2023

AGENCY FINANCIAL REPORT

MISSION STATEMENT

MISSION

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

VALUES

Honesty and Integrity: We uphold the public trust in all that we do; we are honest and forthright in all of our internal and external dealings.

Respect: We treat each colleague, employee and taxpayer with dignity and respect.

Continuous Improvement: We seek to perform the best that we can today, while embracing change, so that we can perform even better in the future.

Inclusion: We embrace diversity of background, experience, and perspective.

Openness and Collaboration: We share information and collaborate, recognizing that we are a team.

Personal Accountability: We take responsibility for our actions and decisions and learn and grow from our achievements and mistakes.

IRS

ABOUT THIS REPORT

This Agency Financial Report presents the Internal Revenue Service's (IRS) financial information in relation to its mission and resources entrusted to it for the Fiscal Year (FY) 2023 (October 1, 2022, to September 30, 2023) reporting period. This report also highlights select accomplishments and challenges in implementing programs that promote the IRS's mission. Although the IRS is a bureau within the Department of the Treasury (Treasury), this report is titled Agency Financial Report to be consistent with similar reports in the federal government.

The IRS presents this report in accordance with Office of Management and Budget's Circular A-136, Financial Reporting Requirements, as a component of Treasury. This report includes Circular A-136 core principles and requirements applicable to a component entity. This financial report is available on www.irs.gov/about-irs/irs-financial-reports.

How This Report is Organized

The Agency Financial Report consists of the following sections:

Section 1: Management's Discussion and Analysis (Unaudited)

Provides a high-level overview of the IRS's history, mission and organizational structure; strategic framework; programmatic performance; enterprise risks; analysis of financial statements; analysis of systems, controls and legal compliance; management assurances related to the IRS's internal controls; and forward-looking information. United States (U.S.) generally accepted accounting principles issued by the Federal Accounting Standards Advisory Board require the Management's Discussion and Analysis be presented as required supplementary information to the financial statements.

Section 2: Financial Information

Includes a message from the Chief Financial Officer (CFO), Independent Auditor's Report and IRS response, audited financial statements and accompanying notes, and unaudited required supplementary information.

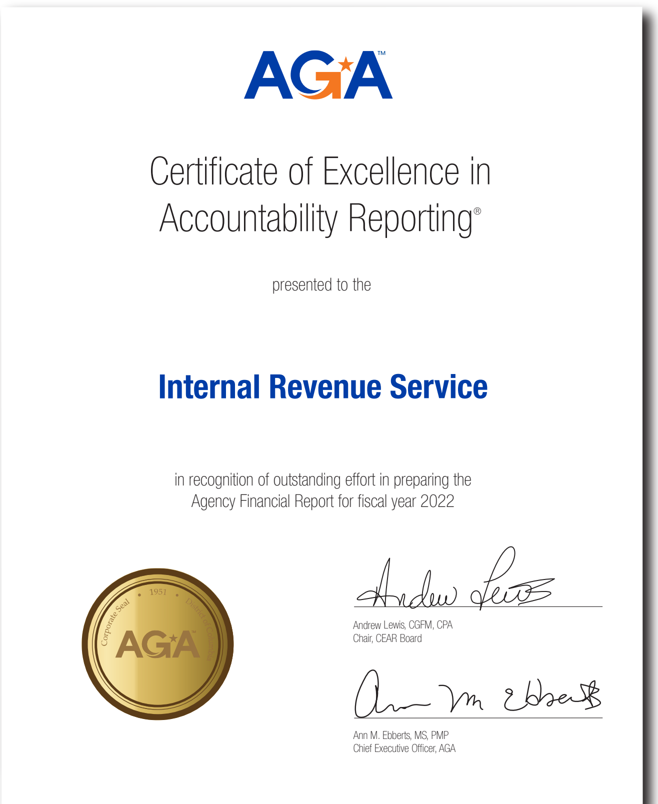
Section 3: Other Information (Unaudited)

Contains a summary of the Financial Statement Audit and Management Assurances; Tax Burden, Tax Gap and Tax Expenditures; Management and Performance Challenges; Grants Programs; and Refundable Tax Credits and Other Outlays. Treasury reports on Payment Integrity and Climate–Related Financial Risk in its Agency Financial Report (home.treasury.gov/about/budget-financial-reporting-planning-and-performance/agency-financial-report). For information on Payment Integrity, see PaymentAccuracy.gov (www.paymentaccuracy.gov).

CERTIFICATE OF EXCELLENCE IN ACCOUNTABILITY REPORTING

In May 2023, AGA presented the IRS its first Certificate of Excellence in Accountability Reporting award for its FY 2022 Agency Financial Report (www.irs.gov/pub/irs-prior/p5456--2022.pdf). The Certificate of Excellence is the highest form of recognition in federal government financial management and performance accountability reporting. As a first-time winner of this distinguished award, the IRS is honored to be recognized for demonstrating the highest standards in financial and performance accountability reporting. It is a significant accomplishment that showcases our reporting excellence in the financial management community.

Additionally, the IRS received recognition with a Best-In-Class award for Most Improved Presentation of Management's Discussion and Analysis for outstanding explanation of the strategic plan, providing performance measures for all goals and effectively addressing prior year comments provided by the AGA's review panel.


AGA

Certificate of Excellence in Accountability Reporting®

presented to the

Internal Revenue Service

in recognition of outstanding effort in preparing the Agency Financial Report for fiscal year 2022

Andrew Lewis, CGFM, CPA
Chair, CEAR Board

Ann M. Ebberts, MS, PMP
Chief Executive Officer, AGA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Certificate of Excellence in Accountability Reporting®

BEST-IN-CLASS AWARD

presented to the

Internal Revenue Service

in recognition of

most improved presentation of performance in an MD&A

in the Agency Financial Report for fiscal year 2022

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Chief Executive Officer, AGA

AGA is an association for professionals who work in the areas of financial management, accounting, auditing, information technology, budgeting, policy, grants management, performance management and other business operations areas to help the government work more efficiently and effectively. The Certificate of Excellence in Accountability Reporting Program was established by the AGA, in conjunction with the Chief Financial Officers Council and the Office of Management and Budget, to further performance and accountability reporting.

MESSAGE FROM THE COMMISSIONER

On behalf of the dedicated IRS staff, I am pleased to present the IRS Agency Financial Report for FY 2023. This report provides an assessment of the IRS's financial status and demonstrates how the IRS used entrusted resources in support of its mission to provide America's taxpayers top-quality service by helping them understand and meet their tax responsibilities and enforce the law with integrity and fairness to all.

Guided by the IRS's core values of Honesty and Integrity, Respect, Continuous Improvement, Inclusion, Openness and Collaboration and Personal Accountability, the IRS workforce works diligently to serve the people of the U.S.

The IRS collects significant funding for the nation's operations and most critical programs, including national defense, infrastructure and health. Currently, nearly all of the funding that keeps the federal government running comes through the IRS. Through the hard work of our committed employees, the IRS collected about $4.7 trillion in gross revenues.

After enactment of the Inflation Reduction Act of 2022 (IRA), the IRS developed a detailed **Strategic Operating Plan for FY 2023-2031 (SOP)** (www.irs.gov/about-irs/irs-inflation-reduction-act-strategic-operating-plan) that consists of 5 transformational objectives and 42 initiatives the IRS will be working on through FY 2031 when the funding expires. One early success story, that was only possible with the additional funding from the IRA, was the IRS's ability to hire an additional 5,000 Customer Service Representatives to answer taxpayer calls. This allowed the IRS to achieve a filing season (January 23 through April 21) Level of Service of 87%, compared to 15% in the prior year. I am incredibly proud of what the IRS was able to achieve in FY 2023, and I know that with the additional funding provided to the IRS through the IRA, the IRS will be able to achieve even more for taxpayers and tax administration in FY 2024.

Key Areas of Focus:

Implementing the IRS Vision: In FY 2023, the IRS made incredible progress on many areas highlighted in the SOP, and many more are in progress as the IRS works to modernize the way it serves taxpayers through improved technology, better service and fairer enforcement. Substantial work was done to advance the objectives and the performance goals of the plan.

The Paperless Process Initiative is a clear example of how, with the right funding and priorities, the IRS can quickly move operations to meet the taxpayer's needs. By the 2025 filing season, the IRS has an ambitious goal to digitize all paper-filed returns as soon as they are received. In addition, the IRS will add more non-tax forms in digital, mobile-friendly formats that will make it easier for taxpayers to complete and submit electronically.

Transforming the IRS also means continuing to improve service on the phones and in person. In FY 2023, the IRS announced the expansion of the customer callback option (having the option to get a call back instead of waiting on hold) to cover 95% of all taxpayers seeking live assistance. The IRS answered more calls from taxpayers seeking help than last year and significantly reduced phone wait times by hiring additional Customer Service Representatives. The IRS also provided more in-person assistance with 363 Taxpayer Assistance Centers open for business.

2023 Filing Season: During the 2023 filing season, the IRS received more than 137 million individual federal tax returns and issued nearly 86 million refunds totaling more than $236 billion. The infusion of IRA funding enabled the IRS to provide taxpayers with a substantially better experience in the 2023 filing season than in previous years.

Reducing the Paper Return Inventory: Addressing a key Coronavirus Disease 2019 (COVID-19) pandemic challenge, the IRS continued to reduce the backlog of paper tax returns and correspondence. I am pleased to report that thanks to the tireless perseverance of IRS employees, the IRS processed all paper and electronic original returns received in 2022 that had no errors and didn't require further review. As a result, individual returns are no longer backlogged and processing this filing season is at normal levels.

Safeguarding Taxpayer Data: The COVID-19 pandemic and resulting legislation increased identity theft and other scams. The IRS continued to make advances in this area, protecting taxpayers and the tax system. In fact, the Treasury Inspector General for Tax Administration (TIGTA) noted the progress the IRS is making. In a report released on May 10, 2023, it stated the IRS "continues to increase the number of fraudulent tax returns detected and stopped from entering the tax processing system," which prevents the issuance of fraudulent refunds associated with those returns. Contributing to this progress has been an increase in the number of filters the IRS uses to identify potential identity theft tax returns – 236 this filing season, compared to 168 filters during the 2022 filing season – according to TIGTA.

Tax Scams and Fraud: Improving public warnings about scams that threaten taxpayers remains a priority for the IRS. The IRS is on the side of taxpayers and is working to protect hard-working people from scammers or fraudsters who try to use the tax system for their schemes. Whether it is promising people inflated amounts of Earned Income Tax Credit, a credit designed to help workers with modest incomes, or tricking people into tax-related identity theft, protecting taxpayers is a critical component to ensuring the success of the nation's tax system. The IRS will continue its aggressive work into the 2024 filing season, building off of efforts like the Dirty Dozen (www.irs.gov/newsroom/dirty-dozen) to warn taxpayers about quickly emerging scams and schemes.

This fiscal year, the IRS saw a significant increase in tax scams and marketing related to the Employee Retention Credit, a credit designed to support eligible businesses affected by the COVID-19 pandemic. Promoters have been aggressively marketing this program to businesses that may not be eligible to claim these credits, putting them at financial risk and requiring the IRS to devote extra staff to process the large influx of new Employee Retention Credit claims. To address potential fraud, the IRS increased audits by specially trained auditors and criminal investigative activities against both the promoters as well as the businesses filing these dubious claims and implemented a moratorium on processing new claims beginning September 14, 2023, to run through at least December 31, 2023.

Compliance Efforts: Anchored by a deep respect for taxpayer rights, the IRS is deploying new resources toward cutting-edge technology to improve visibility on where the wealthy shield their income and to focus staff attention on the areas of greatest abuse. The IRS will increase compliance efforts on those posing the greatest risk to the nation's tax system, whether it's the wealthy looking to dodge paying the correct amount or promoters aggressively peddling abusive schemes. These steps are critical for the future of the nation's tax system.

In its High Wealth, High Balance Due Taxpayer Field Initiative, the IRS will intensify work on taxpayers with total positive income above $1 million and more than $250,000 in recognized tax debt. Building off earlier successes that collected $38 million from more than 175 high-income earners, the IRS will have dozens of Revenue Officers focusing on these high-end collection cases in FY 2024. The IRS is working to expand this effort, contacting about 1,600 taxpayers in this category who collectively owe hundreds of millions of dollars in taxes.

