

# TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION



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

January 12, 2023

Report Number: 2023-IE-R003

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

Final Report issued on January 12, 2023

Report Number 2023-IE-R003

## Why TIGTA Did This Study

On August 16, 2022, the President signed into law the Inflation Reduction Act of 2022 (IRA), which included 38 provisions affecting the IRS, including clean energy tax credits that are administered by the IRS and affect individual, small business, and corporate taxpayers.

TIGTA initiated this review to assess the IRS's development of processes and procedures to monitor, measure, and track implementation efforts of all IRA tax-related provisions.

## Impact on Tax Administration

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

The Secretary of the Treasury requires the IRS to produce an Operational Plan by February 17, 2023. The Plan is to include details on how resources will be spent over the next decade on technology, service improvement, and personnel. This Plan is key to ensuring that the public and Congress are able to hold the IRS accountable as it pursues needed improvements. To that end, the Plan must include metrics for areas of focus and targets over the course of the coming years that the agency will strive to achieve.

## What TIGTA Found

After enactment, the IRS immediately began the difficult and large-scale task of implementing IRA legislation. For example, the IRS created the IRA Transformation and Implementation Program Office (Program Office), which is responsible for strategically coordinating agencywide activities to develop the Operational Plan. The Program Office is also responsible for engaging with IRS personnel and Department of the Treasury stakeholders, monitoring the implementation of IRA tax provisions, and coordinating the organizational transformation efforts the IRS plans to undertake over the next decade. Finally, the Program Office is also working closely with the Office of the Chief Financial Officer regarding the tracking and accountability over IRA appropriation funding.

The IRS estimates the tax law provisions impacting the 2023 Filing Season will require creating or revising 24 tax forms, 29 tax form instructions, and three publications before the start of the filing season. In addition, the IRS will have to modify 20 information technology systems to accommodate the new and revised tax forms.

In addition to the above, the Secretary of the Treasury outlined expectations for the IRS for the upcoming 2023 Filing Season in an effort to ensure that taxpayers will see real changes. The filing season improvements include:

- Staffing each of the IRS's 361 Taxpayer Assistance Centers.
- Improving the level of telephone service from approximately 15 percent to 85 percent and reducing average wait time from nearly 30 minutes to 15 minutes.
- Automating the scanning of millions of individual paper tax returns.
- Providing taxpayers the ability to receive and respond to notices online.

Actions are being taken in an effort to meet these expectations.

## What TIGTA Recommended

This report represents the first in a series of our review of the IRS's corporate efforts to transform IRS operations to improve tax administration. This report was prepared to provide information only. Therefore, no recommendations were made in the report.



TREASURY INSPECTOR GENERAL  
FOR TAX ADMINISTRATION

**U.S. DEPARTMENT OF THE TREASURY**

**WASHINGTON, D.C. 20024**

January 12, 2023

**MEMORANDUM FOR:** ACTING COMMISSIONER OF INTERNAL REVENUE

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

**SUBJECT:** Final Report – Inflation Reduction Act: Assessment of the Internal Revenue Service Implementation Efforts (IE-22-017-I)

This report presents the results of our evaluation to assess the Internal Revenue Service's (IRS) standup of the Inflation Reduction Act Transformation and Implementation Office as well as its development processes and procedures to monitor, measure, and track implementation efforts. This review is part of our Fiscal Year 2023 Annual Program Plan and addresses the major management and performance challenges of *Administering Tax Law Changes* and *Improving Taxpayer Service*.

This report represents the first in a series of our review of the IRS's corporate efforts to transform IRS operations to improve tax administration. This report was prepared to provide information only. Therefore, no recommendations were made in the report.

Copies of this report are also being sent to the IRS managers affected by the report information. If you have any questions, please contact me or Nancy LaManna, Assistant Inspector General for Audit.

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## **Background**

On August 16, 2022, the President signed the Inflation Reduction Act of 2022 (IRA)<sup>1</sup> into law, marking one of the largest investments in clean energy in U.S. history. 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. In addition, the legislation authorizes almost \$80 billion through September 30, 2031, to the Internal Revenue Service (IRS) 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. Specifically, the IRA provides the IRS approximately:

- \$45.6 billion for Tax Enforcement Activities to determine and collect taxes owed, and to monitor and enforce taxes on digital assets such as cryptocurrency.
- \$25.3 billion for Operations Support to cover routine costs such as rent, facilities services, security, telecommunications, and information technology.
- \$4.8 billion for Business Systems Modernization that can be invested in customer service technology, such as an automated callback system for telephone lines.<sup>2</sup>
- \$3.2 billion for Taxpayer Service for services such as filing and account services, pre-filing assistance, and education.

In addition, the IRS also received \$15 million to fund a task force to study the cost and feasibility of creating a free direct e-file system. The funding for this task force remains available until September 30, 2023.

### **The Secretary of the Treasury requires the IRS to develop an Operational Plan**

In response to the passage of the IRA, the Secretary of the Treasury (Secretary) requires the IRS to produce an Operational Plan by February 17, 2023, detailing how IRA funding will be used over the course of the next decade. The Secretary wants the IRS to work closely with the Deputy Secretary of the Treasury to identify specific operational initiatives and associated timelines that will improve taxpayer service, modernize technology, and increase equity in tax administration by pursuing tax evasion by those who do not pay their taxes owed.

In addition, the Plan is to include details on how resources will be spent over the next 10 years on technology, service improvement, and IRS personnel. This Plan is the key to ensuring that the public and Congress are able to hold the IRS accountable as it pursues needed improvements. To that end, the Plan must include metrics for areas of focus and time frames over the course of the coming years that the agency will strive to achieve.

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<sup>1</sup> Public Law No. 117-169, 136 Stat. 1818.

<sup>2</sup> The funding for Business Systems Modernization does not include operation and maintenance of legacy systems.

## **An extensive communication strategy is being deployed to educate IRS employees**

IRS management indicated that in an effort to garner employee support for the upcoming organizational changes, the IRS is deploying a multiphase communication strategy to educate employees about its IRA efforts. This includes how the changes will benefit the agency, employees, taxpayers, and other stakeholders. For example, IRS management noted that:

- Phase I of its communication strategy included the issuance of 30 messages, from August through October 2022, to provide employees with a general awareness of the IRA legislation, how the IRS will oversee the implementation of this legislation as well as actions to be taken to make immediate short-term improvements for both employees and taxpayers.
- Phase 2 of the communication strategy will take place from November 2022 to March 2023 with the goal of continuing to educate employees of the IRS's transformational goals and progress made by its cross-functional teams. The IRS will also expand its outreach efforts to include taxpayers and stakeholders. For example, the IRS plans to hold various stakeholder engagement roundtables.

