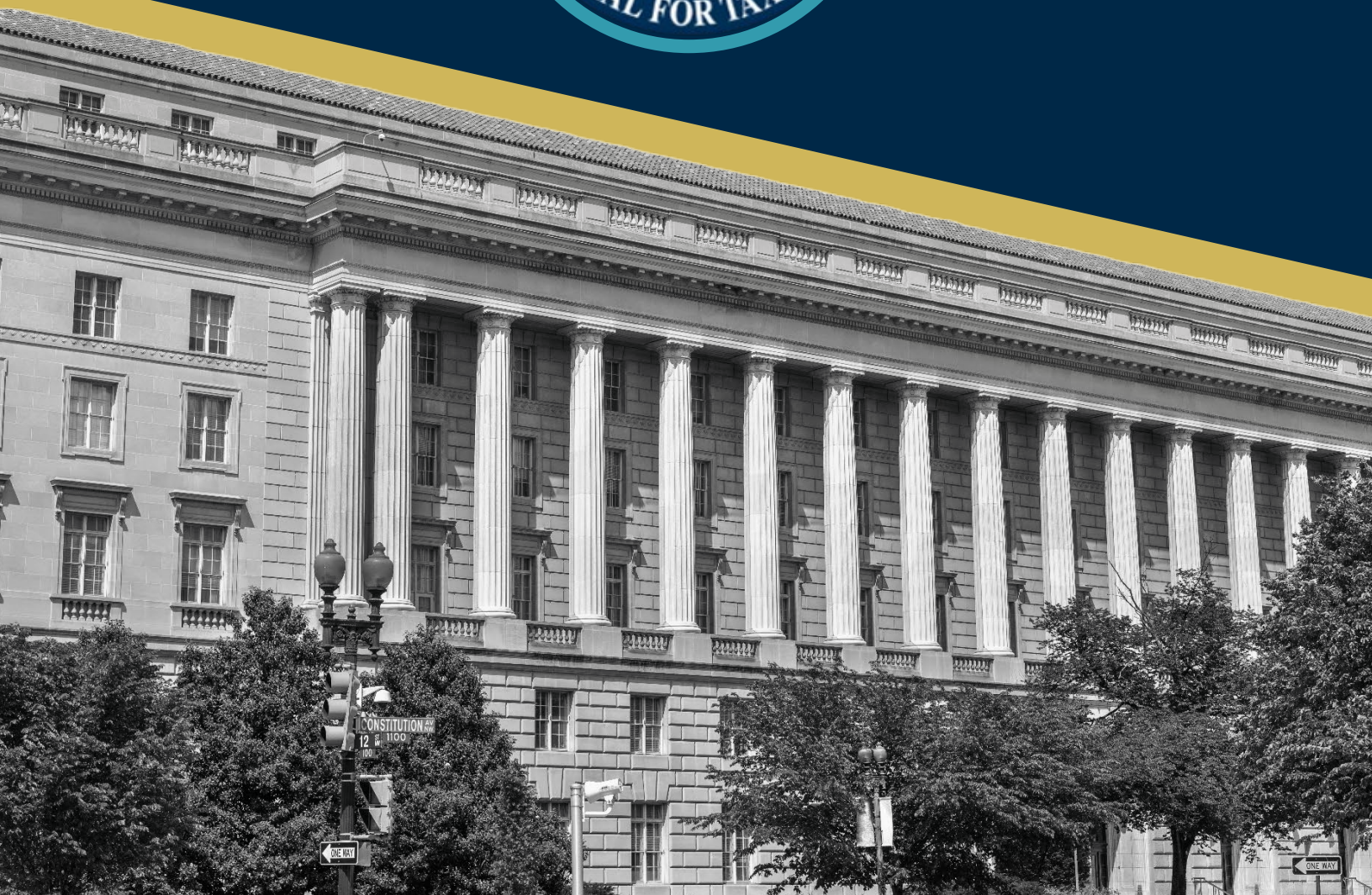
TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION

Major Management Challenges Facing the IRS in 2025



TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

U.S. DEPARTMENT OF THE TREASURY

WASHINGTON, D.C.

