of the IRS's core information technology. As such, the IRS plans to design and deliver modern technology platforms that center around data and applications, with natively integrated protective and detective security controls. The IRS also states that it will ensure continued security and privacy of taxpayer data. The IRS reported that foundational to taxpayer service is protecting the data entrusted to the agency by confirming identities of employees, taxpayers, and tax professionals in every interaction. The IRS acknowledges that authentication and data security challenges will increase as it uses more taxpayer- and employee-facing digital technology. Its cybersecurity and data protection must keep pace with new threats, technologies, and architectures. The IRS plans to scale modern data encryption across dozens of systems to limit exposure of taxpayer data.

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## Oversight of Objective 4

### **Assessment of Processes to Grant Access to Sensitive Systems and to Safeguard Federal Tax Information**

Assessed user access to taxpayer information maintained by the IRS and identified the number of IRS systems that contain taxpayer information.

(Completed: [Report 2024-IE-R008](#), February 2024)

### **A Comprehensive Strategy Is Needed to Address the Significant Backlog of Adjustment Source Documentation Inventory**

Assessed the IRS's processes for resolving backlogs of adjustment record prints that need to be correlated with source documents and assessed the IRS's efforts to modernize this process. (Completed: [Report No. IE-24-R013](#), June 2024)

### **Progress of Information Technology Modernization Efforts**

Evaluated the progress of the IRS's information technology modernization, including transforming core account data and processing efforts funded by the IRA.

(Completed: [Report No. 2024-2S8-055](#), September 2024)

### **The Individual Tax Processing Engine Project Is Progressing, but Risks Remain**

Determined whether the IRS is effectively and efficiently managing the Customer Account Data Engine 2 program's Individual Tax Processing Engine project with a focus on defect remediation and considering how potential legislative changes may impact the Customer Account Data Engine 2 program. (Completed: [Report No. 2024-208-052](#), September 2024)

### **Large-Scale Data Breach Notification**

Assess the IRS's processes and procedures used to alert individual and business taxpayers of the unauthorized disclosures made by IRS contractor, Charles Littlejohn.

### **Safeguarding of Sensitive Tax Information at Volunteer Income Tax Assistance Sites**

Assess the protection of sensitive tax information at select Volunteer Income Tax Assistance sites.

### **Safeguarding of Sensitive Tax Information at Federal Tax Information at Contractor Sites**

Assess the protection of sensitive tax information at select contractor sites.

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## **Risks Associated With Social Engineering**

Assess the IRS's efforts to reduce social engineering risks.

## **Safeguarding of Business and Individual Federal Tax Information Stored on Microfilm**

Follow-up on the IRS's corrective actions to account for and safeguard microfilm cartridges with sensitive taxpayer information. [Read our previous report.](#)

## **Progress of Information Technology Modernization Efforts – Follow-up**

Evaluate the progress of the IRS's information technology modernization, including transforming core account data and processing efforts funded by the IRA.

## **Information Technology Hardware Asset Inventory Controls**

Assess the IRS's migration to a modernized information technology hardware asset inventory system and related controls.

## **Enterprise Case Management Migration and Decommissioning Efforts**

Determine whether the Enterprise Case Management program has effectively increased migration efforts and evaluate the decommissioning of legacy systems components.

[Read our previous report.](#)

## **Enterprise Data Platform**

Evaluate the Enterprise Data Platform governance and management framework to determine its effectiveness in ensuring high data quality and accuracy, compliance with regulatory requirements and policies, and data security controls to protect sensitive information.

## **Individual Amended Tax Return Processing Modernization**

Evaluate the IRS's efforts to modernize amended tax return processing. [Read our previous report.](#)

## **Taxpayer Account Management – Individual Project**

Assess the development of the Taxpayer Account Management – Individual project.

## **Business Master File Modernization**

Evaluate efforts to modernize the Business Master File.

## **Data Governance Strategy and Advanced Analytics**

Determine if the IRS delivered a data governance strategy and an operating model for enterprise-wide data analytics and review the progress of these and other analytics deliverables.

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## **Multifactor Authentication Security Enhancements**

Evaluate the implementation of multifactor authentication on IRS systems.