This report represents the first in a series of our assessments of the IRS's corporate efforts to transform IRS operations to improve tax administration.

## **Results of Review**

In our discussions with senior IRS leadership, they noted that the vision for the IRS's transformation efforts is guided by the IRS's mission, which is to provide taxpayers top quality service by helping them understand and meet their tax responsibilities and enforce the law with integrity and fairness to all. Specifically, IRS leadership wants to use IRA funding to strengthen its ability to deliver on this mission while also aspiring to achieve improved levels of service and compliance through transformation. This includes implementing a new customer-centric operating model that seamlessly integrates service and compliance to serve all taxpayers equitably and in the way they want to be served.

To develop the Secretary's required Operational Plan, the IRS established a multifaceted governance structure that includes the creation of a Steering Committee as well as the IRA Transformation and Implementation Program Office (Program Office). The Steering Committee is comprised of senior leadership from the IRS and the Department of the Treasury (Treasury Department), and is responsible for coordinating transformation efforts with the Deputy Secretary of the Treasury and the IRS Commissioner.<sup>3</sup> The Steering Committee meets weekly to make decisions, ensure that priorities are aligned, and remove any roadblocks that may be hampering progress in developing the IRS's Operational Plan.

The Program Office is responsible for strategically coordinating agencywide activities to develop the Operational Plan. The Program Office is also responsible for engaging with IRS personnel and Treasury Department stakeholders, monitoring the implementation of IRA tax provisions, and coordinating the organizational transformation efforts the IRS plans to undertake over the

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<sup>3</sup> Charles Rettig's term as IRS Commissioner ended on November 11, 2022. Douglas O'Donnell is currently serving as the Acting IRS Commissioner.

next decade. Finally, the Program Office also works closely with the Office of the Chief Financial Officer regarding the tracking and accountability over IRA appropriation funding.

## **Actions Are Being Taken to Develop the Required Operational Plan, Track Funding, Implement Tax Law Provisions, and Establish an Ongoing Governance Structure**

Recognizing that leveraging prior efforts to study and recommend improvements to the IRS is valuable, one of the initial actions the Program Office initiated was an agencywide outreach effort. The focus of this outreach effort was to identify prior initiatives, studies, and strategies to determine how this existing and ongoing work could be incorporated as part of the Operational Plan development. Some of the prior work products identified include the *Taxpayer Experience Strategy Roadmap 2021*, *Office of Online Services: 3-Year Strategic Engagement Model*, *IRS Digitalization Strategy Refresh 2022*, as well as those efforts undertaken to address provisions in the *Taxpayer First Act*.<sup>4</sup> One of the primary uses of this prior information was to identify and include in its Operational Plan initiatives that have already been started and can be completed quickly now that the IRS has funding available.

To assist in developing the Operational Plan, the Program Office established four integrated workstreams comprised of cross-functional program management. These workstreams are the:

- Compliance Workstream. This workstream focuses on how the IRS interacts with taxpayers to transform the taxpayer experience including how the IRS approaches audits, collection, and assisting taxpayers to understand their tax obligations.
- Human Capital Workstream. This workstream focuses on the recruiting, hiring, and training of new employees and also the overall employee experience so the IRS can retain its skilled employees.
- Information Technology Workstream. This workstream focuses on what the Information Technology organization needs to do to deliver on the initiatives being developed in the other workstreams. In addition, the focus is on what the IRS needs to do to modernize its computer systems, expand the IRS network to keep pace with increasing bandwidth, and ensure that the computer systems are secure.
- Services Workstream. This workstream focuses on taxpayers in a broad sense (*i.e.*, individuals, businesses, practitioners, *etc.*), concentrating on their journeys through the IRS and the best way to provide taxpayer services. The goal is to design an IRS that meets taxpayers' needs including ensuring that IRS employees have the necessary tools to perform their job and have access to the taxpayers' history so they can better address taxpayers concerns on the first contact.

Each of the above workstreams uses an accelerated four-step approach to identify initiatives to be included in the Operational Plan. The four-step approach includes building a fact base (*i.e.*, evaluating what work has been previously completed as well as areas for improvement), setting the objectives, assembling the plan, and finally reviewing and refining the individual workstreams' plan. In addition to regularly meeting with representatives from the workstreams,

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<sup>4</sup> Pub. L. No. 116-25, 133 Stat. 99 (codified in scattered sections of 26 U.S.C.).

the Program Office has held four Integration Summits with the workstreams. The purpose of these Integration Summits was to:

- Identify interdependencies between the Treasury Department, the IRS, and each workstream.
- Align with other current strategic plans (*e.g.*, Information Technology modernization strategy).
- Focus Treasury Department and IRS leadership attention on priority areas, issue identification, and resolution.

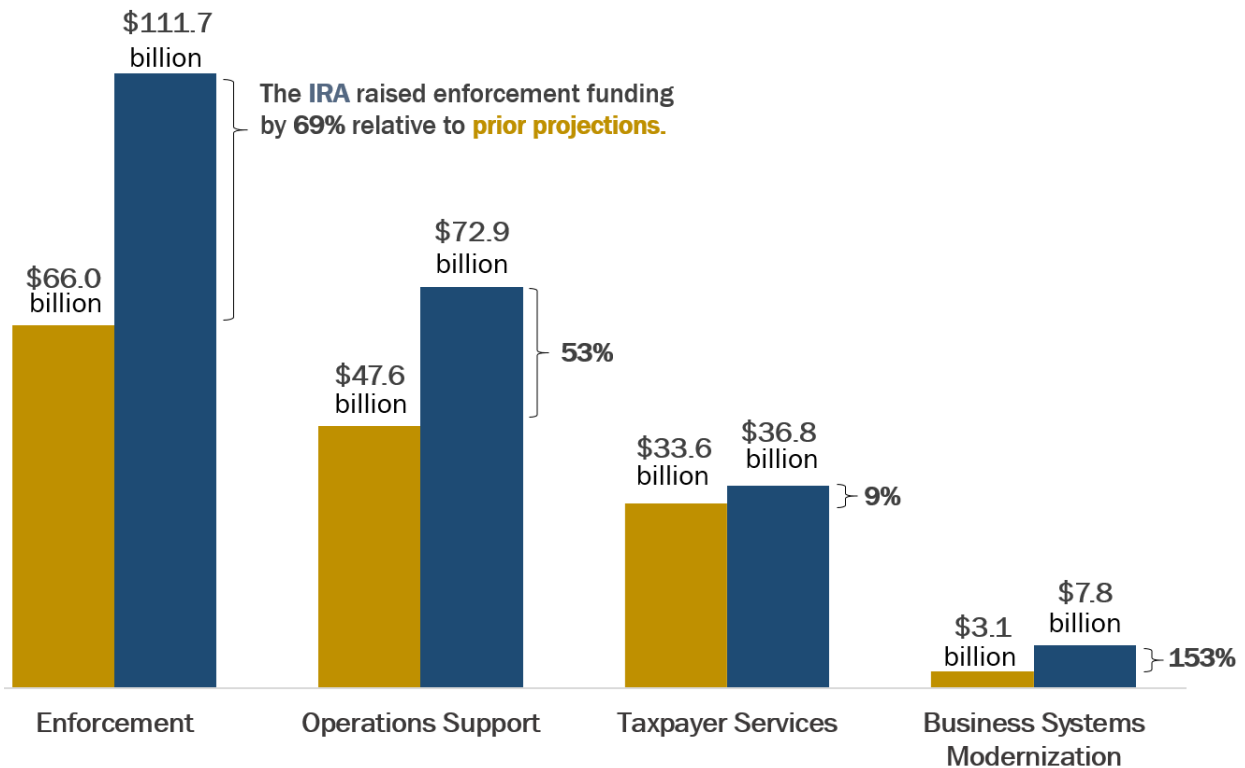
In our discussions with Program Office management, they noted that in a relatively short period of time, the workstreams have collaborated to identify initiatives that can bring immediate enhancements to the IRS as well as initiatives that will require longer, more coordinated efforts to implement. Based on these efforts, the Program Office noted that it is on track to deliver the Operational Plan by February 17, 2023, as requested by the Secretary. Project Office management noted that this plan will outline the IRS's efforts to transform the agency and allow the IRS to prioritize improvements as it moves forward.