October 15, 2024

MEMORANDUM FOR SECRETARY YELLEN

FROM: Heather M. Hill
Acting Inspector General

SUBJECT: Management and Performance Challenges Facing the Internal Revenue Service for Fiscal Year 2025

The Reports Consolidation Act of 2000 requires that the Treasury Inspector General for Tax Administration (TIGTA) summarize, for inclusion in the annual *Department of the Treasury Agency Financial Report*, its perspective on the most serious management and performance challenges confronting the Internal Revenue Service (IRS).

Each year, we evaluate IRS programs, operations, and management functions to identify the most vulnerable areas in the Nation's tax system. The Inflation Reduction Act of 2022 (IRA) significantly impacted the IRS by providing the opportunity and funding to transform all aspects of its operations over the next decade.

The IRS issued a long-term Strategic Operating Plan (SOP) in April 2023 that outlines its vision for the future of tax administration. The first update to the SOP was issued in May 2024 and described the IRS's accomplishments in the past year. Additionally, it included a document that summarized the current work underway and outlined the IRS's plans to make fundamental changes using IRA funding.

However, achieving all the objectives reflected in the SOP will be the main challenge facing the IRS in the future, especially given recent funding cuts. These transformation efforts are a significant undertaking, which impact all other management challenges discussed in this memorandum.

For Fiscal Year (FY) 2025, we have identified the IRS's top management and performance challenges as:

- Managing IRA Transformation Efforts;
- Protection of Taxpayer Data and IRS Resources;
- Tax Law Changes;
- Taxpayer Service;
- Human Capital;
- Information Technology Modernization;
- Tax Compliance and Enforcement;
- Tax Fraud and Improper Payments; and
- Taxpayer Rights.

The following information detailing the management and performance challenges is provided to promote the economy, efficiency, and effectiveness of the IRS's administration of the Nation's tax laws.

MANAGING IRA TRANSFORMATION EFFORTS

What's the challenge?

The IRS has historically struggled to fulfill long-term plans to transform the organization. IRA originally authorized $79.4 billion in supplemental funding for the IRS through September 2031 to help transform tax administration by improving taxpayer service, updating computer systems, and increasing compliance and enforcement actions against high-income taxpayers and large corporations. Congress subsequently rescinded $21.6 billion, leaving $57.8 billion in IRA funding remaining. If funding cuts continue, the IRS will have to make difficult decisions on what to prioritize to improve its operations and how to serve taxpayers.

What progress has the IRS made?

The IRS was required to develop a SOP detailing how IRA resources will be spent over the next decade. The SOP has five objectives that will be accomplished through a series of initiatives and projects.

In May 2024, the IRS published a supplement with additional details in three areas: 1) vision for a transformed IRS, 2) priorities for FYs 2024 and 2025, and 3) budget and staffing. The supplement provides information on the projects and outcomes the IRS expects to deliver over the next 12 to 18 months, including progress on digitalization, efforts to implement an IRS-run free electronic filing tax return system called Direct File, enforcement activities, and efforts to modernize information technology and improve employee tools.

As of June 2024, the IRS spent nearly $7 billion (12 percent) of its IRA funding. IRS officials indicated that $2 billion of the spent funds covered annual appropriation shortfalls for pay

raises, inflationary increases in existing contracts, and other current services. The IRS Commissioner indicated that with no anticipated increase in annual appropriations for FY 2025 to account for inflation, the IRS will once again need to use IRA resources for normal operating expenses. As a result, the IRS will likely use all IRA funds before 2031.

What key recommendations have the IRS implemented?

- As a result of our review of IRS efforts to scan paper-based tax returns into a digital format, the IRS evaluated potential benefits, challenges, and costs to do so.

- As a result of our findings that the IRS was not capturing the total cost of the Direct File pilot, the IRS ensured that the salaries and benefits of IRS employees who were participating in the Direct File Task Force were expensed against the $15 million IRA allocation.[1]

What ongoing work does TIGTA have to address the challenge?

Our IRA Oversight Plan outlines how we will review the IRS's IRA implementation. We continue to provide a quarterly and cumulative snapshot of IRA spending. Additionally, we will assess the IRS's efforts to monitor and measure milestones for operational initiatives and related projects outlined in the SOP, and the impact on transformation efforts should delays occur.

We planned 38 reviews to address this challenge.