Investing in the IRS Workforce: The IRS's greatest asset is its workforce, and the IRS is working to raise its workforce numbers up from 1970s-era levels to better serve taxpayers and the nation. In addition to providing work-life balance programs, tuition reimbursement, student loan reimbursement and childcare subsidies to retain current employees, the IRS is looking to recruit new employees to meet current and future challenges. In addition to new hires for in-person and telephone support, IRA resources have enabled the IRS to increase staffing in other service-related areas, including Submission Processing and Information Technology. In FY 2024, we will begin to heavily recruit Revenue Agents, who will be responsible for auditing the most complex tax returns of high wealth/high income individuals, partnerships and corporations.

Exhibiting Financial Stewardship: I am pleased to report that the IRS maintained an unmodified (clean) financial statement audit opinion for the 24th consecutive year. Based upon the results of internal control evaluations, I can provide reasonable assurance that the performance and financial information in this report is complete and accurate. The IRS continues to strengthen management controls and make progress toward remediating the significant deficiencies in internal control over financial reporting to meet all U.S. financial systems compliance and conformance objectives as outlined in the Management's Discussion and Analysis – Analysis of Systems, Controls and Legal Compliance.

The bottom line is the IRS, after the funding provided by IRA, is in a very different place. But the reality is that the IRS has much, much more work ahead to build on these improvements. I am confident that even more can be accomplished across the IRS. This is good news for employees, good news for taxpayers and a step forward for the nation.

So, in conclusion of the fiscal year and completion of the first year of implementing the SOP, I am confident the IRS will continue to improve the taxpayer experience and increase the efficiency and effectiveness of its operations with continued discretionary budget support and continued funding. I am proud to lead this work in collaboration with my colleagues, valued partners in the tax community and national, state and local partners to provide an effective and efficient tax system that is fair and equitable for all.

Sincerely,

Daniel I. Werfel
Commissioner of Internal Revenue
November 3, 2023

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MANAGEMENT'S DISCUSSION AND ANALYSIS

ABOUT THE IRS

The IRS is a bureau of the Treasury. The IRS carries out the responsibilities of the Secretary of the Treasury under Internal Revenue Code Section 7801. The Secretary has full authority to administer and enforce the Internal Revenue Code and has the power to create an agency to enforce these laws.

Internal Revenue Code Section 7803 provides for the appointment of a Commissioner of Internal Revenue to administer and supervise the execution and application of the Internal Revenue Code.

The IRS is one of the world's largest tax administrators. In FY 2023, the IRS collected about $4.7 trillion in taxes, which represents nearly all of the revenue that supports the federal government's operations.

Some key tax statistics in FY 2023 include:

275M	$4.7T	$3,101	$86.1B
Federal Tax Returns and Forms Processed	Collected in Gross Taxes	Average Individual Refund	Enforcement Revenue Collected

Note: These statistics are from October 1, 2022, through September 30, 2023. The Average Individual Refund amount includes refunds issued in FY 2023 for all tax years.

History

The IRS is one of the oldest bureaus in the U.S. Government. Article 1, Section 8 of the Constitution gave the federal government the "Power To lay and collect Taxes, Duties, Imposts and Excises, to pay the Debts and provide for the common Defence and general Welfare of the United States…" In 1862, President Lincoln and the Congress established the Bureau of Internal Revenue and the nation's first income tax. In 1953, the Bureau of Internal Revenue's name changed to the Internal Revenue Service. Visit the IRS History Timeline at www.irs.gov/irs-history-timeline.

Internal Revenue Service Building, 1111 Constitution Ave. N.W., Washington D. C.

Mission and Organization

The IRS's mission is to provide America's taxpayers top-quality service by helping them understand and meet their tax responsibilities while enforcing the law with integrity and fairness to all.

This mission statement describes the IRS's role – and the public's expectation about – how the IRS should perform that role.

- In the U.S., the Congress passes tax laws and requires taxpayers to comply.
- The taxpayer's role is to understand and meet their tax obligations.
- The IRS's role is to help willing taxpayers with the tax law, while ensuring that the minority who are unwilling to comply pay their fair share.

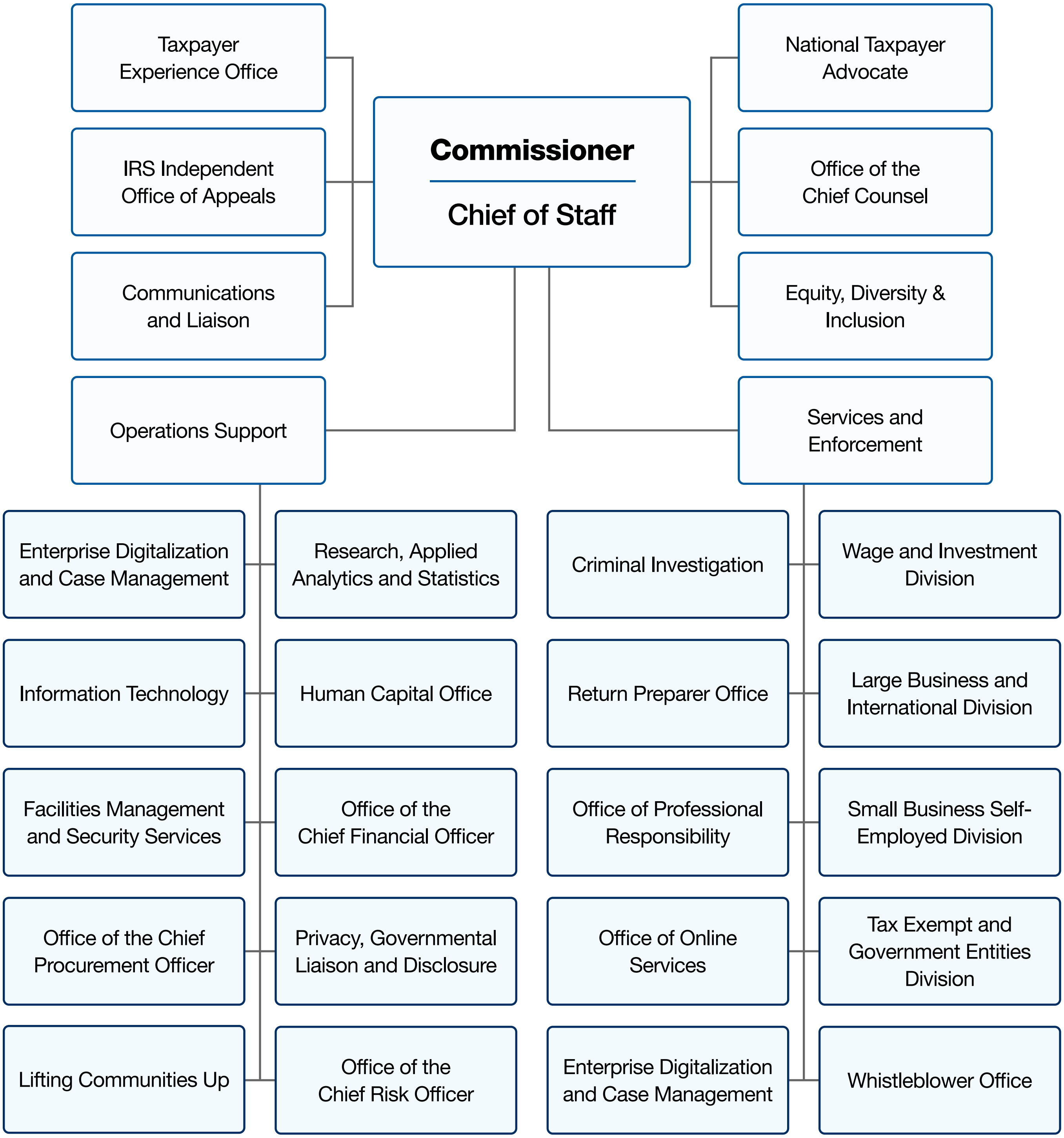
The IRS's core operations include collecting taxes, processing tax returns, assisting taxpayers, enforcing tax laws and investigating tax crimes. The extensive IRS portfolio also includes tax-exempt organizations, tax-exempt bonds, multiple refundable tax credits and other specialized programs.

The IRS's organizational structure closely resembles the private sector model of organizing around customers with similar needs. Four business units focus on unique groups of taxpayers: Wage and Investment, Small Business/Self-Employed, Large Business and International and Tax Exempt and Government Entities. Additionally, the IRS has other functional organizations that have direct interaction with taxpayers and tax preparers, as well as an operations support structure that supplies direction and guidance to the IRS's administrative functions.

Commissioner Werfel stopped for a group photo with Rhode Island Taxpayer Advocate Service employees.

An important part of Commissioner Werfel's visits was to hear directly from employees about their ideas and concerns.

IRS Organizational Structure

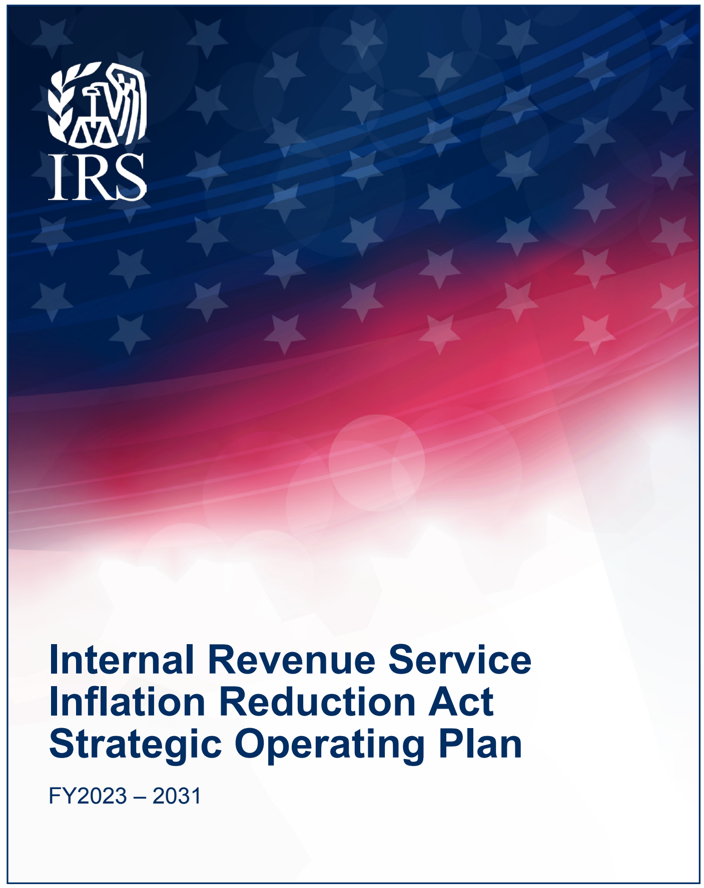


PERFORMANCE OVERVIEW

IRS Strategic Framework

The IRA was signed into law on August 16, 2022, giving the IRS a historic opportunity to transform tax administration and services provided to taxpayers and tax professionals. The long-term funding provided by the IRA will allow the IRS to improve services to the public; enable needed technology modernization; provide employees with new tools, skills and capabilities; and effectively enforce the tax laws.

Shortly after enactment, Treasury and the IRS developed an IRS IRA Strategic Operating Plan FY 2023-2031 (www.irs.gov/about-irs/irs-inflation-reduction-act-strategic-operating-plan). The SOP envisions a modernized IRS that is focused on the customer experience, prefers digital to manual processes and prioritizes compliance efforts that focus on complex tax issues and high-income individuals, complex partnerships and large corporations. It outlines how the IRS will deliver transformational change for taxpayers. Each IRS organization aligns its programs and performance within this framework, and this SOP will serve as a guide for decision-making by IRS leadership and project managers. It also supports key government-wide strategic priorities from the President's Management Agenda including strengthening the federal workforce, delivering an excellent customer experience, enhancing clean energy efforts, increasing equity and supporting underserved communities.



While the SOP supersedes the IRS Strategic Plan FY 2022–2026, it is based in part on insights from that strategic plan and other planning efforts. The IRA gives the IRS the resources to turn those plans to improve the way it serves taxpayers into reality.