### **The IRS developed a series of fund codes to track IRA funding/spending**

As mentioned previously, IRA legislation provides the IRS with almost \$80 billion over the next 10 years. The law intended that this increase in funding supplement, not replace, the IRS's normal annual appropriations. Figure 1 highlights how IRA funding is to be used to supplement the prior estimated budget projections for the IRS's four appropriation areas.



**Figure 1: The IRS’s Budget Authority Through Fiscal Year (FY) 2031 Under the IRA**



Source: Congressional Research Service report, *IRS-Related Funding in the Inflation Reduction Act*, updated October 20, 2022. Note: The prior projections is for FY 2022 through FY 2031 and assumes there is no change in base appropriation.

To assist in monitoring the use of IRA funds, the IRS will follow established procedures for tracking its appropriations and spending. For example, the IRS created a series of fund codes to track IRA funding and spending. The fund codes are how the IRS tracks the source of funds in the IRS’s Integrated Financial System.<sup>5</sup> The IRS will report on IRA spending based on these fund codes and use the same budget activity structure it uses to report on its discretionary spending. Those activities include:

- Business systems modernization.
- Examinations and collections.
- Filing and account services.
- Infrastructure.
- Information services.

<sup>5</sup> The Integrated Financial System contains the IRS’s core financial systems, including expenditure controls, accounts payable, accounts receivable, general ledger, and budget formulation. The system includes a managerial cost accounting capability that enables the IRS to make informed and timely performance-based business and budgetary decisions.

- Investigations.
- Pre-filing taxpayer assistance and education.
- Regulatory.
- Shared services and support.

According to IRS officials, IRA legislation does not allow any transfers between the various budget authorities. For instance, funds cannot be moved from Enforcement to Taxpayer Service. As the IRS rolls out the various projects and initiatives, it will track the funds by the activities detailed previously. However, the IRS does not plan to segregate individual hiring actions as being from the IRA or its regular appropriation; the tracking relating to these individuals will be by the job activities they perform.

IRS officials noted that they are currently developing the FY 2023 IRA spend plan, but will not finalize this plan until after the FY 2023 appropriation has been received. Additionally, the IRS is coordinating with the Treasury Department and the Office of Management and Budget on the parameters for developing regular reporting on IRA spending. These reporting requirements are expected to be finalized later in FY 2023.

### Implementation of legislative provisions

Once the IRA was enacted, the IRS used several well-established processes to immediately begin the difficult and large-scale task of tracking and implementing the 36 IRA provisions relating to tax administration and the two provisions relating to IRA funding. The IRA provisions include numerous new and expanded energy credits for homeowners, businesses, vehicles, fuel, manufacturing, *etc.*<sup>6</sup> 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. Finally, the legislation also increases the amount allowed for certain small business credits.

IRS officials currently estimate that implementation of just those IRA tax provisions that will affect the 2023 Filing Season will require creating or revising 24 tax forms as well as the creation or updating of 29 tax form instructions and three publications. The IRS will also need to modify 20 information technology systems (for tax return processing and compliance activities) to ensure that they can accommodate the new and revised tax forms. According to IRS officials, they are on target to timely implement all provisions impacting the 2023 Filing Season and do not anticipate any adverse impact to the filing season.<sup>7</sup>

Because the implementation of tax law changes is an iterative process, with some provisions not becoming effective until later, the IRS plans to work future updates into its normal development cycle, where applicable. These changes will be staged for implementation in future filing seasons.

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<sup>6</sup> See Appendix II for a list of these tax provisions.

<sup>7</sup> The Treasury Inspector General for Tax Administration's (TIGTA) Office of Audit has initiated a separate review to evaluate and assess the IRS's actions to implement the tax provisions of the IRA. This review will evaluate the provisions affecting individuals and businesses beginning in Processing Year 2023 (Audit #202340826 – *Implementation of the Tax Provisions of the Inflation Reduction Act of 2022*).

## **Development of ongoing governance structure**

While the IRS established an organizational and governance structure for the development of its required Operational Plan, the long-term structure to oversee its implementation is still being determined. IRS officials noted that a number of factors need to be evaluated and determined, and it would be more beneficial to wait to finalize the governance structure when there is a better understanding of the work that needs to be done to implement the Operational Plan. For example, IRS officials noted they will need to determine if an agencywide governance structure can be integrated throughout all IRS operations in an effort to ensure that there are not separate efforts underway that are inconsistent with the direction of the Operational Plan. The IRS will need to balance agencywide guidance as opposed to individual governance coming from the business units. The IRS's goal is to have a rough proposal of the governance structure by the end of 2022, so they will be ready to implement the Operational Plan when it is delivered in February 2023.

## **Status of Efforts to Meet the Secretary of the Treasury's Pledge to Improve the Upcoming 2023 Filing Season**

In a speech to IRS employees on September 15, 2022, the Secretary detailed how the IRA finally provides the funding to transform the IRS into a 21st century agency. The Secretary also outlined expectations of the IRS for the upcoming 2023 Filing Season in an effort to ensure that taxpayers will see that real changes are being made. These improvements include:

- Staffing to full capacity each of the IRS's 361 Taxpayer Assistance Centers (TAC).<sup>8</sup> The additional staffing is expected to triple the number of taxpayers that can receive face-to-face assistance from 900,000 during the 2022 Filing Season to a projected 2.7 million for the 2023 Filing Season.
- Improving the level of telephone service from approximately 15 percent to 85 percent<sup>9</sup> and reducing the average wait time from nearly 30 minutes to 15 minutes. These improvements are going to be achieved by hiring 5,000 additional customer service representatives.
- Automating the scanning of millions of individual paper tax returns in an effort to expedite the processing of tax returns and issuance of refunds faster.
- Providing taxpayers the ability to receive and respond to notices online.