Because modernizing IRS information technology underpins all service and enforcement improvements, we plan to provide an overview of the IRS's use of IRA funding for business systems modernization projects from Fiscal Year 2022 through Fiscal Year 2024. Additionally, we will continue to evaluate the IRS's progress to digitize paper-filed tax returns. We will continue to evaluate the Direct File tool.

We also initiated reviews to assess the management oversight of certain IRA contracts, such as those pertaining to information technology. This work will help ensure that IRA contract stakeholders comply with all regulations, policies, and procedures and that information technology projects are not delayed.

[1] Throughout this document, we include recommendations the IRS reported implementing. We have not confirmed their implementation.

PROTECTION OF TAXPAYER DATA AND IRS RESOURCES

What's the challenge?

The IRS accumulates vast amounts of data as it annually processes hundreds of millions of tax returns and other forms. Much of this data is sensitive and stored in different computer systems available to IRS employees and contractors.

Without effective security controls, computer systems are vulnerable to human error or actions committed with malicious intent. For example, the IRS identifies and mitigates more than 1.4 billion cyberattacks annually. TIGTA investigates potentially illicit activity against IRS computer systems, such as individuals using IRS online portals to carry out fraudulent schemes.

In addition, preventing unauthorized access to and disclosure of sensitive taxpayer information continues to be a challenge for the IRS. Our Office of Investigations has conducted an average of 175 of these investigations per year. One involved a former IRS contractor, Charles Littlejohn, who was sentenced to five years in prison in January 2024 for disclosing thousands of tax returns without authorization. Littlejohn accessed and stole tax returns and return information for a high-ranking government official and related entities and individuals and disclosed this information to a news organization. Littlejohn separately stole tax returns and return information associated with thousands of the nation's wealthiest individuals and disclosed this information to a second news organization.

In July 2023, we identified that nearly 92,000 IRS employees and contractors were authorized to access one or more of the 276 computer systems that contain sensitive data. We found 279 users still had access to at least one sensitive system despite no longer being employed by the agency. However, network access was removed for each of these individuals, which reduces the risk that a user can access a sensitive system. We also found that 19 contractors retained access to one or more sensitive systems despite having an unfavorable background investigation.

What progress has the IRS made?

Audit logs are files containing data that show a chronological record of system activities and are invaluable in the detection, investigation, and remediation of cyber threats. These logs provide both TIGTA and the IRS information necessary to detect unauthorized access to IRS systems and data to reconstruct events for potential criminal investigations. The IRS is implementing a tool that will enable it to organize its information technology to identify where the IRS does or does not meet audit log requirements, apply those requirements, and track its progress.

What key recommendations have the IRS implemented?

- Ensured access to sensitive systems was immediately suspended or disabled when contractors were identified as having an unfavorable background determination.
- Developed and implemented a plan to ensure that audit log data is collected from all systems that contain sensitive information, as required.

What ongoing work does TIGTA have to address the challenge?

We planned 19 reviews to address this challenge.

We plan to assess the IRS's processes and procedures it used to alert individual and business taxpayers of the unauthorized disclosures by IRS contractor Charles Littlejohn. We also plan to inspect how taxpayer data is protected at Volunteer Income Tax Assistance sites. We will determine if cloud-computing security controls prevent the loss of sensitive data and assess the IRS's efforts to provide effective governance, management, and oversight of forthcoming artificial intelligence.

TAX LAW CHANGES

What's the challenge?

Annually implementing new tax law changes – especially those enacted shortly before taxpayers begin filing returns – complicates the IRS's processing of tax returns. Tax law changes require the IRS to update computer programming, often in a short timeframe. For example, we reported on the IRS's efforts to implement employer tax credits, such as the Employee Retention Credit (ERC) included in pandemic relief legislation. We found that the IRS did not have enough time to make computer programming changes to identify potentially erroneous or fraudulent claims because the tax return filing season was already underway when the legislation was enacted. In fact, the IRS did not begin processing ERC claims until 12 months after the credit was enacted, due to a lack of updated programming and procedural guidance. As a result, a backlog of ERC claims developed. As of April 2024, the IRS reported 1.4 million ERC claims waiting to be worked.

Changes to tax laws also require the IRS quickly create tax forms, instructions, or new processes. For example, the American Rescue Plan Act gave taxpayers the ability to receive some of their estimated Tax Year 2021 Child Tax Credit in advance. The IRS estimated the advance payments based on prior year tax return information and other information but in some cases, taxpayers did not get the full amount of the credit for which they were eligible.