## **Migrating and Decommissioning Legacy Case Management Systems**

Determine whether the Enterprise Case Management Information Technology Program Management Office is effectively migrating and then decommissioning its legacy case management systems. [Read our previous report.](#)

## Objective 5



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

In its SOP, the IRS states that it plans to transition to a different mix of workforce skills and capabilities to meet transformation objectives. To become a data-centric organization, the IRS expects to hire a significant number of data scientists, and IRS compliance functions will rely on specialized teams who respond to increasingly complex filings. The IRS will integrate equity, diversity, inclusion, and accessibility in its transformation efforts.

## **Oversight of Objective 5**

### **The IRS Has Reduced Its Overall Space Footprint; However, a Significant Amount of Unneeded Office Space Still Remains**

Assessed continuing efforts to reduce the associated costs related to the IRS's real estate footprint, including the leveraging of workstation sharing as part of its space reduction efforts and the efficient allocation of space for future projected needs.

(Completed: [Report No. 2024-100-027](#), June 2024)

### **Communication Breakdowns, Hiring Volume Surges, and Aging System Integration Challenges Delayed Some IRS Hiring Efforts**

Evaluate efforts to implement efficient hiring processes that will fill critical IRS program vacancies. (Completed: [Report No. 2024-108-069](#), September 2024)

### **Employee Onboarding Process**

Evaluate efforts to deliver more effective employee onboarding programs.

### **Attracting a Talented and Diverse Workforce**

Evaluate efforts to attract a talented and diverse IRS workforce.

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## **Development and Implementation of the IRS University**

Assess the IRS's stand-up of the IRS University as its principal training resource.

## **Employee Tax and Conduct Issues Prior to Issuing Awards**

Assess screening procedures to prevent employees with tax and issues from inappropriately receiving awards.

## **Employee Student Loan Repayment Program**

Assess the effectiveness of controls over the Employee Student Loan Repayment Program.

## **Energy Security and Clean Energy Provisions**

In addition to the objectives laid out in the IRS's SOP, TIGTA will provide oversight of a number of other aspects of the IRA, including green energy credits, other tax credits, and the physical security of IRS facilities and its employees. While not directly addressed in the IRA, since its passage, the number of threats against IRS employees has increased, leading TIGTA to renew its focus on physical security.

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

Assessed the IRS's actions to implement the tax provisions of the IRA.

(Completed: [Report No. 2024-408-004](#), October 2023)

## **Opportunities Exist to Improve the Audit Selection Process for the Qualified Plug-In Electric Drive Motor Vehicle Credit**

Determined whether the IRS is adequately reviewing the Qualified Plug-In Electric Drive Motor Vehicle Credits claimed by taxpayers and follow up on past recommendations.

(Completed: [Report No. 2023-30-065](#), September 2023)

## **Additional Actions Need to Be Taken to Identify and Address Noncompliant Biofuel Tax Credit Claims**

Assessed the effectiveness of the IRS's procedures to detect and prevent questionable claims for the biofuel tax credits (Completed: [Report No. 2024-300-021](#), April 2024)

## **Interim Results of the 2024 Filing Season**

Provided select information related to the IRS's 2024 Filing Season.

(Completed: [Report No. 2024-408-024](#), April 2024)



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## **Review of the Advanced Manufacturing Production Credit Implementation Identified Weaknesses in the Pre Rulemaking Process**

Evaluated the IRS's efforts to implement the Advanced Manufacturing Production Credit and what processes are planned or being developed to identify and address erroneous advanced manufacturing production credits. (Completed: [Report No. 2024-308-035](#), August 2024)

## **Inflation Reduction Act: Implementation of the Elective Payment and Transfer of Credit Provision**

Assessed the IRS's implementation and development of processing controls for elective payments and transfer of credits related to energy and electricity produced from certain renewable resources. (Completed: [Report No. 2024-408-066](#), September 2024)

## **Implementation of Clean Vehicle Credits**

Assess the accuracy and completeness of the IRS's actions to implement the new, pre-owned, and commercial clean vehicle tax credits created and updated by the IRA.

## **2024 Filing Season Individual Tax Return Processing (Final)**

Evaluate whether individual paper and electronically filed tax returns were timely and accurately processed during the 2024 Filing Season.