The Secretary also noted that IRA funding will go towards auditing more high-income taxpayers who are responsible for a disproportionate share of unpaid taxes. The increase in these types of audits is estimated to raise hundreds of billions of dollars in revenue over the 10 years the IRS is receiving IRA funding. However, the Secretary noted that the increase in enforcement resources will not result in households or small businesses making under \$400,000 a year seeing an increase in the chances they are audited relative to historical levels.

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<sup>8</sup> An IRS office with employees who answer questions, provide assistance, and resolve account-related issues for taxpayers in a face-to-face setting.

<sup>9</sup> A primary measure of service to taxpayers. It is the relative success rate of taxpayers who call for live assistance on the IRS toll-free telephone lines.

## **Addressing backlog of tax returns and other types of tax account work**

On March 10, 2022, the IRS Commissioner announced several initiatives it planned to undertake as part of addressing the continued backlog of tax returns and other tax account work. These initiatives were intended to return the IRS to “healthy inventory levels” by the end of Calendar Year (CY) 2022. It should be noted that the IRS defines “healthy” inventory levels as pre-pandemic inventory levels. These initiatives include hiring and reassigning thousands of employees to work on the backlog, increasing assistance to taxpayers to help reduce tax return errors and related processing delays, and developing and deploying updated technology to automate functions.

In the August 2022 Secretary of the Treasury memorandum to the IRS Commissioner, the Secretary noted that the IRS must fully resolve the inventory backlog. As such, the Secretary approved the use of IRA funds. IRS officials indicated that as of November 15, 2022, IRA funds have not been expended to resolve the inventory backlog; rather, other resources have been used including the annual appropriation and American Rescue Plan Act<sup>10</sup> funds. However, by mid-December 2022, the IRS expects to use IRA funding to address the inventory backlog as annual funding under the FY 2023 continuing resolution and other multiyear resources for labor costs will be depleted.

As of December 2, 2022, there were over 3.7 million individual and business paper returns waiting to be processed. This is higher than the IRS goal of 1.2 million (pre-pandemic level). Similarly, Accounts Management cases awaiting processing were approximately 5 million cases as of December 3, 2022, in comparison to the IRS goal of 1.1 million cases (pre-pandemic level).

## **Staffing the TACs**

In a message to IRS employees, the Secretary noted that it is critical that all Americans, especially those in the working and middle class, can get tax help at an in-person location when they require this type of assistance. As of November 17, 2022, the IRS has a total of 361 TACs of which 35 of them are closed. Of the 35 closed TACs, 20 were closed due to a lack of available staffing, and 15 were closed temporarily because the assigned employees were on a long-term absence due to illness, military assignment, or other circumstances. In addition, there were another 270 TACs that were not fully staffed. IRS officials indicated that they are looking to hire 700 employees to staff their TACs.<sup>11</sup> In an effort to hire the needed individuals, the IRS held a virtual information session on November 17, 2022, for potential new hires to learn more about the position. One challenge the IRS will face is the time frame of the hiring process, which an IRS official noted on the virtual session can take up to four months. At the time the job announcements were posted, the IRS did not have direct hire authority for these positions, which could have shortened that time period.<sup>12</sup>

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<sup>10</sup> Pub. L. 117-2, 135 Stat. 4 (2021).

<sup>11</sup> See Appendix III for a list of closed and not fully staffed TACs.

<sup>12</sup> TIGTA's Office of Audit has initiated a review to assess the quality of service provided to taxpayers requesting assistance at the TACs (Audit #202210036 – *Taxpayer Assistance Centers – Quality of Taxpayer Assistance*).

## **Increasing level of service and reducing average wait time**

The IRS Commissioner announced on October 27, 2022, that in preparation for the 2023 Filing Season, the agency had passed a milestone of hiring 4,000 new customer service representatives. The Commissioner noted that these assistants had been hired over the previous several months and are being trained to provide help to taxpayers, including answering telephones and addressing taxpayer questions. The Commissioner stated that these individuals were in various stages in the hiring process and will receive weeks of training to gain the knowledge and skills necessary to help improve customer service. The training they will receive cover a wide range of topics including technical account management issues and understanding and respecting taxpayer rights. The Commissioner indicated that the IRS's goal is to add another 1,000 customer service representatives by the end of CY 2022, bringing the total new hires in this area to 5,000.

As the Commissioner noted, the IRS has been diligently working to hire 5,000 new customer service representatives. Approximately two weeks after the Commissioner's announcement, the IRS reported an increase in the total new customer service representatives hired to 4,729. The announcement explained that IRS improvements and the use of direct hire authority for these filing season positions have sped up the hiring process.<sup>13</sup> Specifically, direct hire authority has resulted in decreasing the time to hire a new customer service representative from approximately eight months to two months.

The IRS's goal was to have all 5,000 representatives onboard by September 12, 2022, in order to ensure that these new employees would be trained and ready by February 20, 2023, in support of the 2023 Filing Season. Although the IRS did not reach its goal of 5,000 new hires onboard by September 12<sup>th</sup>, it did develop a contingency plan to train new hires brought on after this date. Specifically, these representatives will receive modified training to ensure that they are as close to ready as possible by February 20<sup>th</sup>.

Although the IRS has made great strides in its hiring efforts, IRS hiring and separation data indicated that while the IRS hired 4,729 customer service representatives between the period June 21, 2022, through November 7, 2022, it also had 844 customer service representatives separate from the organization, resulting in a net gain of 3,885 customer service representatives. However, it should be noted that the total number of customer service representatives as of November 2022 is more than 36 percent higher in comparison to the total number of customer service representatives on rolls in November 2021.