The IRS also must communicate and provide guidance to taxpayers and tax professionals about tax law changes. For example, the IRA contains 36 tax provisions that affect individual and business taxpayers. One of these provisions is the Corporate Alternative Minimum Tax, which is

a new tax on financial statement income. Given the complexities of this tax law, we found that 118 IRS employees spent more than 21,000 hours on notice publication and taxpayer guidance.

What progress has the IRS made?

The IRS took several actions to implement IRA tax provisions that affected Processing Year 2023. These actions included creating or revising 71 tax products, creating or modifying 78 electronic filing business rules, and developing a communication and outreach plan to educate and inform taxpayers and tax professionals about tax law changes.

The IRS has also made some progress administering the ERC. Because these claims are filed on paper, the IRS developed a process to capture key data to analyze the backlogged inventory. IRS employees manually transcribed data from each ERC claim while the IRS worked on a more efficient and accurate technology solution that allowed for systemic transcription of key data elements. The captured data were analyzed by the IRS's Research, Applied Analytics, and Statistics function to evaluate the potential risk of questionable, invalid, potentially ineligible, or overstated claims. Beginning in February 2024, the IRS exclusively used its technology solution to transcribe ERC claims.

The IRS also updated identity theft filters and identified more than 155,000 tax returns claiming potentially erroneous ERC, preventing $487 million in refunds from being issued during Processing Years 2021 through 2023.

What key recommendations have the IRS implemented?

- During our review of the Advanced Child Tax Credit, we found some taxpayers were eligible but did not receive the credit. In response, the IRS reviewed these cases and took appropriate actions to ensure taxpayers received the correct amount.
- Updated the programming for three business rules used to verify the accuracy of calculations of qualified small business payroll tax credits for the 2024 Filing Season.

What ongoing work does TIGTA have to address the challenge?

We planned 10 reviews to address this challenge.

We are evaluating whether the IRS timely and accurately processed individual paper and electronically filed tax returns during the 2024 Filing Season. We are also conducting reviews of clean vehicle credits, the IRA transferability and elective payment provisions, and the Social Security tax deferral passed as part of pandemic relief legislation.

TAXPAYER SERVICE

What's the challenge?

Every year, millions of taxpayers seek assistance from the IRS via its telephone helplines, Taxpayer Assistance Centers (TAC), IRS.gov, social media platforms, and volunteer tax return preparation sites. As of March 2024, taxpayers made more than 18 million attempts to contact the IRS by calling the various customer service toll-free telephone assistance lines. Additionally, the IRS anticipated assisting about 2 million taxpayers at its TACs in FY 2024.

The IRS acknowledged that it has been unable to meet all demands for taxpayer services. By using IRA funds, the IRS plans to reshape the taxpayer experience, making it easier and more convenient. This includes taxpayers having convenient 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. However, IRA funding for taxpayer services is expected to run out by FY 2026, which could negatively impact any improvements made.

The IRS also surveys taxpayers to identify what it is doing well and areas for improvement to deliver quality service to taxpayers. However, certain IRS functions are generally not using the results of customer satisfaction surveys to make improvements.

What progress has the IRS made?

As of December 2023, the IRS spent nearly $1 billion to hire additional customer service representatives to answer telephone calls and to staff TACs. According to the IRS, this enabled the agency to meet the Secretary of the Treasury's expectations for the 2023 Filing Season by reducing the average wait time to answer a taxpayer's call from 30 minutes to approximately 3 minutes.

With additional staff, the IRS again offered Saturday service at select TACs and expanded hours on certain weekdays at many TAC locations to assist more taxpayers during the 2024 Filing Season.

The IRS improved taxpayer service to underserved, underrepresented, and rural communities. In June 2023, the IRS began offering Community Assistance Visits to aid underserved taxpayers in need of in-person assistance. The IRS partnered with local media outlets to advertise the locations, dates, and the types of services to be offered. During Calendar Year 2023, the IRS offered this service in nine locations.

What key recommendations have the IRS implemented?

- Updated the "IRS Face-to-Face Saturday Help" webpage to improve visibility of events in search results on IRS.gov and external search engines.
- Established processes to continually evaluate the resources available and/or needed to provide quality customer service on all toll-free telephone lines and reduce the number of available lines as needed.