The SOP is structured to achieve five objectives which will be accomplished through a series of initiatives and projects aligned as such:

Strategic Objective 1	Dramatically improve services to help taxpayers meet their obligations and receive the tax incentives for which they are eligible.
Strategic Objective 2	Quickly resolve taxpayer issues when they arise.
Strategic Objective 3	Focus expanded enforcement on taxpayers with complex tax filings and high-dollar noncompliance to address the tax gap.
Strategic Objective 4	Deliver cutting-edge technology, data and analytics to operate more effectively.
Strategic Objective 5	Attract, retain and empower a highly skilled, diverse workforce and develop a culture that is better equipped to deliver results for taxpayers.

The IRS Transformation and Strategy Office Advisory Committee was established in January 2023 as the decision-making body for IRS transformation. A Chief Transformation and Strategy Officer joined the IRS in July 2023 to provide leadership for this effort. Change management practices are built into all initiatives and project plans incorporate measures of success, as appropriate. Champions are appointed to lead ongoing projects throughout the IRS to achieve, communicate and monitor the IRS's cultural goals.

The Transformation and Strategy Office monitors risks for all SOP objectives. Many of these risks are shared across the 5 objectives and 42 initiatives and are monitored from an enterprise level. This includes the risk of insufficient management and functional support, such as hiring and procurement capacity. There are functional risks associated with the interdependencies of initiatives, where delays in one initiative could impact the ability of another initiative to commence work. Additionally, there is a funding risk, as Congress considers cutting IRA funding or reducing annual appropriations due to the IRA funding. If the IRS does not receive funding needed to maintain base operations, transformation will be in jeopardy. Without adequate discretionary base funding, IRA funding will be needed to support normal operations, or the IRS will not be able to deliver all improved services nor transform its information technology as outlined in the SOP. The Transformation and Strategy Office will continue to track and monitor all risks, and take corrective action where needed to ensure organization-wide success.

As Treasury's largest bureau, the IRS plays a critical role in advancing the Treasury Strategic Plan 2022–2026 (home.treasury.gov/about/budget-financial-reporting-planning-and-performance/agency-financial-report) by co-leading the "Tax Policy and Administration" strategic objective and supporting nine other objectives across all five Treasury goals.

Major Programs

The IRS demonstrates responsible stewardship over taxpayer dollars by aligning major programs and performance measures with budgetary resources as appropriated by Congress. The SOP consists of five objectives. Objectives 1 through 4 align to the major programs in the IRS Statement of Net Cost and the IRS distributes the costs associated with Objective 5 across the major programs. Funding for major programs includes annual appropriations and IRA.

SOP Objectives and Initiatives

Strategic Objective 1: Dramatically improve services to help taxpayers meet their obligations and receive the tax incentives for which they are eligible.

1.1 Improve the availability and accessibility of customer service.
1.2 Expand digital services and digitalization.
1.3 Ensure employees have the right tools.
1.4 Improve self-service options.
1.5 Explore direct file.
1.6 Enable taxpayers to access their data.
1.7 Provide earlier legal certainty.
1.8 Deliver proactive alerts.
1.9 Help taxpayers understand and claim appropriate credits and deductions.
1.10 Make payments easy.
1.11 Build status-tracking tools for taxpayers.
1.12 Streamline multichannel customer assistance.

Major Program:
Service to the Taxpayer

Total Program Cost:
$5,949 million

Strategic Objective 2: **Quickly resolve taxpayer issues when they arise.***

2.1 Identify issues during filing.
2.2 Deliver early and appropriate treatments for issues.
2.3 Develop taxpayer-centric notices.
2.4 Expand tax certainty and issue resolution programs.
2.5 Offer proactive debt resolution.
2.6 Expand engagement with non-filers.
2.7 Use improved data and analytics to tailor timely collections contacts.

Major Program:
Enforcement of Tax Legislation

Total Program Cost:
Objective 2 is combined with Objective 3

Strategic Objective 3: **Focus expanded enforcement on taxpayers with complex tax filings and high-dollar noncompliance to address the tax gap.***

3.1 Employ centralized, analytics-driven, risk-based methods to aid in the selection of compliance cases.
3.2 Expand enforcement for large corporations.
3.3 Expand enforcement for large partnerships.
3.4 Expand enforcement for high-income and high-wealth individuals.
3.5 Expand enforcement in areas where audit coverage has declined to levels that erode voluntary compliance.
3.6 Pursue appropriate enforcement for complex, high-risk and emerging issues.
3.7 Promote fairness in enforcement activities.

Major Program:
Enforcement of Tax Legislation

Total Program Cost:
$10,916 million

* The total costs of Objectives 2 and 3 align to Major Program, Enforcement of Tax Legislation.

Strategic Objective 4: **Deliver cutting-edge technology, data and analytics to operate more effectively.**

- **4.1** Transform core account data and processing.
- **4.2** Accelerate technology delivery.
- **4.3** Improve technology operations.
- **4.4** Continue to ensure data security.
- **4.5** Maximize data utility.
- **4.6** Apply enhanced analytics capabilities to improve tax administration.
- **4.7** Strategically use data to improve tax administration.
- **4.8** Partner to expand insights.

Major Program:	**Total Program Cost:**
Transformation of Business Systems	$943 million

Strategic Objective 5: **Attract, retain, and empower a highly skilled, diverse workforce and develop a culture that is better equipped to deliver results for taxpayers.****

- **5.1** Redesign hiring and onboarding.
- **5.2** Attract a talented and diverse workforce.
- **5.3** Improve the employee experience.
- **5.4** Help employees grow and develop.
- **5.5** Develop a data-savvy workforce.
- **5.6** Elevate workforce planning strategy.
- **5.7** Improve organizational structures and governance.
- **5.8** Build a culture of service and continuous improvement.

** The IRS distributes costs associated with Objective 5 initiatives among Objectives 1, 2, 3 and 4.

IRS Performance Measurement Reporting Process

The IRS Congressional Budget Justification & Annual Performance Report and Plan (www.irs.gov/about-irs/budget-documents), approved by the IRS Commissioner and Deputy Commissioners, includes key performance measures, with annual and outyear targets and key performance indicators, which are tracked without targets when initially created, in the absence of historical data, and when there's a lessened degree of control over the measurable value. Targets are not required for indicators. The IRS uses these key metrics to assess progress in achieving the success in major program areas and reports its performance data in the IRS Congressional Budget Justification & Annual Performance Report and Plan. All performance ratings in the FY 2023 Agency Financial Report are considered preliminary. The IRS will publish its final ratings in the FY 2025 IRS Congressional Budget Justification & Annual Performance Report and Plan, which is generally published after the State of the Union Address.

Summary of FY 2023 Results: The IRS has a total of 28 key performance measures and key performance indicators that support IRS major program areas, of which 19 are key performance measures with targets and 9 are key performance indicators. The IRS exceeded the FY 2023 target for 14 out of 19 key performance measures and 3 out of 6 key performance indicators are trending in the desired direction compared to the prior year result. Results were not available for 3 key performance indicators; those results will appear in the FY 2025 IRS Congressional Budget Justification & Annual Performance Report and Plan.

Refer to the Verification and Validation of Performance Data information at the end of this performance overview section for details on the IRS's approach to verification and validation of performance data and performance measurement reporting.

Strategic Objective 1: Dramatically improve services to help taxpayers meet their obligations and receive the tax incentives for which they are eligible.

Major Program | Service to the Taxpayer

Filing taxes can be time-consuming and difficult; however, the IRS strives to meet demands for taxpayer services. Taxpayers want a more seamless filing process, similar to the services available in other sectors. The IRS is committed to significantly improving services by providing taxpayers, including individuals, businesses and tax professionals, with tools, information and assistance to make it easier for them to comply.

In FY 2023, the IRS continued efforts to improve the availability and accessibility of customer service by holding Taxpayer Experience Days (opening Taxpayer Assistance Centers on select Saturdays) during the filing season and in May for walk-in services. The IRS conducted outreach events in underserved and rural communities to provide direct assistance to taxpayers who do not have convenient access to a live assistor.

The IRS continued to expand digital services and digitalization during FY 2023 using the new Digital Enablement Platform and launching a pilot for enhanced scanning of key tax forms. The IRS completed both a full implementation plan for Online Account enhancements developed for individual, business and tax professional online accounts and worked to expand taxpayers' ability to schedule payments, cancel scheduled payments and save bank information.

The IRS streamlined several customer assistance options by building and implementing new options that allow taxpayers to communicate with the IRS across different channels, including enhanced options to submit documents online. The IRS began developing authentication requirements for online-to-phone cross-channel capability as well as developing authorization and data policy for business entities to support Business Account access capability for Business Online Account access and activity.

The IRS has undertaken efforts to expand identity-proofing, make more services available to authenticated taxpayers and expand access for certain types of taxpayers, such as Individual Tax Identification Number holders and international taxpayers. This includes expanding 24/7 customer support in more than 240 languages for the video chat verification option.

While the IRS continues to make changes to improve the availability and accessibility of customer service, taxpayers saw immediate improvements during the 2023 tax season. The level of service for the filing season was 87%, including an average taxpayer telephone wait time of approximately three minutes. This was a big improvement compared to 28 minutes in tax season 2022.

Objective 1 Performance Results

The IRS met or exceeded 5 out of 6 of its Objective 1 key performance measures and 1 out of 3 of the key performance indicators are trending in the desired direction compared to the prior year result.

TABLE 1: Summary of key performance results for Fiscal Years 2019–2023

Key Performance Measures	2019 Actual	2020 Actual	2021 Actual	2022 Actual	2023 Target	2023 Actual
Customer Service Representative Level of Service[1]	65.4%	53.1%	18.5%	17.4%	60.0%	**51.8%**
Customer Accuracy – Tax Law (Phones)[2]	91.6%	91.0%	92.8%	92.0%	87.0%	**91.4%**
Customer Accuracy – Accounts (Phones)[3]	94.3%	93.5%	93.0%	91.8%	87.0%	**89.2%**
Timeliness of Critical Individual Filing Season Tax Products to the Public[4]	92.6%	78.4%	92.0%	96.4%	83.0%	**96.4%**
Timeliness of Critical TE/GE & Business Tax Products to the Public[5]	96.1%	96.0%	92.9%	96.0%	85.0%	**86.5%**
Enterprise Self-Assistance Participation Rate[6]	85.4%	90.6%	92.3%	93.9%	94.0%	**94.2%**

■ Target met, or indicator trending in the desired direction compared to the prior year result.

■ Target not met, or indicator not trending in the desired direction compared to the prior year result.

* Historical data provided for comparative purpose.

** Results not available and are not included in the total Key Performance Indicators count above. Results will appear in the IRS FY 2025 Congressional Budget Justification & Annual Performance Report and Plan.

[1] The number of toll-free callers that either speak to a Customer Service Representative or receive informational messages divided by the total number of attempted calls. From October 1, 2022, through September 30, 2023, Customer Service Representative Level of Service was 51.8%, which was 13.6% below the target of 60%, and an increase of 197.8% over the prior year actual level of service of 17.4%. The level of service for the filing season (from January 23 through April 21) was 87%. The IRS allocated employees in October through December, from accounts management that answer phone calls, to assist in processing correspondence. This resulted in delivering a lower level of service. Customer service representatives answered around 17.9 million calls in FY 2023 while accounts management demand fell 52.3% to 38.8 million, from 81.3 million in FY 2022. Average wait time was 10.1 minutes, which was less than half the average from the prior fiscal year of 26.0 minutes. In FY 2023, around 8.5 million taxpayers were offered a callback and 64% accepted. This resulted in around 2.4 million hours saved for the taxpayer, providing a better experience. To meet service goals, the IRS will continue to monitor demand in real time and the resources allocated down to the half hour enabling us to regularly shift people between telephones and paper.

[2] The percentage of correct answers given by a live assistor on toll-free tax law inquiries.

[3] The percentage of correct answers given by a live assistor on toll-free account inquiries.

[4] The percentage of critical individual filing season tax products available to the public seven calendar days before the official IRS start of the individual filing season.

[5] The percentage of critical Tax Exempt and Government Entities and business tax products available to the public seven calendar days before the official IRS start of the individual filing season.