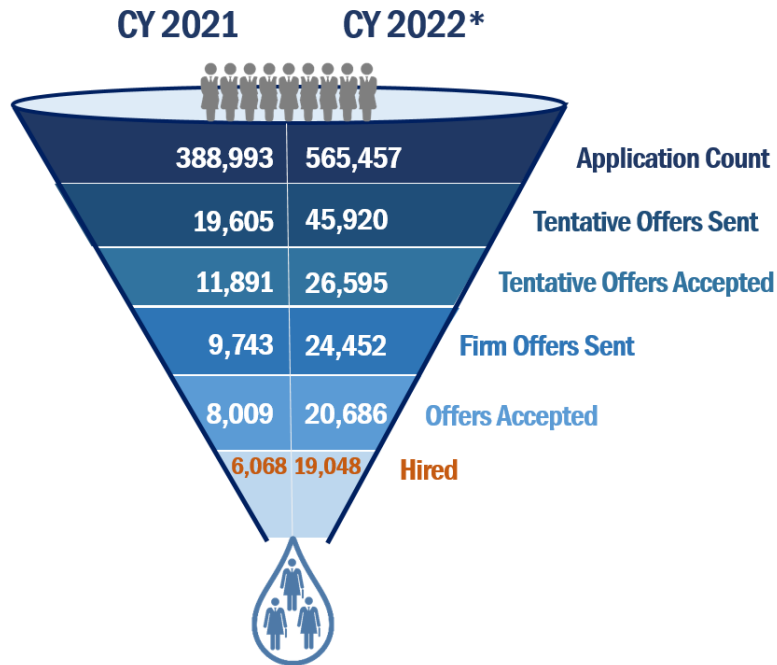
***The challenge to adequately hire customer service representatives is the same challenge the IRS is having with its overall ability to hire.***

The IRS has a goal of filling approximately 19,000 positions in FY 2023. However, representatives from the Human Capital workstream indicated that realistically the net gain of employees will be closer to 5,000 to 10,000 as these new hires will be offset by separations. A continued challenge the IRS faces is having to evaluate a high number of applicants in order to find successful candidates both willing to accept the job offer and also be able to pass the required background checks. Figure 2 highlights the number of applicants applying to positions, the offers extended, and the employees who accepted the job and have a start date.

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<sup>13</sup> The Office of Personnel Management approved direct hire authority for these positions in February 2022.

**Figure 2: Comparison of CY 2021 and CY 2022 Applicant Count, Offer Count, and Hired Count**



**31 percent and 41 percent**  
of the applicants sent a tentative offer  
in CY 2021 and CY 2022, respectively,  
**were subsequently hired**

\*CY 2022 hiring results are through October 9, 2022.

Source: IRS officials from the Human Capital workstream.

***The IRS is using two contractors to assist with hiring.*** IRS officials noted that one of these contractors is providing support for the hiring process (*i.e.*, preparing and posting job announcements, preparing the listing of qualified candidates applying, and making tentative job offers). The other contractor is providing assistance with the background investigation process to perform the same work as IRS personnel security employees. The IRS also has an interagency agreement with the Office of Personnel Management to assist the IRS in hiring up to 3,000 revenue agents.

***The IRA did not include direct hire authority or critical pay authority.*** When the IRA legislation was being drafted, it included language to allow the IRS to have critical pay and direct hire authority. However, the language giving the IRS expanded hiring authority was removed from the bill. Subsequent to the passage of the IRA, the IRS requested direct hire authority to hire up to 10,000 positions annually through the end of FY 2027 for the Services and Enforcement organizations. This authority would enable the IRS to satisfy mission-critical hiring needs and support significant changes in tax law, customer outreach, and other highly complex tax compliance efforts.

In addition, the IRS also requested approval of direct hire authority to fill up to 4,500 positions throughout the Operations Support organizations through the end of FY 2024. This authority would provide the IRS the ability to fulfill mission-critical hiring needs necessary to implement

new legislation that will significantly impact current and future technology, improve service, and transform the way the IRS does business. *In November 2022, the IRS received approval for both of these requests for direct hire authority.*

As mentioned previously, IRA legislation did not provide the IRS with critical pay authority. Critical pay authority would have allowed the IRS to increase the basic pay for certain positions in order to recruit and retain experts. IRS officials indicated that because the IRS does not know what positions could have been filled using critical pay authority, it is difficult to determine the impact of not having this authority.

### **Automating the scanning of millions of individual paper tax returns**

For the 2022 Filing Season, the IRS piloted a process to scan paper tax returns that were prepared using tax software but filed by mail rather than e-filed.<sup>14</sup> As of September 30, 2022, the IRS scanned 134,592 returns. Of those returns, 95,724 were scanned successfully. The remaining 38,868 returns fell out to the IRS's Error Resolution System function. Additionally, 2,637 were the result of the scanned return not being able to be processed. As such, these returns had to ultimately be processed manually. As noted previously, the Secretary wants the IRS to firmly move into the digital age. Currently, IRS employees still manually transcribe millions of paper returns. In the upcoming 2023 Filing Season, the IRS hopes to automate the scanning of millions of individual paper returns into a digital copy, which will result in faster processing and faster refunds for taxpayers.

In order to meet the goal of scanning millions more returns, the IRS is planning to use contractor support. However, the IRS did not get a contract in place by its target date of October 31, 2022. Since then, the IRS has identified a vendor and is in the process of awarding the contract. IRS officials leading the Services workstream stated that the IRS will still meet the delivery date goals for this commitment.<sup>15</sup>

### **Providing the ability to receive and respond to notices online**

The IRS is currently working on expanding a document upload tool that will allow taxpayers to respond to notices online rather than by mail. The tool is a new way to help taxpayers submit documentation to the IRS more efficiently. The tool will allow taxpayers to upload scanned images or photographs of their documentation and provide the taxpayer with near-instant confirmation that the IRS received the documentation without the wait time of corresponding by mail. This tool reduces the inventory of paper correspondence received by the IRS and saves time traditionally spent opening, sorting, scanning, and filing paper.

The original goal was for the IRS to make the tool available for taxpayers to respond to seven of the highest volume notices by the end of January 2023. IRS representatives on the Services workstream advised us in early November 2022 that they have surpassed that goal and expect

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<sup>14</sup> This pilot was for full paid Tax Year 2020 individual tax returns, which included the Forms 1040 (pages 1 and 2), 8812, 8880, 2441, and Schedules 1, 2, 3, A, C, SE, and EIC.

<sup>15</sup> TIGTA's Office of Audit has initiated a review to evaluate the IRS's efforts to scan paper-filed individual tax return information into an electronic format for the 2023 Filing Season (Audit #202340829 – *IRS Efforts to Scan Paper-Filed Individual Tax Returns for the 2023 Filing Season*).

there to be 10 notices available for taxpayers to respond to online by the end of January 2023. Figure 3 provides a list of these 10 notices.