What ongoing work does TIGTA have to address the challenge?

We planned 33 reviews to address this challenge.

We are assessing the accuracy of service and taxpayers' experience during the extended weekday and Saturday hours offered by TACs. Additionally, we are evaluating whether the IRS's toll-free telephone lines are operational, and whether taxpayers can get simple, fast, accessible, and courteous customer service.

We will also assess the effectiveness and efficiency of self-assistance kiosks located at the TACs and the availability and accessibility of customer service options for taxpayers living abroad.

HUMAN CAPITAL

What's the challenge?

The IRS aims to attract, retain, and empower a highly skilled, diverse workforce to deliver results to taxpayers. This includes delivering 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.

The IRA transformation plan allocated $8.2 billion to address workforce needs. These funds will be invested in hiring in tax enforcement, taxpayer service, and information technology.

However, hiring has been difficult. The IRS was granted multiple authorities to expedite hiring and fill job vacancies when a critical hiring need or a severe shortage of candidates exists. However, we found that hiring has been delayed because of workload constraints, miscommunication, security checks exceeding their targeted completion time, and limitations in the IRS's hiring management system. We have also reported that the IRS has an average three-year attrition rate of 8.5 percent which is higher than the average for federal agencies.

What progress has the IRS made?

As of June 2024, the IRS reported that the largest portion of IRA expenditures was for employee compensation totaling approximately $2.8 billion and contractor advisory and assistance services totaling approximately $2.6 billion. Most of the labor costs (approximately $1.3 billion) were to hire more customer service representatives to answer telephone calls and employees to staff the TACs.

The IRS anticipates having 89,727 full-time equivalents in FY 2025, which increases to 102,500 by FY 2029.[2] The planned increase in staffing will be funded from the IRS's annual appropriation and the IRA supplemental funding.

What key recommendations have the IRS implemented?

- Improved communication across business units to share information relative to hiring needs.
- The IRS formalized a new approach to incorporate future workforce needs with human resources strategies, including the identification of mission-critical positions on a recurring basis and the use of special payment incentives to recruit and retain highly skilled non-IT organization employees.

What ongoing work does TIGTA have to address the challenge?

We planned 6 reviews to address this challenge.

We are reviewing the IRS's efforts to implement efficient hiring processes that will fill critical program vacancies. Additionally, we are assessing the IRS's implementation of the IRS University as its primary training resource. We also plan to review the IRS's efforts to attract a talented and diverse workforce and review the IRS's efforts to improve the onboarding process.

INFORMATION TECHNOLOGY MODERNIZATION

What's the challenge?

The modernization of IRS information technology and business systems is essential to fulfilling its mission of providing America's taxpayers with top quality service, helping them understand and meet their tax responsibilities, and enforcing the law with integrity and fairness. However,

[2] A full-time equivalent is a measure of labor hours in which one full-time equivalent is equal to eight hours multiplied by the number of days in a particular fiscal year.

the IRS continues to maintain some of the oldest information technology systems in the federal government.

IRA allocated $4.8 billion to Business Systems Modernization, and as of June 2024, the IRS has spent $1.6 billion. One of the five objectives in the SOP is to deliver cutting-edge technology, data, and analytics to operate more effectively. The SOP outlined 13 related milestones but we found that only seven (54 percent) were completed during FY 2023.

A significant portion of the modernization process involves addressing new and additional security requirements, which add costs and complexity to new systems. Historically, the IRS has had challenges implementing effective security and audit logs when implementing new technologies. Incomplete or ineffective security requirements can create vulnerabilities and make detection of attacks and exploitations more difficult to identify.

Federal agencies can use shared services to address their modernization needs. For example, agencies are required to expand the use of shared services to enable broader use and adoption of cloud computing. Cloud computing is the delivery of computing services – including servers, storage, databases, networking, software, analytics, and intelligence – over the Internet to offer faster innovation, flexible resources, and economies of scale. When an application hosted in the cloud has unidentified internal control deficiencies or unmonitored security weaknesses, it can potentially lead to the disclosure of sensitive data.

We found that the IRS was not maintaining appropriate separation of duties for certain roles related to cloud systems. The agency also did not follow guidance meant to prevent conflicts of interest, increasing the risk of inappropriate actions and errors.

What progress has the IRS made?