[6] The percentage of taxpayer assistance requests resolved using self-assisted automated services.

Key Performance Indicators	2019 Actual	2020 Actual	2021 Actual	2022 Actual	2023 Target	2023 Actual
Taxpayers Satisfied with the IRS[7]	73	74	70	69	Indicator	N/A**
Total Ending Inventory (Thousands)*,[8]	1,100	1,100	4,100	2,156	Indicator	**2,923**
Percent of Closures to Receipts*,[9]	92.7%	99.6%	71.9%	116.4%	Indicator	**93.8%**
Level of Service(A)*,[10]	79.2%	71.6%	38.2%	39.3%	Indicator	**66.4%**

■ Target met, or indicator trending in the desired direction compared to the prior year result.
■ Target not met, or indicator not trending in the desired direction compared to the prior year result.
* Historical data provided for comparative purpose.
** Results not available and are not included in the total Key Performance Indicators count above. Results will appear in the IRS FY 2025 Congressional Budget Justification & Annual Performance Report and Plan.

[7] The score of taxpayers satisfied with the IRS according to the American Customer Satisfaction Index survey. The All-Individual Tax Filer score is calculated from separate American Customer Satisfaction Index Individual Paper Filer and Electronic Filer Customer Satisfaction Index Scores. Based on a 100-point scale.

[8] The total number of accounts management and correspondence work to be processed in inventory. Ending correspondence inventory was higher in FY 2023 mainly due to an increase in amended business returns received. This indicator was added to performance reporting in FY 2022.

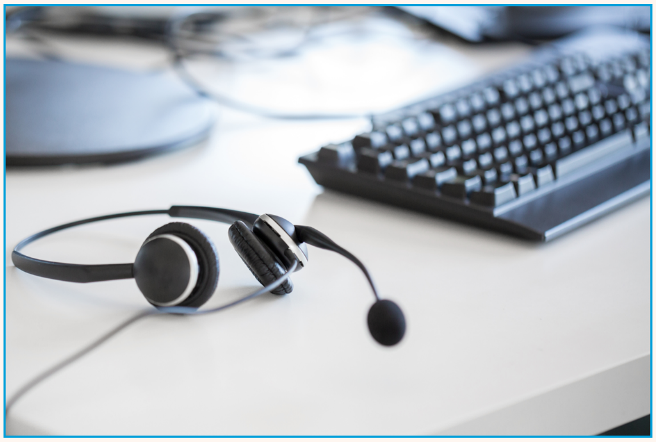
[9] The number of adjustment cases closed compared to the number received. This indicator was added to performance reporting in FY 2022.

[10] The relative success rate of taxpayers that call seeking assistance and receive a response to their inquiry by an assistor or through automated responses divided by the total number of attempted calls. This indicator was added to performance reporting in FY 2023.

During a Community Assistance Visit event, a cross-functional group of employees in Hastings, Nebraska helped taxpayers with their concerns.

Customer callback option now available for up to 95% of callers seeking live assistance

In July, the IRS expanded the availability of its customer callback option to cover up to 95% of callers seeking live assistance. Expanding customer callback is one of several improvements to taxpayer service outlined in the IRS's SOP. The main goal of the customer callback feature is to enhance the taxpayer's experience with the IRS by giving them more options when call volumes are high.



Stock Imagery, Luis Alvarez, gettyimages

The expansion included adding the customer callback option to an additional 73 toll-free applications, bringing the total number of applications with an option for customer callback to 116. Applications are used to route taxpayers to destinations for service on specific topics.

The long road to expanding customer callback

Customer callback was first offered by the IRS in January 2019. At that time, it was available on one toll-free application. In the subsequent years, the option was expanded incrementally. By January 2023, the customer callback option had been expanded to cover 43 toll-free applications which represented 75% of the live assistance volume. The agency also had an enterprise solution in place to replace the pilot program.

"This was a huge effort that required tremendous collaboration and coordination across the IRS. The team's efforts resulted in the delivery of the customer callback feature a year ahead of schedule," shares Wage and Investment Commissioner Ken Corbin.

"From a technical perspective, we've turned a corner on what we can do to improve the experience of calling the IRS," said Vaishali Narkhede, the acting executive lead for the live assistance program in Information Technology. "I'm incredibly proud of the team and hopeful that the expansion substantially reduces the need for repeat calls to the IRS."

Since January 2019 through the end of July 2023, taxpayers have saved more than 8.6 million hours by not being on hold. The customer satisfaction survey results state that more than 85% of the taxpayer's surveyed said they were satisfied with their callback experience.

On the horizon: more technology improvements to enhance customer service

Based on data and trends in customer preferences,[1] the IRS continues to invest in technology improvements that will enhance customer service. This includes technology investments that make it easier to pay your taxes over the phone, investments in digital options for communicating back-and-forth with the IRS across different channels, as well as investments to enhance the tools people use to track the status of their refund and/or amended return.

Looking ahead, the IRS plans to add and enhance the conversational voicebots available on toll-free lines, as well as adding chatbots that make it easier for people to get the information they need without needing to wait on the availability of customer service representatives.

> *"This was a huge effort that required tremendous collaboration and coordination across the IRS. The team's efforts resulted in the delivery of the customer callback feature* ***a year ahead of schedule****."*
>
> **–Ken Corbin**
> Wage and Investment Commissioner

[1] Most people say they initiate contact with the IRS through the agency's website and toll-free numbers, according to results from the 2021 Comprehensive Taxpayer Attitude Survey. In addition, most taxpayers believe the IRS should focus its efforts on improving in-person and phone call assistance to taxpayers.

Strategic Objective 2: Quickly resolve taxpayer issues when they arise.

Major Program | Enforcement of Tax Legislation

Millions of taxpayers make simple mistakes when completing their returns, and millions fail to properly claim tax incentives for which they are eligible. Resolving these and other simple mistakes can be a prolonged process. Through investments in data management and taxpayer communications tools, the IRS will work to resolve these issues faster and prevent their recurrence. The initiatives that support this objective will leverage a multi-channel outreach approach.

In FY 2023, Online Account for individuals provided 19 specific notices that taxpayers are able to view, print or download. It also allows some taxpayers to respond to certain notices online and quickly resolve issues using a secure two-way communication channel. These taxpayers can chat with IRS employees, view and send messages and receive and upload applicable documents via their online account. Also, Duplicate Dependent notices are sent to taxpayers when a dependent on their tax return was also claimed on another return. The notice provides them with information on accurately claiming dependents and immediate actions to take if a dependent was claimed in error. In addition, the IRS continued its efforts to increase awareness of tax certainty programs and their benefits to taxpayers with complex issues.

The IRS published an Interim Guidance Memorandum setting forth guidance for considering Advance Pricing Agreement submissions from taxpayers. As part of its initiative to offer proactive debt resolution, the IRS updated the self-service payment plan functionality in Online Account for individual taxpayers. The IRS worked to expand engagement with non-filers by developing notices for IRS core tax processing systems for the Case Creation Non-Filer Identification Process and to launch a pilot program to address new non-filers.

Using IRS Online Account on IRS.gov allows you to easily do several things with your taxpayer account. Find out more by visiting: www.irs.gov/account.

View this and other helpful videos on IRS's Youtube Channel, IRSVideos.

Objective 2 Performance Results

The IRS met the target of its Objective 2 key performance measure and 2 out of 2 of the key performance indicators are trending in the desired direction compared to the prior year result.

TABLE 2: Summary of key performance results for Fiscal Years 2019–2023

Key Performance Measures	2019 Actual	2020 Actual	2021 Actual	2022 Actual	2023 Target	2023 Actual
Collection Coverage[1]	41.3%	34.9%	41.2%	38.3%	33.4%	**34.9%**
Key Performance Indicators	**2019 Actual**	**2020 Actual**	**2021 Actual**	**2022 Actual**	**2023 Target**	**2023 Actual**
Time to Start Compliance Resolution*,[2]	60.9%	66.3%	66.0%	68.0%	Indicator	**72.0%**
Time to Resolve Compliance Issue After Filing*,[3]	469	491	484	404	Indicator	**372**
Repeat Noncompliance Rate*,[4]	31.4%	35.6%	30.7%	28.1%	Indicator	N/A**
Cost to Collect $100[5]	$0.33	$0.35	$0.33	$0.29	Indicator	N/A**

■ Target met, or indicator trending in the desired direction compared to the prior year result.

■ Target not met, or indicator not trending in the desired direction compared to the prior year result.

* Historical data provided for comparative purpose.

** Results not available and are not included in the total Key Performance Indicators count above. Results will appear in the IRS FY 2025 Congressional Budget Justification & Annual Performance Report and Plan.

[1] The volume of collection work disposed compared to the volume of collection work available.

[2] The percentage of all individual income tax enforcement cases started within six months of the return posting date. This indicator was added to performance reporting in FY 2020.

[3] The median time it takes to close all individual income tax enforcement cases in days (excluding disaster, bankruptcy and Tax Equity and Fiscal Responsibility Act cases for exam and collection cases that are not closed as full paid) starting from filing date. This indicator was added to performance reporting in FY 2020.

[4] The percentage of individual taxpayers in a fiscal year with noncompliance two years after the initial tax year that contains a filing, payment or reporting compliance issue, compared to total taxpayers. This indicator was added to performance reporting in FY 2020.

[5] The cost of collecting $100 is computed as total operating costs divided by gross collection multiplied by 100.

The IRS continues reopening Taxpayer Assistance Centers; 47 reopened following IRA funding

As part of an expanding effort to improve service, the IRS continued reopening Taxpayer Assistance Centers across the country while also starting a special series of events, such as Community Assistance Visits, to help taxpayers located in areas not close to the IRS's in-person offices.

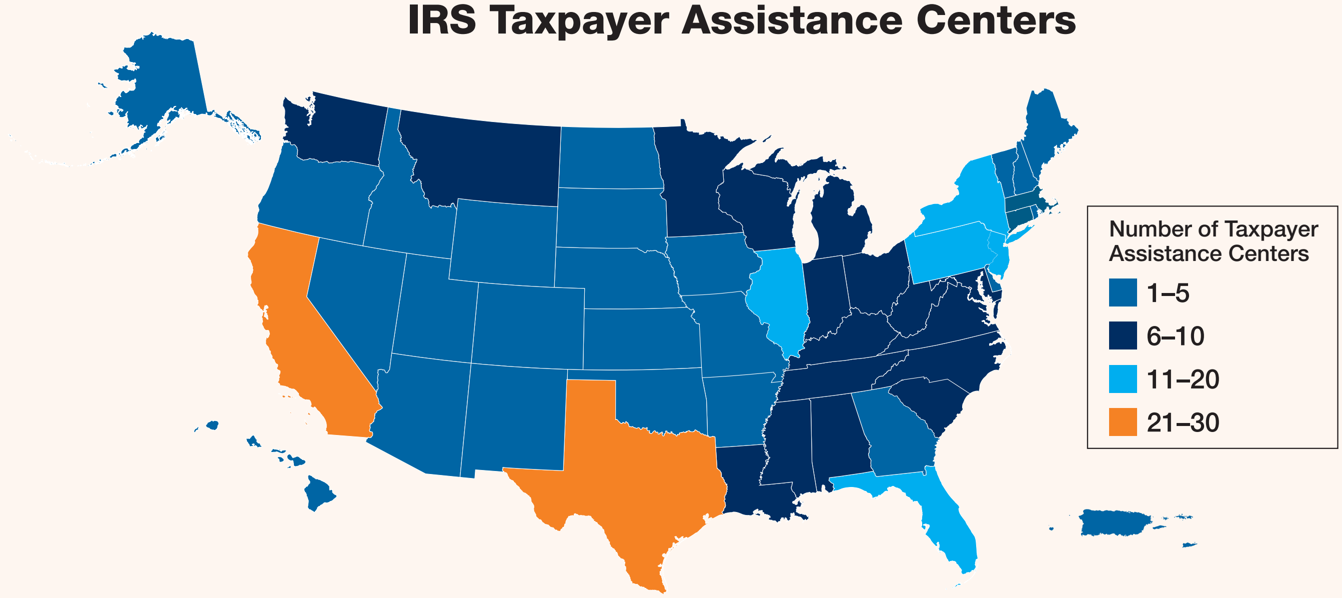
In these new Community Assistance Visits, the IRS sets up a temporary Taxpayer Assistance Center to give taxpayers from underserved areas an opportunity to meet face-to-face with IRS assistors. This is part of a larger effort underway to transform the IRS and improve service to taxpayers as part of the new SOP with funding made available through the IRA. The IRS conducted events in Michigan, Nebraska, Idaho, Alaska, Hawaii, Oregon and Puerto Rico.