**Figure 3: Notices That Will Be Available For Online Response in January 2023**

<b>Notice Number</b>	<b>Notice Title</b>
CP04	Request for Proof of Military Status or Eligibility for Tax Relief Provisions Under Combat Zone/Contingency Operation Criteria
CP05A	Information Regarding Your Refund – We’re Holding Your Refund Until We Finish Reviewing Your Tax Return
CP06	Premium Tax Credit Initial Contract Notice
CP06A	Request for Verifying Documentation of PTC-Balance Due/Even
CP08	Child Tax Credit Refund
CP09	Earned Income Credit – You May Be Entitled to EIC
CP2000	AUR Proposed Assessment
CP75	Exam Initial Contact Letter – EIC – Refund Frozen
CP75A	Exam Initial Contact Letter – EIC – No Refund Frozen
CP75D	Exam Initial Contact Letter – EIC – Entire Refund

*Source: IRS officials in the Services workstream.*

### **Commitment to not use IRA funding to increase audits of households or small businesses making under \$400,000 a year**

As of December 2022, IRS officials have not yet finalized what constituted the \$400,000 income level or what historic audit level will be used for its metrics. They indicated that this is still being discussed between the IRS and the Treasury Department. However, IRS officials do not believe there is an immediate risk of violating the Secretary’s commitment because employee attrition and hiring challenges will limit its ability to conduct more audits.



## Appendix I

### Detailed Objective, Scope, and Methodology

The overall objective of this evaluation was to assess the IRS's standup of the IRA Transformation and Implementation Office as well as its development processes and procedures to monitor, measure, and track implementation efforts of all IRA tax-related provisions. To accomplish our objective, we:

- Identified the actions the IRS has taken regarding the IRA, including the responsibilities of the IRA Transformation and Implementation Office, the associated workstreams, and how various prior strategies (*i.e.*, Taxpayer Experience Strategy, work done under the Taxpayer First Act) are being considered as part of the IRS's transformation.
- Evaluated whether the IRS identified and scheduled the actions necessary to implement IRA provisions affecting tax administration.
- Determined the impact the IRA has on tax administration, including the number of new provisions, and the number of new tax products (*i.e.*, tax forms, instructions, publications, guidance documents) and information technology systems needed to implement the new provisions.
- Determined the controls the IRS has in place to segregate and track IRA funding.
- Determined how the IRA Transformation and Implementation Office plans to monitor the hiring needed to improve customer service goals during the filing season.

#### Performance of This Review

This review was performed with information obtained from the IRA Transformation and Implementation Office located in Washington, D.C. We conducted this evaluation in accordance with the Council of the Inspectors General for Integrity and Efficiency Quality Standards for Inspection and Evaluation during the period September through December 2022.

Major contributors to the report were Nancy LaManna, Assistant Inspector General for Audit; Debra Kisler, Supervisory Evaluator; Tom Dori, Lead Evaluator; and Lindsay Steward, Senior Evaluator.

#### Validity and Reliability of Data From Computer-Based Systems

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

## Appendix II

### List of Inflation Reduction Act Provisions Impacting the IRS

Provision Section	Provision Title
10101	Corporate Alternative Minimum Tax
10201	Excise Tax on Repurchase of Corporate Stock
10301	Enhancement of Internal Revenue Service Resources
11003	Excise Tax Imposed on Drug Manufacturers During Noncompliance Periods
11408	Safe Harbor for Absence of Deductible for Insulin
12001	Improve Affordability and Reduce Premium Costs of Health Insurance for Consumers
13101	Extension and Modification of Credit for Electricity Produced From Certain Renewable Resources
13102	Extension and Modification of Energy Credit
13103	Increase in Energy Credit for Solar and Wind Facilities Placed in Service in Connection With Low-Income Communities
13104	Extension and Modification of Credit for Carbon Oxide Sequestration
13105	Zero-Emission Nuclear Power Production Credit
13201	Extension of Incentives for Biodiesel, Renewable Diesel and Alternative Fuels
13202	Extension of Second Generation Biofuel Incentives
13203	Sustainable Aviation Fuel Credit
13204	Clean Hydrogen
13301	Extension, Increase, and Modifications of Nonbusiness Energy Property Credit
13302	Residential Clean Energy Credit
13303	Energy Efficient Commercial Buildings Deduction
13304	Extension, Increase, and Modifications of New Energy Efficient Home Credit
13401	Clean Vehicle Credit

<b>Provision Section</b>	<b>Provision Title</b>
13402	Credit for Previously-Owned Clean Vehicles
13403	Qualified Commercial Clean Vehicles
13404	Alternative Fuel Refueling Property Credit
13501	Extension of the Advanced Energy Project Credit
13502	Advanced Manufacturing Production Credit
13601	Reinstatement of Superfund
13701	Clean Electricity Production Credit
13702	Clean Electricity Investment Credit
13703	Cost Recovery for Qualified Facilities, Qualified Property, and Energy Storage Technology
13704	Clean Fuel Production Credit
13801	Elective Payment for Energy Property and Electricity Produced From Certain Renewable Resources, Etc.
13802	Appropriations
13901	Permanent Extension of Tax Rate to Fund Black Lung Disability Trust Fund
13902	Increase in Research Credit Against Payroll Tax for Small Businesses
13903(a)	Reinstatement of Limitation Rules for Deduction for State and Local, Etc., Taxes
13903(b)	Extension of Limitation on Excess Business Losses of Noncorporate Taxpayers
13904(a)	Removal of Harmful Small Business Taxes
13904(b)	Extension of Limitation on Deduction for State and Local, Etc., Taxes

## Appendix III

### List of Closed and Not Fully Staffed Taxpayer Assistance Centers

This appendix presents the locations of the TACs that are closed or not fully staffed, as of November 17, 2022.

#### Closed TACs

State	Address
Arkansas	4375 N. Vantage Drive, Fayetteville 4905 Old Greenwood Road, Fort Smith
Arizona	7350 W. Camino San Xavier, Glendale
Colorado	2864 S. Circle Drive, Colorado Springs 400 Rood Avenue, Grand Junction
Florida	4210 Metro Parkway, Ft. Meyers
Georgia	600 E. First Street, Rome
Illinois	1201 Rivian Motorway, Bloomington 4920 E. State Street, Rockford
Kansas	6717 Shawnee Mission Parkway, Overland Park
Kentucky	311 North Arnold Avenue, Prestonsburg
Maine	68 Seward Street, Augusta 202 Harlow Street, Bangor 365 Main Street, Presque Isle
Maryland	1260 Maryland Avenue, Hagerstown 14701 National Highway, LaVale
Missouri	402 S. Main Street, Joplin
Montana	2681 Palmer Street, Missoula
Nebraska	100 Centennial Mall N, Lincoln
New Mexico	2945 Rodeo Park Drive E, Santa Fe
New York	15 Henry Street, Binghamton 147 West Gray Street, Elmira 375 Bay Road, Queensbury 10 Broad Street, Utica 242 W. Nyack Road, West Nyack
North Carolina	4905 Koger Boulevard, Greensboro 1930 3 <sup>rd</sup> Avenue Lane SE, Hickory