The IRS is working to streamline data processes and increase data efficiency, including publishing an initial artificial intelligence powered Enterprise Data Catalog. The Catalog provides a comprehensive view of data assets and should enable data sets to be standardized so they can be used for efficient discovery, understanding, and lineage tracking.

In addition, several significant data assets were added to the IRS's Enterprise Data Platform. This new platform delivers universal data access for users and systems at the enterprise level, as well as provides an analytics platform for users.

What key recommendations have the IRS implemented?

- We found that the IRS's cloud application inventory reporting was decentralized, which the IRS has since centralized to improve accuracy.

- Ensured that all applications operating in the cloud obtained approval of the governance board.[3]

What ongoing work does TIGTA have to address the challenge?

We planned 14 reviews to address this challenge.

The SOP calls for a standard case management platform that will be more technologically efficient and improve the IRS's ability to resolve taxpayer issues. The IRS's Enterprise Case Management program intends to deliver such technology, and we are currently assessing efforts to migrate dozens of legacy case management systems to the Enterprise Case Management platform and decommission legacy systems.

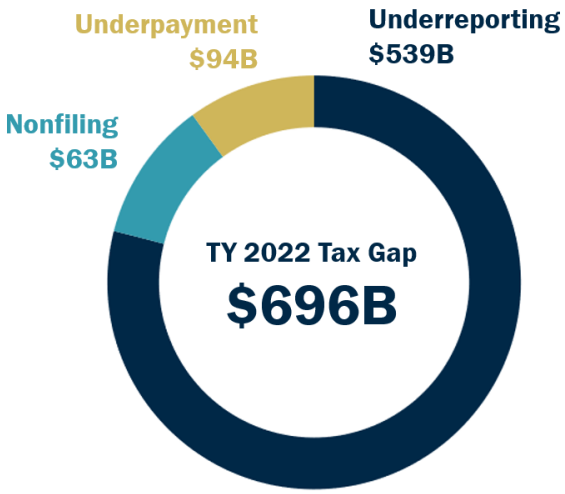
Additionally, we have on-going and planned work in other information technology areas, such as determining whether the IRS effectively and efficiently processes information technology incident tickets and evaluating efforts to modernize the Business Master File (the information technology system storing business tax return data).

TAX COMPLIANCE AND ENFORCEMENT

What's the challenge?

One of the IRS's key responsibilities is to ensure taxpayer compliance with the Internal Revenue Code. This is important because small declines in compliance:

- cost the country billions of dollars in lost revenue; and
- shift the tax burden from those who do not pay their taxes to those who pay their taxes on time every year.



The difference between the estimated amount of tax legally owed by taxpayers and the amount they voluntarily and timely pay is known as the Tax Gap. The IRS noted that the rising complexity of tax administration and sophisticated tax evasion schemes have outpaced the IRS's ability to close the Tax Gap.

[3] A governance board ensures that goals are achieved and that projects are within their defined scope, schedule, and budget. In addition, a governance board approves risk response plans and milestone exits and resolves escalated issues.

The IRS has expanded enforcement on taxpayers with complex tax filings and high-dollar noncompliance. The agency also intends to increase its focus on taxpayers with complex issues and complex returns where audit rates are low, such as those related to large partnerships, large corporations, and high income and high-wealth individuals.

Certain tax credits can be challenging for the IRS to administer. For example, unscrupulous individuals have been known to file fraudulent tax returns claiming improper Fuel Tax Credits (FTC)[4] to reduce taxes or receive improper refunds. In fact, the IRS regularly identifies the FTC on its annual "Dirty Dozen" list of the worst tax scams.

What progress has the IRS made?

The IRS is taking swift and aggressive action to improve tax compliance in areas where the agency did not have adequate resources prior to IRA funding. In late 2023, the IRS launched a new initiative to collect revenue from 1,600 taxpayers with more than $1 million in income that owed more than $250,000 in taxes. In September 2024, the IRS reported that this initiative recovered $1.1 billion from nearly 80 percent of these taxpayers.

We reported that the IRS is using data analytics to help select and expand its audit coverage of large corporations by starting an additional 60 audits of the largest corporate taxpayers. Additionally, the IRS has initiated a compliance effort focusing on large corporations with foreign entities that have patterns that could indicate an improper use of transfer pricing to avoid reporting U.S. profits. The IRS noted that transfer pricing audits often result in significant proposed adjustments to taxes owed. From October 2017 through July 2023, the average adjustment for transfer pricing was $219 million.