## **Continued Assessment of Elective Payments and Transferability Credits**

Assess the IRS's processing controls for tax returns claiming an elective payment or transfer of credit related to clean energy tax credits.

## **Qualifying Advanced Energy Project Credit**

Evaluate the IRS's efforts to identify and address erroneous Advanced Energy Project Credits. [Read our previous report.](#)

## **Continued Assessment of Clean Vehicle Tax Credits**

Evaluate the IRS's controls to identify and prevent erroneous claims on clean vehicle tax credits and to ensure the accuracy of processing of credit transfers.

## **Safeguarding of IRS Employees and Facilities**

While most Americans respect IRS employees and their mission, taxpayers experiencing financial difficulties may feel increased pressure and act aggressively toward IRS employees. Unfortunately, IRS workers are often targeted due to the nature of their work, which requires close interaction with the public. Ensuring the safety and

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protection of its employees, especially those who have direct contact with the public is an issue that remains of continued concern for the IRS.

## **Actions Are Being Taken to Reduce Risks to Employees Whose Names Are Required to Be Included on Internal Revenue Service Correspondence**

Assessed the actions taken to minimize the risk of potential harm to employees whose personal information is used on Tax Processing Center correspondence.

(Completed: [Report No. 2023-IE-R004](#), May 2023)

## **Assessment of the Internal Revenue Service's Active Shooter Readiness and Training**

Determined whether IRS employees are trained on best practices to keep themselves safe during an active shooter/active threat situation.

(Completed: [Report No. 2023-IE-R005](#), May 2023)

## **Process, Training, and Awareness Enhancements Can Better Inform Employees on How to Report Taxpayer Assaults and Threats**

Evaluated the procedures that IRS employees follow to report and process assaults and threats. (Completed: [Report No. 2023-IE-R009](#), September 2023)

## **Improvements Are Needed to Ensure the Health and Safety of Employees at the C-site**

Assessed IRS operations at its C-site facility, including efforts to address health and safety concerns reported by employees working at the C-site.

(Completed: [Report No. 2024-IE-R006](#), December 2024)

## **Interim Evaluation – Assessment of the IRS's Comprehensive Facilities Security Review and Employee Safety and Security Measures**

Determined whether selected IRS facilities have appropriate physical security countermeasures in place to detect and deter unauthorized entry and comply with security policies and procedures established by the Interagency Security Committee and IRS internal guidance. (Completed: [Report No. 2024-IE-R004](#), January 2024)

## **Employee Safety and Physical Security Review of the Taxpayer Assistance Center and Tax Compliance Office**

Evaluated whether the IRS has taken actions to address employee safety concerns at specific Taxpayer Assistance Center and Tax Compliance Office.

(Completed: [Report No. 2024-IE-R017](#), August 2024)

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## **Compliance With Safety and Security Measures at Taxpayer Assistance Centers**

Evaluate the IRS's compliance with safety and security measures at the Taxpayer Assistance Centers.

## **Safety and Security at Taxpayer Assistance Centers During Saturday Operations**

Assess security measures and staffing levels at the Taxpayer Assistance Centers that provided service during the 2024 "Taxpayer Experience Days."

## **Facilities Security Review and Employee Safety and Security Measures**

Evaluate the adequacy of the IRS's comprehensive review of safety and security measures at its facilities and determine whether recommendations and corrective actions have been implemented.

## **Actions Taken to Address Facility Security Deficiencies**

Assess the IRS's actions taken to address prior TIGTA recommendations on select facility security deficiencies. [Read our previous report.](#)

## **Actions Taken to Revise Correspondence to Reduce Risks to Employees**

Assess the IRS's actions taken to reduce the risk to employees in response to our prior evaluation. [Read our previous report.](#)

## **Automated External Defibrillator Program**

Assess whether Automated External Defibrillator equipment is operationally ready and available at IRS facilities, and designated employees are trained to properly use the Automated External Defibrillators.

## **Efforts to Reduce the Risk of Active Shooter Events**

Assess the IRS's actions taken in response to concerns raised during a prior evaluation to reduce the risk of active shooter events at IRS facilities. [Read our previous report.](#)

## **Multi-Scope Inspection of Select IRS Operations – Puerto Rico**

Assess IRS operations in Puerto Rico, to include facility security at select IRS offices, readiness of automated external defibrillators, safeguarding and destruction of sensitive classified waste, control and accountability over Criminal Investigation's seized tangible assets, and the reconciliation of Criminal Investigation's firearms assigned to the Use of Force Coordinator..