“A key part of the IRS transformation effort is to get taxpayers the help they need,” said IRS Commissioner Danny Werfel. “While an important part of this involves providing improved online tools and services, in-person assistance is a vital piece that the IRS cannot overlook. We continue to add staff and reopen previously closed offices. But to help people farther away, these special community visits are designed to get into places where IRS offices are a long distance away or are not convenient for some taxpayers. We want to do more to help taxpayers, and the IRS is putting our additional funding to work through important projects like this.”

The IRA provided the IRS with long-term funding for the agency to transform its operations and improve taxpayer service, enforcement and technology. Projects like the Community Assistance Visits represent part of the SOP, the blueprint for the agency’s transformation work.

For years, observers have noted that IRS Taxpayer Assistance Centers are limited in number or far away from many people who need in-person help or who don't have access to online tools. To address this, the IRS reopened 47 Taxpayer Assistance Centers in FY 2023; a list is provided. In addition, the IRS has hired more than 745 personnel to provide in-person assistance at Taxpayer Assistance Centers. This represents a 31% net increase in staffing compared to FY 2022, and IRS continues to hire to replace departing staff. Taxpayer Assistance Centers have served about 235,000 more taxpayers in FY 2023 than FY 2022, an 18% increase.

IRS Taxpayer Assistance Centers



The IRS reopened 47 Taxpayer Assistance Centers in FY 2023.

- Monroe, LA
- York, PA
- Topeka, KS
- Utica, NY
- Fayetteville, AR
- Hickory, NC
- Rome, GA
- Plantation, FL
- Panama City, FL
- Cranberry Township, PA
- Peoria, IL
- Huntington, WV
- Lincoln, NE
- La Vale, MD
- Altoona, PA
- Fredericksburg, VA
- Parkersburg, WV
- Bend, OR
- Greenville, MS
- Trenton, NJ
- Bellingham, WA
- Augusta, ME
- Jackson, TN
- Joplin, MO
- Colorado Springs, CO
- Glendale, AZ
- Cranberry Township, PA
- La Crosse, WI
- Charlottesville, VA
- Queensbury, NY
- Santa Fe, NM
- Longview, TX
- Overland Park, KS
- West Nyack, NY
- Binghamton, NY
- Casper, WY
- Fort Myers, FL
- Grand Junction, CO
- Rockford, IL
- Hagerstown, MD
- DASE (Guaynabo), PR
- Johnson City, TN
- Prestonsburg, KY
- Vienna, VA
- Greensboro, NC
- Bloomington, IL
- Ponce, PR

Strategic Objective 3: Focus expanded enforcement on taxpayers with complex tax filings and high-dollar noncompliance to address the tax gap.

Major Program | Enforcement of Tax Legislation

Even with improved taxpayer service, some taxpayers will not comply. The rising breadth and complexity of tax administration, coupled with the sophisticated ways that some taxpayers attempt to evade tax, have outpaced the IRS's resources and ability to monitor compliance and close the gap between taxes owed and collected. The IRS will improve efforts to help ensure that the proper amount of tax is paid and to promote future compliance.

Pursuant to Treasury's directive, small businesses and households earning $400,000 or less will not see audit rates increase relative to historical levels. The IRS will increase its focus on segments of taxpayers with complex issues and complex returns where audit rates are minimal today, such as those related to large partnerships, large corporations and high-income and high-wealth individuals. Modern data analysis tools can greatly streamline these efforts, and the technology investments from Objective 4 will enable this work.

Barriers in the hiring process have led to delays in the hiring and onboarding of this first wave of specialists. The IRS is monitoring delays in this area and leveraging areas where the process can be expedited when and where possible.

Objective 3 Performance Results

The IRS met or exceeded 4 out of 6 of its Objective 3 key performance measures.

TABLE 3: Summary of key performance results for Fiscal Years 2019–2023

Key Performance Measures	2019 Actual	2020 Actual	2021 Actual	2022 Actual	2023 Target	2023 Actual
Examination Efficiency – Individual[1]	109	76	108	101	92	**103**
Exam Starts – High Income Individuals*[,2]	2,108	2,693	2,227	3,625	3,817	**4,326**
Exam Starts – Partnerships*[,3]	5,823	4,106	4,327	3,155	8,852	**6,709**
Exam Starts – Large Corporations (Assets >= $250M)*[,4]	2,009	1,700	1,490	1,365	1,121	**1,400**
Criminal Investigations Completed[5]	2,797	2,624	2,766	2,552	2,500	**2,584**
Conviction Rate[6]	91.2%	90.4%	89.4%	90.6%	92.0%	**88.4%**

■ Target met, or indicator trending in the desired direction compared to the prior year result.
■ Target not met, or indicator not trending in the desired direction compared to the prior year result.
* Historical data provided for comparative purpose.

[1] The sum of all individual 1040 returns closed by Small Business/Self-Employed, Wage and Investment, and Large Business and International (Field Exam and Correspondence Exam programs) divided by the total full-time equivalent expended in relation to those individual returns.

[2] The number of examinations of individual returns started during the fiscal year with a total positive income of $10 million and above. This indicator was added to performance reporting in FY 2021.

[3] The number of examinations of partnership returns started during the fiscal year. FY 2023 performance was 6,709, which was a 112% increase from FY 2022. Exam Starts – Partnerships finished below the target of 8,852 due to lower than expected training starts. Reduced training starts are the result of delayed phases of training and additional time given to trainees to start partnership returns. This indicator was added to performance reporting in FY 2021.

[4] The number of examinations of large corporate returns started during the fiscal year reporting assets of $250 million and above. This indicator was added to performance reporting in FY 2021.

[5] The total number of subject criminal investigations completed during the fiscal year, including those that resulted in prosecution recommendations to the Department of Justice as well as those discontinued due to a lack of prosecution potential.

[6] The percent of adjudicated criminal cases that result in convictions.

Nearly 12,000 tax pros attend 2023 IRS Nationwide Tax Forums

The 2023 IRS Nationwide Tax Forums kicked off on July 10, in-person for the first time since 2019, drawing nearly 12,000 paid attendees. The forums – in New Orleans, Atlanta, Washington, D.C., San Diego and Orlando – featured continuing education seminars, focus groups, an exhibition hall, a case resolution room and multiple special events.

Each forum offered 42 live presentations over three days – including four seminars presented in both English and Spanish and a keynote address by senior IRS leaders including Commissioner Danny Werfel. Attendees could earn up to 18 continuing education credits per city.

The continuing education agenda included hot topics in tax administration:

- IRS transformation
- 1099-K reporting changes
- Collection notices
- Cybersecurity
- Digital assets
- Ethics for tax pros

New additions to this year's program included four special events. More than 3,000 attendees participated in these interactive sessions:

- Tax Pro & Entrepreneur: Unleashing Your Potential in the Tax Industry
- The Written Information Security Plan
- Townhall with the National Taxpayer Advocate
- The Taxpayer Experience: Where It Stands Today and Where It's Headed

Meanwhile, the Exhibition Hall featured more than 90 different tax software, financial and business service providers. The Exhibition Hall also included the IRS Zone, with subject matter experts from the Taxpayer Experience Office, Online Services, Small Business/Self-Employed, Wage & Investment, Tax Exempt & Government Entities and Large Business & International.

IRS hiring was a new feature at this year's forums with Human Capital Office recruitment staff providing information on and interviewing attendees for positions across the IRS. Also in 2023, the forums launched a pilot outreach program for college-level accounting students, hosting 49 students and 10 faculty for a one-day "tax adventure" at 4 of the 5 forums in 2023. Students and faculty met with IRS executives, revenue agents and Human Capital Office hiring staff, attended seminars and visited the exhibition hall.

Commissioner Werfel delivers the keynote address to a crowd gathered for the 2023 IRS Nationwide Tax Forum in Atlanta, GA.

Strategic Objective 4: Deliver cutting-edge technology, data and analytics to operate more effectively.

Major Program | Transformation of Business Systems

Technology improvements at the IRS must always be driven by what will improve customer service and enforcement, and in a way that secures taxpayer information. The key dependency for many SOP initiatives is the modernization of the IRS's core information technology infrastructure, which includes some of the oldest information systems in the federal government. Currently, the IRS cannot get the full value of its data because it does not standardize or store it in a single environment.

Until the passage of the IRA, the IRS lacked the resources to bring its technology infrastructure into the current era, and the inability to plan for stable funding led to a start-and-stop approach that did not allow for sustained progress. IRA funding will enable the IRS to make dramatic improvements to its information technology infrastructure. The multi-year nature of the funding will allow the service to successfully plan and deliver. The IRS will design and deliver modern technology platforms that center around data and applications, with integrated protective and detective security controls.

The IRS expanded the use of voicebot for taxpayers calling via authenticated Collection Services phone lines, making it easier for people to fulfill their tax obligations by phone and expanded service options for taxpayers through chat services. The IRS expanded secure messaging to Collection employees that allows taxpayers and their approved agents (powers of attorney) to communicate online with assigned revenue officers. The IRS also expanded digital services and digitalization when it delivered the Information Returns Intake System, a free, modernized online portal, for businesses to electronically file Form 1099 series information returns, demonstrating the IRS's commitment to finding useful and innovative ways of reducing paperwork for the business community and others.

Moreover, taxpayers can now receive and respond to more notices online with the expanded use of the Document Upload Tool. Taxpayers or their tax professionals can use the Document Upload Tool to electronically upload documents rather than mailing them, helping reduce time and effort resolving tax issues. In addition, the IRS is working to ensure employees have the right tools. The IRS continued implementing a single desktop tool for IRS customer service agents to manage calls and chats as part of the "Agent Desktop Modernization" effort and deployed Enterprise Case Management Release 5 providing additional system functionality for various IRS organizations, enabling employees to work and resolve taxpayer issues more efficiently.

The IRS launched another new public-facing program that allows taxpayers to report tax law violations by individuals or businesses through an online portal on IRS.gov. The IRS continued to enhance online self-service options for taxpayers by offering new expanded online account capabilities, such as enabling taxpayers to use their Online Account to create a long-term payment plan and to electronically file Form 1040-X, Amended U.S. Individual Income Tax Return. For the first time, taxpayers will have the ability to use direct deposit for all refunds.

In FY 2023, the IRS enhanced Vulnerability and Threat Management capabilities by delivering analytics tools that leverage machine learning to proactively identify and respond to emerging insider threats and fraudulent behavior. The IRS designed and implemented a new artificial intelligence capability that actively learns how to recognize fraud user behavior.

Objective 4 Performance Results

The IRS met or exceeded 3 out of 4 of its Objective 4 key performance measures.

TABLE 4: Summary of key performance results for Fiscal Years 2019 – 2023

Key Performance Measures	2019 Actual	2020 Actual	2021 Actual	2022 Actual	2023 Target	2023 Actual
Rentable Square Feet per Person[1]	298	278	278	264	261	**248**
Percent of Aged Hardware[2]	31.0%	16.0%	9.3%	7.1%	20.0%	**19.9%**
Percent of Major Information Technology Investments Within +/- 10% Cost Variance at the Investment Level[3]	88.9%	84.2%	94.1%	81.3%	90.0%	**85.7%**
Percent of Major Information Technology Investments Within +/- 10% Schedule Variance at the Investment Level[4]	88.9%	94.7%	100.0%	87.5%	90.0%	**92.8%**

Target met, or indicator trending in the desired direction compared to the prior year result.
Target not met, or indicator not trending in the desired direction compared to the prior year result.
* Historical data provided for comparative purpose.

[1] The amount of rentable square feet the IRS maintains per person requiring space.

[2] This measure shows the percentage of all information technology hardware in operation that is past its useful life.