Additionally, IRS Criminal Investigation has taken advantage of analytics tools to address virtual currency noncompliance. During Fiscal Years 2018 to 2023, it investigated 390 cases involving virtual currency and completed 224 cases where it recommended prosecution.

What key recommendations have the IRS implemented?

- Established a process to use Tax Gap data annually to identify opportunities to better align resources that more effectively narrow the net Tax Gap.
- Ensured that the FTC examination workplan addresses questionable higher dollar FTC claims without a business purpose.

[4] The FTC is a tax credit that may be claimed for various nontaxable uses of fuel, including farming and off-highway business use.

What ongoing work does TIGTA have to address the challenge?

We planned 36 reviews to address this challenge.

The Secretary of the Treasury stated that any additional resources provided by IRA "shall not be used to increase the share of small businesses or households below a $400,000 threshold that are audited relative to historical levels." Consequently, the IRS Commissioner highlighted plans to rebalance its enforcement activities and modify its Earned Income Tax Credit (EITC) audit selection process (a tax credit intended for lower-income taxpayers). We will review the IRS's examination plan and the changes to EITC case selection processes to ensure they are fair and equitable and to assess compliance with the Secretary of Treasury's directive.

Additionally, we will assess the processes for the safeguarding and disposition of digital assets seized by IRS Criminal Investigation as well as for identifying and recovering fraudulent ERC payments after they complete IRS processing.

TAX FRAUD AND IMPROPER PAYMENTS

What's the challenge?

One of the IRS's objectives in its SOP is to help taxpayers meet their obligations and receive the tax incentives for which they are eligible with fewer inadvertent errors and improper payments. An improper payment is any payment that should not have been made, was made in an incorrect amount, or was made to an ineligible recipient. The IRS estimates billions of dollars in fraudulent or improper payments are made each year. For example, in FY 2023, the IRS reported estimated improper payments associated with its four high-priority programs susceptible to improper payments as:

- EITC - $21.9 billion
- American Opportunity Tax Credit - $1.7 billion
- Net Premium Tax Credit - $1 billion
- Additional Child Tax Credit - $500 million

What progress has the IRS made?

The IRS continues to increase the number of fraudulent tax returns detected and stopped. As of February 2024, the IRS reported that it identified more than 32,600 tax returns with approximately $273 million claimed in fraudulent refunds and prevented the issuance of nearly $263 million (96 percent) of those refunds.

For the 2024 Filing Season, the IRS is using 282 filters to detect potential identity theft tax returns and prevent the issuance of fraudulent refunds. Tax returns identified by these filters are held during processing until the IRS can verify the taxpayer's identity. As of February 2024, the IRS reported that it identified nearly 2 million tax returns with refunds totaling approximately $16.5 billion for additional review using the identity theft filters. As of that same date, the IRS confirmed more than 15,000 tax returns as fraudulent and prevented the issuance of $180.5 million in fraudulent refunds.

What key recommendations have the IRS implemented?

- Implemented procedures to assess the frivolous filing penalty to deter improper FTC claims without a business purpose.
- We previously identified more than 3,500 returns with potentially erroneous Child and Dependent Care Credits totaling $6.8 million because they had obviously invalid Taxpayer Identification Numbers for the care providers. The IRS updated its programming to identify taxpayers who reported an invalid care provider Taxpayer Identification Number when claiming this credit.

What ongoing work does TIGTA have to address the challenge?

We planned 36 reviews to address this challenge.

Our Cybercrime Investigations Division found that Employer Identification Numbers are being used in various financial-related crimes. Therefore, we are assessing how the IRS is processing applications for Employer Identification Numbers to prevent their use for potentially invalid or fraudulent purposes.

We plan to determine the effectiveness of IRS programs designed to resolve suspected individual identity theft cases, evaluate continued efforts to detect and prevent business identity theft, and assess efforts to detect and prevent tax refund fraud related to Schedule C, *Profit or Loss from Business*.

TAXPAYER RIGHTS

What's the challenge?