<b>State</b>	<b>Address</b>
Oregon	250 N.W. Franklin Avenue, Bend
Tennessee	109 S. Highland, Jackson 2513 Wesley Street, Johnson City
Texas	913 N.W. Loop 281, Longview
Virginia	7980 Quantum Drive, Vienna
West Virginia	1250 Edwin Miller Boulevard, Martinsburg
Wisconsin	425 State Street, La Crosse
Wyoming	100 E. B Street, Casper

**TACs Not Fully Staffed**

<b>State/Territory</b>	<b>Address</b>
Alabama	417 20 <sup>th</sup> Street North, Birmingham 204 S. Walnut Street, Florence 5123 Research Drive NW, Huntsville 820 S. University Boulevard, Mobile 1285 Carmichael Way, Montgomery
Arizona	1818 E. Southern Avenue, Mesa 4041 N. Central Avenue, Phoenix 300 W. Congress, Tucson 2285 S. 4 <sup>th</sup> Avenue, Yuma
Arkansas	700 W. Capitol, Little Rock
California	212 Coffee Road, Bakersfield 751 E. Daily Drive, Camarillo 1145 Eugenia Place, Carpinteria 1395 Ridgewood Drive, Chico 2345 S. 2 <sup>nd</sup> Street, El Centro 9350 Flair Drive, El Monte 2525 Capitol Street, Fresno 501 W. Ocean Boulevard, Long Beach 300 N. Los Angeles Street, Los Angeles 6230 Van Nuys Boulevard, Los Angeles 1700 Standiford Avenue, Modesto 1301 Clay Street, Oakland 556 S. Paseo Dorotea, Palm Springs 850 Industrial Street, Redding 4330 Watt Avenue, Sacramento 928 East Blanco Road, Salinas 290 N. D Street, San Bernardino 880 Front Street, San Diego 450 Golden Gate Avenue, San Francisco 55 S. Market Street, San Jose 1 Civic Center Drive, San Marcos 801 Civic Center Drive W, Santa Ana 2384 Professional Parkway, Santa Maria 777 Sonoma Avenue, Santa Rosa 4643 Quail Lakes Drive, Stockton 5300 W. Tulare Avenue, Visalia 185 Lennon Lane, Walnut Creek
Connecticut	915 LaFayette Boulevard, Bridgeport 131 West Street, Danbury 135 High Street, Hartford 150 Court Street, New Haven

<b>State/Territory</b>	<b>Address</b>
	761 Main Avenue, Norwalk 55 Main Street, Norwich
Delaware	611 S. Dupont Highway, Dover 21309 Berlin Road, Georgetown 844 King Street, Wilmington
District of Columbia	77 K Street NE, Washington
Florida	10200 49 <sup>th</sup> Street North, Clearwater 1540 Cornerstone Boulevard, Daytona Beach 400 West Bay Street, Jacksonville 2133 Harden Boulevard, Lakeland 850 Trafalgar Court, Maitland 1232 Sarno Road, Melbourne 51 S.W. First Avenue, Miami 3300 S.W. 34 <sup>th</sup> Avenue, Ocala 7180 9 <sup>th</sup> Avenue North, Pensacola 7850 S.W. Sixth Court, Plantation 7410 S. U.S. Highway 1, Port St. Lucie 5971 Cattle Ridge Boulevard, Sarasota 325 John Knox Road, Tallahassee 3848 W. Columbus Drive, Tampa
Georgia	235 Roosevelt Avenue, Albany 401 W. Peachtree Street NW, Atlanta 2888 Woodcock Boulevard, Atlanta 3154 Perimeter Parkway, Augusta 6068 Business Park Drive, Columbus 329 Oak Street, Gainesville 435 2 <sup>nd</sup> Street, Macon 9 Park of Commerce Boulevard, Savannah 2300 Lake Park Drive, Smyrna
Hawaii	300 Ala Moana Boulevard, Honolulu
Idaho	550 West Fort Street, Boise 333 S. Main Street, Pocatello
Illinois	230 S. Dearborn Street, Chicago 2001 Butterfield Road, Downers Grove 380 Fountain Office Court, Fairview Heights 2066 Windish Drive, Galesburg 14479 John Humphrey Drive, Orland Park 2415 West Cornerstone Court, Peoria 3701 E. Lake Centre Drive, Quincy 5100 River Road, Schiller Park

<b>State/Territory</b>	<b>Address</b>
	3101 Constitution Drive, Springfield
Indiana	2425 Northpark Drive, Columbus 575 N. Pennsylvania, Indianapolis 225 N. High Street, Muncie 100 E. Wayne Street, South Bend 801 Wabash, Terre Haute
Iowa	101 W. 2 <sup>nd</sup> Street, Davenport 210 Walnut Street, Des Moines
Kansas	515 S. Kansas Avenue, Topeka 555 N. Woodlawn Street, Wichita
Kentucky	200 West Professional Park Court, Bowling Green 121 W. Tenth Street, Hopkinsville 1500 Leestown Road, Lexington 600 Dr. Martin L King Jr. Place, Louisville 401 Frederica Street, Owensboro
Louisiana	2600 Citiplace, Baton Rouge 423 Lafayette Street, Houma 1401 Hudson Lane, Monroe 1555 Poydras Street, New Orleans 3007 Knight Street, Shreveport
Maine	440 Western Avenue, South Portland
Maryland	31 Hopkins Plaza, Baltimore 201 Thomas Johnson Drive, Frederick 8401 Corporate Drive, Landover 6010 Executive Boulevard, Rockville 601 East Naylor Mill Road, Salisbury
Massachusetts	15 New Sudbury Street, Boston 120 Liberty Street, Brockton 75 Perseverance Way, Hyannis 1550 Main Street, Springfield 400 Trade Center Drive, Woburn 120 Front Street, Worcester
Michigan	917 N. Saginaw Street, Flint 3251 N. Evergreen Drive NE, Grand Rapids 1055 W. Baraga Street, Marquette 4901 Towne Centre Road, Saginaw
Minnesota	1550 American Boulevard E, Bloomington 515 W. First Street, Duluth 310 South Broadway, Rochester