[3] The number of major information technology investments within +/-10% variance between planned total cost and projected/actual cost within a fiscal year divided by the total number of major information technology investments in the fiscal year. Twelve of 14 major investments were within the cost variance threshold at the close of the 4th quarter. Authentication, Authorization and Access underspent due to applications that will be migrated after filing season 2024 instead of FY 2023. Integrated Data Retrieval System underspent due to a mid-year 2023 project that contributed to a very small variance. Underspent funds will be requested in FY 2024 to complete planned activities. IRS will continue to closely monitor cost reporting for investments in FY 2024 to improve current performance levels for this measure.

[4] The number of major information technology investments within +/-10% variance between planned days and projected/actual days within a fiscal year divided by the total number of major information technology investments in the fiscal year.

Secretary Yellen and Commissioner Werfel visit digital-intake scanning facility in Virginia

Treasury Secretary Janet Yellen and Commissioner Danny Werfel visited a digital-intake scanning facility in McLean, VA to see technology improvements in action and announce an ambitious plan to dramatically reduce paper inside the IRS starting next year and into 2025. Yellen and Werfel highlighted developments on IRS progress toward the digitalization of paper tax returns and other documents. They noted that initiatives like this digital-intake effort serve as concrete examples of IRS accomplishing goals set forth in the SOP and funded by IRA. Yellen and Werfel toured and received a demonstration at the high-speed digital-intake site where cutting-edge technology is being used to scan paper documents as part of ongoing transformation efforts.

In the first quarter of 2023, IRS scanned 80 times more paper returns than in all of 2022 and taxpayers were able to respond online to the 10 most common tax notices, Yellen noted.

"We've made it easier and quicker for Americans to interact with the agency," Yellen said.

Yellen showcased another specific goal for IRS that will be achieved through IRA funding and expansion of customer service initiatives. "Today, we're announcing that – by the next filing season – taxpayers will be able to digitally submit all correspondence, non-tax forms, and notice responses to the IRS," said Yellen, who went on to note that taxpayers could still respond with paper correspondence at their own preference, and they, too, would benefit from this and other digitalization efforts. "For those taxpayers, by filing season 2025, the IRS is committing to digitally process 100% of tax and information returns that are submitted by paper – as well as half of all paper correspondence, non-tax forms, and notice responses. It will also digitalize historical documents that are currently in storage at the IRS."

> *"We've made it easier and quicker for Americans to interact with the agency."*
>
> **–Janet Yellen**
> Treasury Secretary

Commissioner Werfel echoed Secretary Yellen's comments regarding IRS achievements and future IRA-enabled commitments. "We've seen some major accomplishments, and many more are in progress as we work to modernize the way we serve taxpayers through improved technology, better service and fairer enforcement," said Werfel. "But the Paperless Process Initiative we're launching today stands out as a special one out of all these projects. It's a very clear example of how with the right funding and the right priorities, we can relatively quickly move the IRS operations decades forward."

The Commissioner also took time to acknowledge the internal effort that make these achievements possible. "This has been a team effort," he said. "I want to recognize the IRS's Office of Enterprise Digitalization – who we fondly refer to inside the IRS as 'Team Digi' – as well as the various IRS operating divisions participating in the scanning initiative that has been a long time in the making," Werfel said, highlighting contributions from Wage and Investment, Information Technology, Privacy, Governmental Liaison and Disclosure and Procurement.

Werfel added, "There are many other parts of the IRS involved in this effort, including the Taxpayer Advocate Service. And a central part of this effort will be our new Transformation and Strategy Office, which is helping put in place scanning as part of the new SOP. I deeply appreciate all their hard work to get us where we are today and to keep us moving forward in this vital area."

The Digital Intake Center in McLean, VA employs cutting edge technology to quickly and accurately scan paper documents as part of IRS's ongoing modernization efforts

Others leading the charge to modernize the IRS through digital intake were themselves well aware of the impact of this demonstration and the importance of this ongoing effort. "It was an honor to represent #teamdigi and our many stakeholders in demonstrating one of several cutting-edge optical recognition advancements the IRS is harnessing to serve taxpayers better for Secretary Yellen," said Harrison Smith, Project Director, Enterprise Digitalization Management. "I am very proud to be part of the team as we move forward with truly evolutionary step and am excited to see how things will continue to improve under the leadership of the Digitalization Initiative."

Strategic Objective 5: Attract, retain and empower a highly skilled, diverse workforce and develop a culture that is better equipped to deliver results for taxpayers.

To offer taxpayers world-class service, the IRS will invest in attracting, developing and retaining exceptional talent. People are the heart of the IRS and its most valued asset. Despite momentous challenges including funding, technology and staffing constraints, IRS employees remain resilient and are vital to implementing the strategies and pursuing the priorities to meet all SOP objectives.

The IRS will invest in and focus on people, equipping and empowering them with the technology, equipment, training and tools they need to be successful. The IRS will assess and reshape its workforce to meet future requirements, foster a positive employee experience and create a workplace that reflects the diversity of the taxpayers it serves and the unique talents of each person. IRS employees will have the modern tools and upgraded facilities they need to perform their best, collaborate effectively and build meaningful connections within and across teams.

During FY 2023, the IRS developed an enterprise-wide recruiting strategy for Revenue Agents and will expand the strategy to other priority positions as it works toward a unified, enterprise-wide recruiting strategy.

Work is currently underway to improve the employee experience across the IRS, such as performing external scans on best practices of other federal agencies and options for supplementing existing awards programs. The IRS also performed work in areas targeted toward helping employees cultivate and grow, as well as developing a data-savvy workforce. This includes soliciting sprint teams to focus on curriculum development including simulation labs, leadership coaching, mentoring and avatars. Additionally, the IRS completed several facility inspections to create a safer working environment and began addressing major deficiencies in key working locations.

Fiscal Year 2023, the STARS* Recruitment Team Stats

52,008 job seekers engaged

61 virtual events held

48 in-person events supported in **21** different cities

13,526 tentative job offers sent

20 events emphasized the Agency's commitment to hiring Veterans, Individuals with Disabilities (Schedule A) and cultivating a diverse workforce

*Strategic Talent Analytics & Recruitment Solutions office

Objective 5 Performance Results

The IRS met or exceeded 1 out of 2 of its Objective 5 key performance measures and the key performance indicator is not trending in the desired direction compared to the prior year result.

TABLE 5: Summary of key performance results for Fiscal Years 2019 – 2023

Key Performance Measures	2019 Actual	2020 Actual	2021 Actual	2022 Actual	2023 Target	2023 Actual
Attrition Rate[1]	7.31%	6.15%	7.52%	9.72%	7.97%	**8.43%**
Hiring Cycle Time*[,2]	117.6	119.5	98.6	80.63	80	**77.14**
Key Performance Indicators	**2019 Actual**	**2020 Actual**	**2021 Actual**	**2022 Actual**	**2023 Target**	**2023 Actual**
Employee Engagement Index[3]	68.6%	74.2%	73.5%	73.1%	Indicator	**72.9%**

Target met, or indicator trending in the desired direction compared to the prior year result.

Target not met, or indicator not trending in the desired direction compared to the prior year result.

* Historical data provided for comparative purpose.

[1] Attrition Rate is the total number of full-time permanent employees that left the IRS during the fiscal year divided by the number of full-time permanent employees on board at the beginning of the fiscal year plus the number of full-time permanent new hires. The attrition rate was higher than projected as a result of resignations, mostly customer service representatives during and after initial technical training.

[2] Hiring Cycle Time is the number of days between the date a hiring request is approved (or a certificate is issued) to the enter on duty date. This measure was added to performance reporting in FY 2019.

[3] The Office of Personnel Management Employee Engagement Index is a measure of the conditions conducive to engagement. The index consists of 15 items grouped into three subindices: Leaders Lead, Supervisors, and Intrinsic Work Experience. The Office of Personnel Management measures this government-wide. The change in the IRS Employee Engagement Index from the prior year is not statistically significant and remained above the government-wide average of 71.7%.

Verification and Validation of Performance Data

The IRS requires complete, accurate and reliable performance data to assess progress toward its strategic objectives and program outcomes to make good management decisions. The IRS's approach to verification and validation of performance data to improve accuracy and reliability is based upon the following:

1. The IRS reviews performance measures through its annual performance assessment process with Treasury. This assessment includes reviewing the extent to which currently reported performance measures support the strategic plan and priorities and identifying or developing new performance measures to fill any gaps.

2. IRS business units use a standard template to document detailed information for each performance measure. The IRS includes these measure templates in its comprehensive data dictionary, which it maintains corporately and updates annually. For each measure, the data dictionary includes information including, but not limited to:
   - Definition
   - Business unit
   - Responsible Official
   - Formula/methodology for computation
   - Source of the data
   - Data limitations
   - Management controls

3. The Responsible Official for the measure is responsible for assessing the completeness, consistency, timeliness and quality of the data, following the documented procedures for gathering the data and ensuring management controls are in place. The Heads of Office are accountable for their performance results. These positions vary by business unit.

4. The CFO's Strategic Planning office reviews quarterly and year-end performance measure results before sharing the results with the Senior Executive Team and/or publishing them in Treasury and IRS documents. The Strategic Planning office also independently reviews the performance measure targets and accompanying documentation to ensure the targets reasonably reflect allocated funding. If anomalies occur, the Strategic Planning office informs the business unit, which makes any necessary adjustments. Leadership reviews all target adjustments as part of the budget development and review process.

5. As part of managing the portfolio of enterprise performance measures, the Strategic Planning office conducts ad-hoc meetings with business units to discuss topics such as: oversight, responsibilities of ownership, guidance on measurement and reporting and organizational change.

6. At the end of each fiscal year, the business units who are involved in the collection and reporting of these measures receive a notification from the Strategic Planning office, reminding them of their responsibility for:
   - Ensuring the quality and accuracy of the performance data,
   - Reviewing and following Internal Revenue Manual guidelines when proposing new and modifying existing measures and
   - Ensuring there are sufficient controls in place for proper and accurate reporting of their performance results.

These procedures help to provide assurances that the performance data and internal controls reported by the IRS are sufficiently complete, accurate and reliable.

Detailed guidance on the appropriate use and application of performance information appears in Internal Revenue Manual 1.5.1: The IRS Balanced Performance Measurement System (www.irs.gov/irm/part1/irm_01-005-001).

ENTERPRISE RISK MANAGEMENT

In compliance with the Office of Management and Budget Circular No. A-123, Management's Responsibility for Enterprise Risk Management and Internal Control, the IRS conducts an annual Enterprise Risk Assessment and develops an Enterprise Risk Profile. The Enterprise Risk Profile articulates the IRS's top risks to achieving its strategic objectives. The annual Enterprise Risk Assessment process includes internal and external environmental scanning activities and a comprehensive aggregation and analysis of business unit risks.

Over the last 12 months, the IRS has seen its risk environment transformed. From the passage of the IRA, to emerging challenges and opportunities implementing SOP initiatives, the only guarantee is that the IRS will continue to face new and evolving risks to its mission. Existing challenges remain as the IRS works toward increasing and training enforcement staff, modernizing information technology, tackling a rapidly evolving fraud risk environment and handling increased insider risk complexities.

Risk is about uncertainty, and while significant progress has been made in many areas, including many of the risks below, the IRS's challenge lies in maintaining that positive trajectory in an uncertain future. The use of emerging technologies will provide opportunities for the IRS to improve and enhance operations, while also posing risks to security posture for fraud, cyber and data. Additionally, the shift from labor shortages to challenges surrounding recruiting and onboarding new personnel, including contractors, as well as providing effective oversight, has shifted the nature of several risks to achieving the IRS's mission. Understanding all of these intersecting risks and opportunities, the top six IRS enterprise risks over the next 12-18 months are:

- **Data Security:** The risk that an inability to protect sensitive data from unauthorized access, disclosure, use, modification, or destruction may result in exposure of taxpayer or other sensitive data, potentially negatively impacting public trust.
- **Impact and Implementation of Legislation and Other Requirements:** The risk that failure to timely and effectively implement an increasing number of complex multi-year legislative and non-statutory requirements, including increased audit activities, may adversely impact the ability to fulfill core responsibilities and commitments to modernize technology, enhance service delivery and more effectively enforce the tax law, ultimately eroding trust and confidence in the IRS.
- **Information Technology Modernization, Operations, Support and Funding Levels:** The risks centered around Information Technology systems maintaining continuity (Operations and Maintenance funding), improving capabilities (Modernization), reducing aged hardware and software and strengthening cybersecurity protections that may expose them to threats and outages reducing efficiency and effectiveness of IRS operations, ultimately limiting the IRS from performing its core mission.