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## **Physical Security Assessment of IRS C-Site Operations**

Assess the IRS's actions taken in response to concerns raised during prior evaluation to address health and safety concerns reported by employees working at the C-site. [Read our previous report.](#)

## **Potentially Dangerous Taxpayer and Caution Upon Contact Program**

Assess processes and procedures to monitor and evaluate taxpayers who pose a threat to IRS employees.

## **Reporting Taxpayer Assaults and Threats**

Assess the IRS's actions taken in response to a prior evaluation of processes and procedures to report taxpayer assaults and threats. [Read our previous report.](#)

## **Office of Investigations**

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The Office of Investigations remains focused on providing impactful investigative oversight of federal tax administration. The primary drivers of investigative workload revolve around misconduct and illicit activity associated with IRS employees and/or IRS administered programs. The IRA has resulted in increases in both the number of IRS employees and the number and scope of programs administered by the IRS in relation to federal tax administration. The process by which the IRS funds its internal initiatives makes it difficult, or in some cases impossible, for the Office of Investigations to identify which specific employee or program was funded by the IRA versus annual appropriations.

As a result of the funding plan put forth by the IRS, the Office of Investigations initially anticipated additional reporting of threats, IRS impersonation, and abuse of cyber portals. A comparison of trends in these areas for two years immediately preceding the passage of IRA (August 2020 through August 2022) to the two years since the passage of IRA (August 2022 through August 2024) revealed mixed results. The overall number of threats reported against the IRS in the 2 years after the IRA was implemented decreased by more than 18 percent. However, armed escorts increased 55 percent after the implementation of the IRA. As additional background, armed escorts involve TIGTA special agents providing escorts to IRS employees when they are expected to make contact with a previously designated potentially dangerous taxpayer. Another corollary of threat reporting, workplace violence within the IRS, increased more than 110 percent after the implementation of the IRA. Reports of IRS impersonation schemes decreased

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after the implementation of the IRA by more than 38 percent. The most significant increase was reporting in attacks against, and manipulations of, IRS computer systems, which increased more than 433 percent post-IRA.

The Office of Investigations also used IRA funding to enhance our investigative response capability across the country; to conduct additional criminal intelligence and cybercrime analysis; and to focus on more proactive work with the intent to shorten the response time for an investigation to more effectively interdict illicit activity. Two of these proactive program investments, for example, involved the creation of a new Financial Intelligence Group and a centralized effort to interdict procurement fraud related to the billions of dollars of contracting associated with both IRS IRA and appropriated funds. Although our proactive fraud capability has only become operational within FY 2024, numerous initiatives are underway which are likely to yield significant results. The Financial Intelligence Group, which was initially staffed at the end of FY 2023, has already secured impactful returns on the investment. Among other accomplishments, this group has recovered more than \$1 billion in stolen IRS-issued Treasury checks during FY 2024.

The Office of Investigations faces significant challenges for the balance of the years before IRA funding sunsets in FY 2031. The Office of Investigations will continue to prioritize the most impactful investigations affecting federal tax administration. The funding the IRS received, however, was vastly disproportionate to TIGTA's overall funding when compared to each agency's annual budget. As a result, the Office of Investigations does not have the resources to provide the traditional amount of investigative oversight in terms of agents and support staff to carry out this work. When compared to an IRS-to-TIGTA Office of Investigations staffing ratio over a 10-year period to establish a normal baseline, the Office of Investigations is more than 40 full-time employees short of providing its traditional level of coverage as of the final month of FY 2024. Current budgetary projections indicate this shortfall will expand to more than 90 full-time employees by the conclusion of FY 2025. These projections did not include massive programs, such as the Direct File initiative, which the IRS will be expanding during FY 2025. Given there is no precedent to gauge the expected increase in complaints and investigations, the Office of Investigations has no metric to create reliable workload projections. This program, however, will almost certainly generate significant numbers of investigations, which could potentially overwhelm the Office of Investigations' ability to provide effective oversight of federal tax administration.