<b>State/Territory</b>	<b>Address</b>
	1010 W. St Germain Street, St. Cloud 430 North Wabasha Street, St. Paul
Mississippi	2009 Fifth Street N, Columbus 11309 Old Hwy 49, Gulfport 701 Main Street, Hattiesburg 100 W. Capitol Street, Jackson 111 E. Troy Street, Tupelo
Missouri	555 Independence Street, Cape Girardeau 1122 Town and Country Commons, Chesterfield 30 W. Pershing Road, Kansas City 2937 S. Claremont Avenue, Springfield 1211 North Belt Highway, St. Joseph 1222 Spruce, St. Louis
Montana	2900 4th Avenue N, Billings 1805 S. 22 <sup>nd</sup> Avenue, Bozeman 10 W. 15 <sup>th</sup> Street, Helena 275 Corporate Avenue, Kalispell
Nebraska	1616 Capitol Avenue, Omaha 2001 Broadway, Scottsbluff
Nevada	110 N. City Parkway, Las Vegas
New Hampshire	275 Chestnut Street, Manchester 410 Amherst Street, Nashua 75 Portsmouth Boulevard, Portsmouth
New Jersey	51 Haddonfield Road, Cherry Hill 100 Dey Place, Edison 4 Paragon Way, Freehold 5218 Atlantic Avenue, Mays Landing 20 Washington Place, Newark 1 Kalisa Way, Paramus 1719 Route 10, Parsippany 200 Federal Plaza, Paterson 955 S. Springfield Avenue, Springfield 50 West State Street, Trenton
New Mexico	6200 Jefferson Street NE, Albuquerque 505 S. Main, Las Cruces
New York	Clinton Avenue and N. Pearl Street, Albany 999 Stewart Avenue, Bethpage 1200 Waters Place, Bronx 2 Metrotech Center, Brooklyn 130 South Elmwood Avenue, Buffalo

<b>State/Territory</b>	<b>Address</b>
	1180 Veterans Memorial Highway, Hauppauge 290 Broadway, New York 2116 Adam Clayton Powell Jr Boulevard, New York 255 East Avenue, Rochester 300 South State Street, Syracuse 210 E. Post Road, White Plains
North Carolina	151 Patton Avenue, Asheville 10715 David Taylor Drive, Charlotte 2835 S. Charles Boulevard, Greenville 7751 Brier Creek Parkway, Raleigh 3340 Jaeckle Drive, Wilmington 1677 Westbrook Plaza Drive, Winston Salem
North Dakota	4503 Coleman Street, Bismarck 657 2 <sup>nd</sup> Avenue N, Fargo 102 N. 4 <sup>th</sup> Street, Grand Forks 100 1 <sup>st</sup> Street, SW, Minot
Ohio	2 S. Main Street, Akron 301 McKinley Avenue SW, Canton 550 Main Street, Cincinnati 1240 E. Ninth Street, Cleveland 200 N. High Street, Columbus 200 W. 2 <sup>nd</sup> Street, Dayton 401 W. North Street, Lima 433 N. Summit Street, Toledo 10 E. Commerce Street, Youngstown
Oklahoma	601 S. Harding, Enid 2202 S.W. A Avenue, Lawton 55 N Robinson, Oklahoma City 8023 E. 63 <sup>rd</sup> Place, Tulsa
Oregon	211 E. 7 <sup>th</sup> Avenue, Eugene 1220 S.W. 3 <sup>rd</sup> Avenue, Portland 1660 Oak Street SE, Salem
Pennsylvania	1601 Eleventh Avenue, Altoona 3 W. Broad Street, Bethlehem 230 Executive Drive, Cranberry Township 1314 Griswald Plaza, Erie 200 Lakeside Drive, Horsham 319 Washington Street, Johnstown 601 S. Henderson Road, King of Prussia 36 E. King Street, Lancaster 4314 Old William Penn Highway, Monroeville

<b>State/Territory</b>	<b>Address</b>
	600 Arch Street, Philadelphia 1000 Liberty Avenue, Pittsburgh 201 Penn Street, Reading 409 Lackawanna Avenue, Scranton 7 N. Wilkes-Barre Boulevard, Wilkes Barre 2670 Industrial Highway, York
Puerto Rico	Los Frailes Industrial Park Avenue, Guaynabo 48 Carr 165, km.1.2, City View Plaza, Guaynabo 2050 Ponce Bypass, Ponce
Rhode Island	380 Westminster Street, Providence
South Carolina	1835 Assembly Street, Columbia 401 W. Evans Street, Florence 440 Roper Mountain Road, Greenville 601 19 <sup>th</sup> Avenue N, Myrtle Beach 4400 Leeds Avenue, North Charleston
South Dakota	115 4 <sup>th</sup> Avenue SE, Aberdeen 1720 S. Southeastern Avenue, Sioux Falls
Tennessee	5740 Uptain Road, Chattanooga 710 Locust Street, Knoxville 22 N. Front Street, Memphis 801 Broadway, Nashville
Texas	7201 W. Interstate 40, Amarillo 825 E. Rundberg Lane, Austin 1100 Commerce Street, Dallas 700 E. San Antonio, El Paso 4050 Alpha Road, Farmers Branch 819 Taylor Street, Fort Worth 1810 Hale Avenue, Harlingen 1919 Smith Street, Houston 8876 Gulf Freeway, Houston 12941 I45 N, Houston 8701 S. Gessner, Houston 1205 Texas Avenue, Lubbock 1004 North Big Spring, Midland 33 E. Twohig, San Angelo 8122 Datapoint Drive, San Antonio 500 N. State Line Avenue, Texarkana 909 ESE Loop 323, Tyler 6801 Sanger Avenue, Waco 4309 Jacksboro Highway, Wichita Falls

<b>State/Territory</b>	<b>Address</b>
Utah	324 25 <sup>th</sup> Street, Ogden 178 South Rio Grande Street, Salt Lake City
Vermont	1222 Putney Street, Brattleboro
Virginia	401 E. Market Street, Charlottesville 1320 Central Park Boulevard, Fredericksburg 903 Enterprise Parkway, Hampton 1101 Court Street, Lynchburg 200 Granby Street, Norfolk 400 North Eighth Street, Richmond 210 1 <sup>st</sup> Street SW, Roanoke
Washington	114 W. Magnolia, Bellingham 3020 Rucker Avenue, Everett 319 7 <sup>th</sup> Avenue SE, Olympia 825 Jadwin Avenue, Richland 915 Second Avenue, Seattle 920 W. Riverside Avenue, Spokane 1301 A Street, Tacoma 500 W. 12 <sup>th</sup> Street, Vancouver
West Virginia	16 Sterling Drive, Bridgeport 150 Court Street, Charleston 845 Fifth Avenue, Huntington 700 Market Street, Parkersburg 1100 Main Street, Wheeling
Wisconsin	1901 E. Capitol Drive, Appleton 2403 Folsom Street, Eau Claire 440 Security Boulevard, Green Bay 211 W. Wisconsin Avenue, Milwaukee
Wyoming	5353 N. Yellowstone Road, Cheyenne 1949 Sugarland Drive, Sheridan

# Appendix IV

## Abbreviations

CY	Calendar Year
FY	Fiscal Year
IRA	Inflation Reduction Act of 2022
IRS	Internal Revenue Service
TAC	Taxpayer Assistance Center
TIGTA	Treasury Inspector General for Tax Administration



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