- **Critical Staffing Challenges:** The risk that challenges with hiring and backfilling employees, including those with specialized skills and expertise, coupled with increased attrition and challenges to onboard new employees, may result in critical business failures, diminished service to taxpayers, loss of institutional knowledge, dependence on contractors and a lack of resilience to events impacting employees' ability to work.
- **Adverse Impact of Reduced Enforcement on Compliance:** The risk that reduced enforcement activities may adversely impact compliance, erode confidence in the tax administration system and contribute to the tax gap.
- **Cybersecurity:** The risk that the increased complexity and sophistication of cyber threats on computer systems, networks, and digital assets from cyber-attacks including insider threats, social engineering and unauthorized access to sensitive information, results in data loss, refund fraud, identity theft, ransomware, loss of trust or denial of service.

ANALYSIS OF FINANCIAL STATEMENTS

Financial Management Highlights

The financial statements are prepared to report the financial position and results of operations, pursuant to the requirements of 31 U.S. Code Section 3515(b). The statements are prepared from records of federal entities in accordance with U.S. generally accepted accounting principles and the formats prescribed by the Office of Management and Budget. Reports used to monitor and control budgetary resources are prepared from the same records. Users of the statements are advised that the statements are for a component of the U.S. government.

The IRS is responsible for the administration of tax laws and the custodial collections of taxes for the U.S. government. The financial management activities that support the responsibilities of the IRS are divided into two distinct account categories: administrative and custodial. Administrative accounts are included as appropriations and offsetting collections in the Statements of Budgetary Resources. These resources are also reflected as assets, liabilities, revenues, expenses, and ultimately the net position of the IRS. Custodial accounts include activity in support of tax collections. The IRS collects the majority of receipts for the U.S. government. These receipts are accounted for in designated custodial accounts as presented on the Statements of Custodial Activity. Custodial accounts are also included in Fund Balance with Treasury, Federal Taxes Receivable, Net and Federal Tax Refunds Payable.

Financial Statement Overview

In FY 2022, the IRS received $79,411 million in supplemental funding through the IRA. This funding is available through the end of FY 2031. IRA obligations incurred total $3,396 million and $106 million in FY 2023 and FY 2022, respectively, with $74,520 million remaining unobligated to carry forward into FY 2024. The Fiscal Responsibility Act of 2023 rescinded $1,389 million of IRA funding. IRA unobligated balances at the end of FY 2023 are broken out as follows: Taxpayer Services – $2,292 million, Enforcement – $43,949 million, Business Systems Modernization – $3,984 million, Operations Support – $23,792 million, Energy Security – $500 million and Direct E-File Taskforce – $3 million.

The following financial statement analysis provides an overview of the IRS's financial position and results of operations with an emphasis on significant variations in financial statement line items. Complete audited financial statements with accompanying notes, including the independent auditor's report, are presented in the Financial Section of this report. In addition, Note 21. COVID-19 Activity and Note 22. Inflation Reduction Act provide information for budgetary resources, obligations incurred, the remaining available budgetary resources and specific note disclosure data related to IRS supplemental appropriations for FY 2023 and FY 2022.

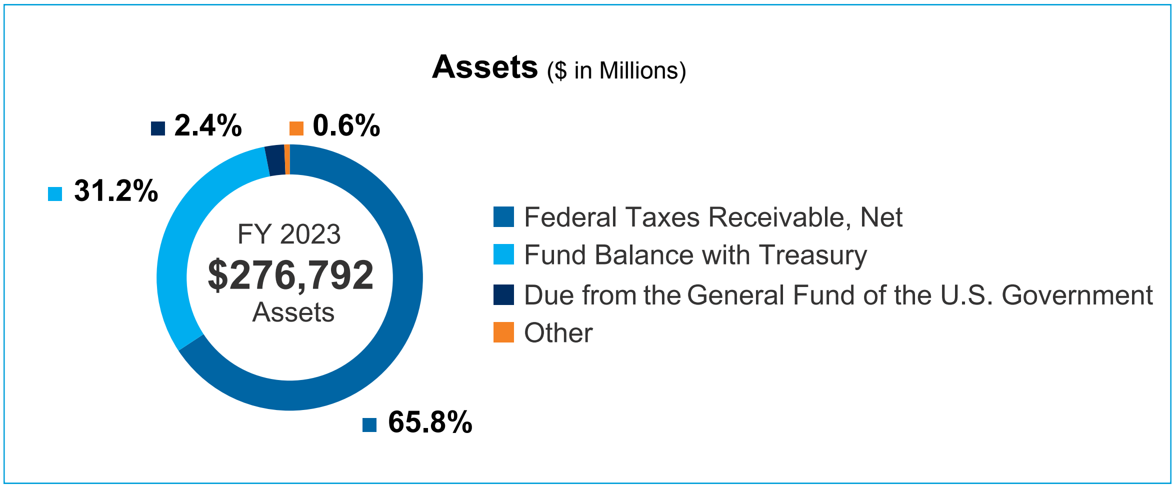
Financial Statement Analysis

Analysis of the Balance Sheets

The Balance Sheets display amounts of future economic benefits owned or available for use (assets), amounts owed (liabilities) and the residual amounts (net position) at the end of the fiscal year. The following chart displays changes in Balance Sheet line items as of the fiscal year ended September 30, 2023, compared to September 30, 2022.

($ in Millions)	2023	2022	$ Change	%Change
ASSETS				
Federal Taxes Receivable, Net	$ 182,000	$ 236,000	$ (54,000)	-22.9%
Fund Balance with Treasury	86,347	87,389	(1,042)	-1.2%
Due from the General Fund of the U.S. Government	6,647	6,947	(300)	-4.3%
Other	1,798	1,854	(56)	-3.0%
Total Assets	**$ 276,792**	**$ 332,190**	**$ (55,398)**	**-16.7%**
LIABILITIES				
Intragovernmental	$ 185,633	$ 238,624	$ (52,991)	-22.2%
Federal Tax Refunds Payable	6,648	6,947	(299)	-4.3%
Other	4,368	2,235	2,133	95.4%
Federal Employee Benefits Payable	1,009	1,003	6	0.6%
Total Liabilities	**$ 197,658**	**$ 248,809**	**$ (51,151)**	**-20.6%**
NET POSITION				
Unexpended Appropriations	$ 77,569	$ 82,049	$ (4,480)	-5.5%
Cumulative Results of Operations	1,565	1,332	233	17.5%
Total Net Position	**$ 79,134**	**$ 83,381**	**$ (4,247)**	**-5.1%**

Assets of the IRS primarily comprise: Federal Taxes Receivable, Net; Fund Balance with Treasury; Due from the General Fund of the U.S. Government; and Other, which primarily consists of Property and Equipment, Net. The composition of FY 2023 assets is presented as follows:

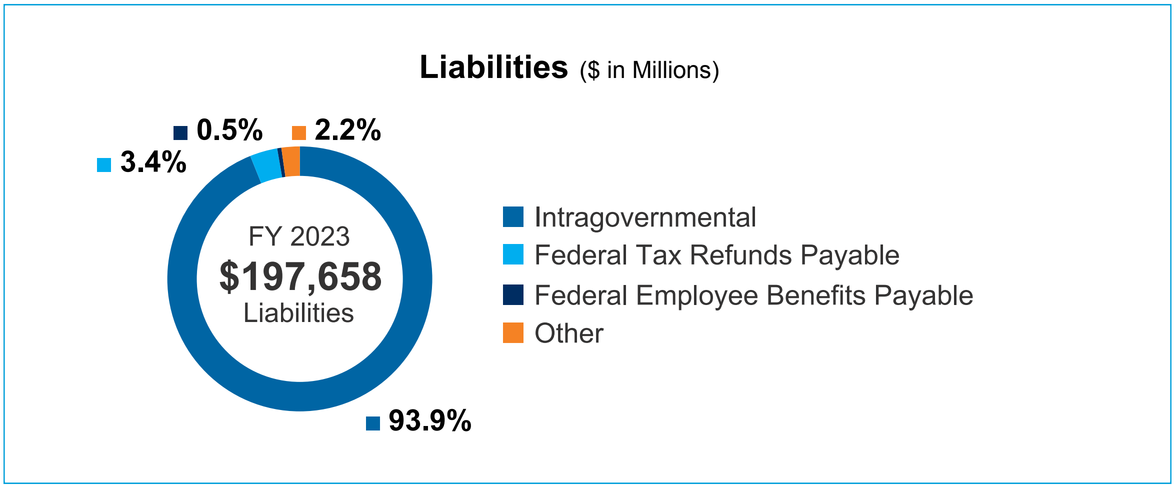


Asset fluctuations primarily include: decreased Fund Balance with Treasury; decreased Federal Taxes Receivable, Net; and decreased Due from the General Fund of the U.S. Government.

Fund Balance with Treasury decreases of $1,042 million are primarily associated with expenses incurred against the supplemental appropriations received from the IRA. Due from the General Fund of the U.S. Government decreased by $300 million as this line item correlates to Federal Tax Refunds Payable. Amounts Due from the General Fund of the U.S. Government represents funds that will be used as resources to disburse federal tax refunds.

Federal Taxes Receivable, Net, decreased by $54,000 million in FY 2023 as compared to FY 2022. This decrease is primarily due to payments on the employer portion of Federal Insurance Contributions Act Social Security taxes due to the federal government provided under the Coronavirus Aid, Relief and Economic Security Act. These deferrals are discussed in greater detail in Note 5. Federal Taxes Receivable, Net.

Liabilities include Intragovernmental (Due to the General Fund of the U.S. Government and Other Liabilities), Federal Tax Refunds Payable, Federal Employee Benefits Payable and Other as detailed in Note 10. Other Liabilities. The percentage composition of IRS liabilities is depicted in the following chart:



Liability fluctuations primarily include decreased Due to the General Fund of U.S. Government, decreased Federal Tax Refunds Payable and increased Other Liabilities.

Intragovernmental liabilities decreased from the previous fiscal year because of a $54 million decline in the amount for the Due to the General Fund liability, which is representative of funds that will be distributed to the General Fund upon collection. This amount is directly correlated with the amount of Federal Taxes Receivable, Net.

Federal Tax Refunds Payable decreased by $299 million in comparison to FY 2022. Federal tax collections and refunds owed have both decreased by 4% from the prior fiscal year.

Net Position consists of Unexpended Appropriations and Cumulative Results of Operations. Funds made available by Congress are recorded in Unexpended Appropriations. Cumulative Results of Operations is the net difference between 1) expenses, losses and transfers out from the inception of an agency or activity, and 2) financing sources such as appropriations and revenues, and gains from the inception of an agency or activity (whether financed from appropriations, transfers in, revenues, reimbursements or any combination of the four) to the reporting date of the financial statements. Net Position decreased by 5% in FY 2023 due to expenditures of the supplemental appropriations received from the IRA.