As the IRS seeks to transform its operations and interactions with taxpayers, it must ensure that all taxpayers are treated equitably. Additionally, as the IRS plans to increase compliance efforts, it must protect the rights of taxpayers and promote tax fairness. For example, as the IRS changes how it selects returns and identifies issues for examination, including integrating artificial intelligence into case selection, it must consider the potential for disparate treatment of taxpayers.

The IRS continues to dedicate resources to comply with the taxpayer rights provisions of the IRS Restructuring and Reform Act of 1998, which include the right for taxpayers to be properly notified before certain enforcement actions occur (like a lien or a levy).

What progress has the IRS made?

We found the IRS was compliant with the legal requirements to provide notice to taxpayers of their right to decline to extend the assessment statute of limitations or to request that any extension be limited to a specific timeframe or to specific issues. In addition, we determined that the IRS redacted certain taxpayer information when responding to Freedom of Information Act requests in 99 percent of the requests we reviewed, an improvement from the prior year.

What key recommendations have the IRS implemented?

- Communicated to employees the need to maintain documentation that taxpayers and/or their representatives are properly advised of their rights when requesting certain extensions.
- Identified certain accounts where overpayments were being held because of Failure to File penalties and released the overpayments where warranted.

What ongoing work does TIGTA have to address the challenge?

Each year, we complete statutorily mandated reviews involving computer security, taxpayer rights, and privacy issues. This includes evaluating whether the following actions were done in compliance with the Internal Revenue Code, Treasury Regulations, or IRS procedures: liens, seizures, and direct contact of taxpayers and their representatives.

We planned 11 reviews to address this challenge.

Conclusion

This memorandum is provided as our annual summary of the most serious major management and performance challenges confronting the IRS in FY 2025. TIGTA's Fiscal Year 2025 Annual Audit Plan and Fiscal Year 2025 Inspections and Evaluations Program Plan contain our proposed reviews.

cc: Deputy Secretary of the Treasury
Assistant Secretary for Management
Deputy Chief Financial Officer
Commissioner of Internal Revenue

Appendix: Significant TIGTA Reports Referenced

TIGTA, Report No. 2024-308-306, *Review of the Corporate Alternative Minimum Tax Implementation Identified Weaknesses in the Pre-Rulemaking Process* (Sept. 2024).

TIGTA, Report No. 2024-2S8-055, *Progress of Information Technology Modernization Efforts* (Sept. 2024).

TIGTA, Report No. 2024-100-053, *Customer Satisfaction Survey Results Are Not Used Effectively to Improve Taxpayer Services* (Sept. 2024).

TIGTA, Report No. 2024-300-037, *Fiscal Year 2024 Statutory Review of Compliance With Notice of Federal Tax Lien Filing Collection Due Process Procedures* (Aug. 2024).

TIGTA, Report No. 2024-400-045, *Large Multinational Corporations Benefit From the Complexity of Tax Laws* (Aug. 2024).

TIGTA, Report No. 2024-300-030, *Virtual Currency Tax Compliance Enforcement Can Be Improved* (July 2024).

TIGTA, Report No. 2024-100-022, *Taxpayer Assistance Centers Generally Provided Quality Service, but Additional Actions Are Needed to Reduce Taxpayer Burden* (May 2024).

TIGTA, Report No. 2024-IE-R020, *Quarterly Snapshot: The IRS's Inflation Reduction Act Spending Through June 30, 2024* (Sept. 2024).

TIGTA, Report No. 2024-408-024, *Interim Results of the 2024 Filing Season* (Apr. 2024).

TIGTA, Report No. 2024-IE-R008, *Assessment of Processes to Grant Access to Sensitive Systems and to Safeguard Federal Tax Information* (Feb. 2024).

TIGTA, Report No. 2024-300-001, *The Innocent Spouse Program Needs Improved Guidance for Employees and Increased Communication With Taxpayers* (Oct. 2023).

TIGTA, Report No. 2024-200-005, *The IRS Has Improved Audit Trail Collection; However, Not All Audit Trail Data Are Being Collected and User Account Controls Need Improvement* (Oct. 2023).

TIGTA, Report No. 2021-46-043, *Implementation of Tax Year 2020 Employer Tax Credits Enacted in Response to the COVID-19 Pandemic* (July 2021).

TIGTA Report No. 2024-400-068, *Management Took Actions to Address Erroneous Employee Retention Credit Claims; However, Some Questionable Claims Still Need to be Addressed* (Sept. 2024).