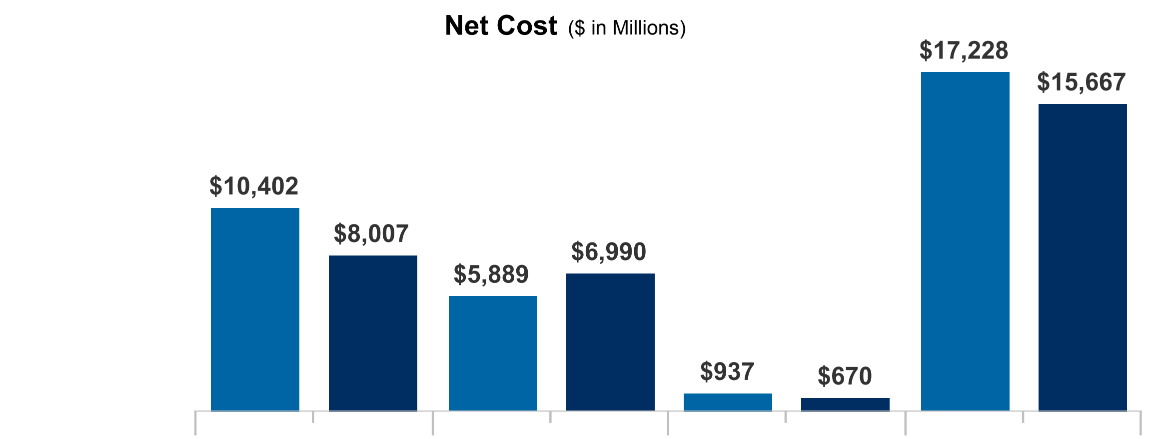
Analysis of the Statements of Net Cost

The Statements of Net Cost present the annual cost of operating the IRS's three major programs: Service to the Taxpayer, Enforcement of Tax Legislation, and Transformation of Business Systems. Net Cost of Operations includes Gross Cost less Earned Revenue from user fees and reimbursable agreements.

Net Cost of Operations increased by $1,561 million, or 10% over the prior fiscal year. The Statement of Net Cost reflects a total of $17,228 million for the period ending September 30, 2023, as compared to $15,667 million for the period ending September 30, 2022.

Gross Cost increased by $1,607 million due primarily to an increase in expenses incurred against the IRA appropriation for enforcement and business systems modernization. Earned Revenue increased by $46 million due to increases in both user fees and the Private Debt Collection program.

Net Cost of Operations by major programs are presented in the table below for the periods ending September 30, 2023, and September 30, 2022, respectively.



	Enforcement of Tax Legislation	Service to the Taxpayer	Transformation of Business Systems	Total
FY 2023	$10,402	$5,889	$937	$17,228
FY 2022	$8,007	$6,990	$670	$15,667
$ Change	$2,395	($1,101)	$267	$1,561
% Change	29.9%	-15.8%	39.9%	10.0%

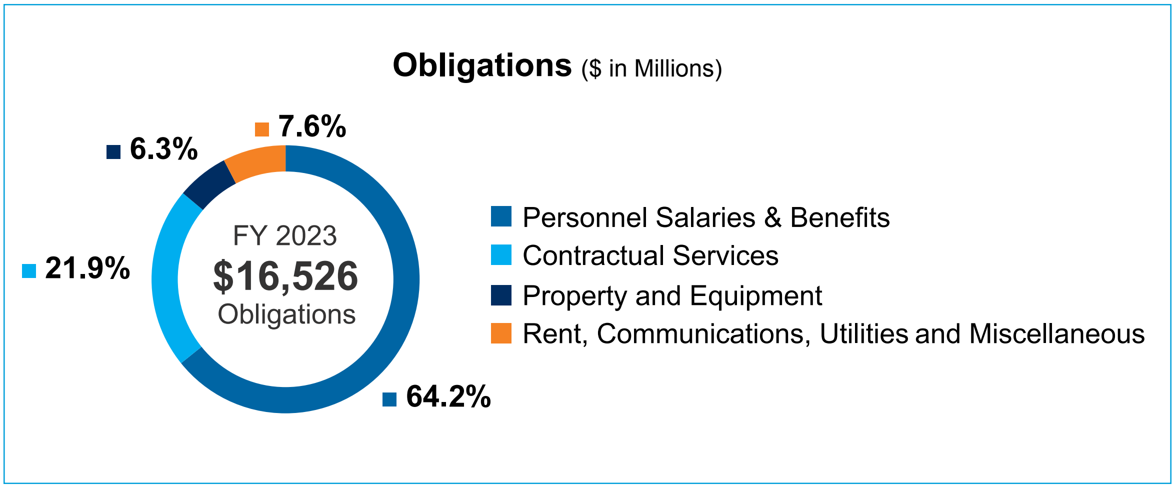
Analysis of the Statements of Budgetary Resources

IRS operations are financed through appropriations, spending authority from offsetting collections and unobligated balances carried forward. Custodial appropriations for taxpayer refunds and refundable tax credits are not available to the IRS for operational expenditures and are therefore not included in the presentation of the Statements of Budgetary Resources (refer to Note 16. Statement of Budgetary Resources for a reconciliation to the Budget of the U.S. Government).

As displayed in the following chart, Total Budgetary Resources decreased by $2,871 million from the previous fiscal year, which is primarily attributable to obligations incurred against IRA funding. The FY 2022 IRA appropriation is responsible for the large variations between the Unobligated Balance from Prior Year Budget Authority and Appropriations lines in the Budgetary Resources section of the report, as well as the Apportioned and Unapportioned lines in the Status of Budgetary Resources section.

($ in Millions)	2023	2022	$ Change	%Change
BUDGETARY RESOURCES				
Unobligated Balance from Prior Year Authority	$ 80,934	$ 2,694	$ 78,240	2,904.2%
Appropriations (Discretionary and Mandatory)				
Taxpayer Services	2,880	6,038	(3,158)	-52.3%
Enforcement	3,776	51,032	(47,256)	-92.6%
Operations Support	4,181	29,631	(25,450)	-85.9%
Business Systems Modernization	10	5,025	(5,015)	-99.8%
Other	575	802	(227)	-28.3%
Total Appropriations	11,422	92,528	(81,106)	-87.7%
Spending Authority from Offsetting Collections	149	154	(5)	-3.2%
Total Budgetary Resources	**$ 92,505**	**$ 95,376**	**$ (2,871)**	**-3.0%**

In FY 2023, the IRS incurred obligations of $16,526 million, which represents an increase of $1,956 million, or 13%, from the previous fiscal year. Higher obligations are due to expenditures from the IRA supplemental appropriation. The following chart displays the FY 2023 obligations incurred by category. Miscellaneous includes travel and transportation, grants, printing, and supplies and materials.



Major Budget Account Descriptions

Taxpayer Services funds the necessary expenses of the IRS to provide taxpayer services, including pre-filing assistance and education, filing and account services, taxpayer advocacy services, low-income taxpayer clinic grants and Community Volunteer Income Tax Assistance Matching Grants for tax return preparation assistance.

Enforcement funds the necessary expenses for tax enforcement activities of the IRS to determine and collect owed taxes, to provide legal and litigation support, to conduct criminal investigations and to enforce criminal statutes related to violations of internal revenue laws and other financial crimes.

Operations Support funds the necessary expenses of the IRS to support taxpayer services and enforcement programs, which includes 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.

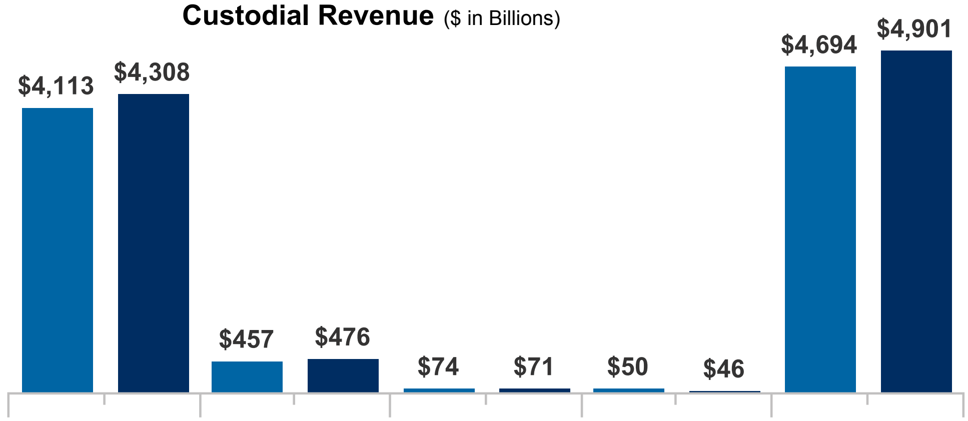
Business Systems Modernization funds the necessary expenses of the IRS's business systems modernization program to include resources for planning and capital asset acquisition of information technology systems.

Analysis of the Statements of Custodial Activity

The Statements of Custodial Activity present custodial revenues (federal tax collections), refunds of federal taxes and dispositions of custodial revenues for the current and prior fiscal years. Custodial activity is performed on behalf of another entity. The IRS collects federal tax revenues on behalf of the U.S. government. Additional information relative to the fluctuations discussed below is provided in the Other Information section of this report.

FY 2023 revenue receipts collected by the IRS totaled about $4.7 trillion, a $207 billion decrease from $4.9 trillion in FY 2022. Federal tax revenues are reported in six major classifications: Individual Income, which includes Federal Insurance Contributions Act and Self-Employment Contributions Act; Corporate Income; Excise; Estate and Gift; Railroad Retirement; and Federal Unemployment.

Custodial Revenue ($ in Billions)



	Individual Income	Corporate Income	Excise	Other	Total
FY 2023	$4,113	$457	$74	$50	$4,694
FY 2022	$4,308	$476	$71	$46	$4,901
$ Change	($195)	($19)	$3	$4	($207)
% Change	-4.5%	-4.0%	4.2%	8.7%	-4.2%

The Statements of Custodial Activity also present refunds and outlays made by the IRS on behalf of the federal government. Total Refunds of Federal Taxes and Outlays include refunds of tax overpayments, payments for interest and disbursements for refundable tax credits such as the Earned Income Tax Credit and the Additional Child Tax Credit. Total Refunds of Federal Taxes and Outlays totaled $659 billion for the period ending September 30, 2023, as compared to $642 billion for the period ending September 30, 2022, which represents an increase of 3%.

Unpaid Assessments

Under federal accounting standards, federal taxes receivable are unpaid assessments in which the taxpayer or court has agreed to the amount. Unpaid assessments not agreed to by taxpayers or the courts are categorized as compliance assessments, and assessments that have no future collection potential are categorized as write offs. Compliance assessments and write offs are not included on the Balance Sheets as Federal Taxes Receivable, Net.

(In Billions)		2023		2022
UNPAID ASSESSMENTS				
Federal Taxes Receivable	$	404	$	437
Compliance (Amounts not agreed to by taxpayer or courts)		94		88
Write-offs (No future collection potential)		76		77
Total Unpaid Assessments	**$**	**574**	**$**	**602**

The decrease in total unpaid assessments is $28 billion when compared to September 30, 2022. This decrease in total unpaid assessments is primarily due to non-delinquent Social Security Tax deferral scheduled final payments and Internal Revenue Code Section 965(h) payments (refer to the Other Information section of this report for additional information).

The total unpaid assessment balance consists of delinquent and non-delinquent balances. These balances are owed by taxpayers who file returns without sufficient payment and/or assessed amounts through the IRS's enforcement programs (refer to **Note 1.E. Federal Taxes Receivable, Net** and **Note 5. Federal Taxes Receivable, Net** for further details). Delinquent balances are past due while non-delinquent balances are Internal Revenue Code 965(h) amounts, for repatriated foreign earnings, due at a future point in time. In FY 2022, non-delinquent balances also included Coronavirus Aid, Relief and Economic Security Act related Social Security Tax Deferral balances.

(In Billions)		2023		2022
FEDERAL TAXES RECEIVABLE, GROSS				
Nondelinquent 965h Unpaid Assessments	$	123	$	140
Nondelinquent Social Security Tax Deferral Unpaid Assessments		0		51
Uncollected Branded Prescription Drugs		2		0
Delinquent Unpaid Assessments		276		243
Delinquent Restitution Based Unpaid Assessments		3		3
Federal Taxes Receivable, Gross	**$**	**404**	**$**	**437**

Collectability Modeling and Economic Conditions

Delinquent unpaid assessments collectability reflects existing economic conditions of the taxpayers' ability to pay. Indicators of financial health were manually reviewed for publicly traded businesses with large dollar Internal Revenue Code Section 965(h) amounts due. The analysis determined that large dollar Internal Revenue Code Section 965(h) taxpayers are primarily in a favorable long-term economic position to make their future payments. Under the Coronavirus Aid, Relief, and Economic Security Act, employers can elect to defer payment of the employer's share of Social Security taxes. The final installment of Social Security Tax Deferrals was due December 31, 2022.

Federal Taxes Receivable, Net, excludes the estimated uncollectible amount of $222 billion as of September 30, 2023, and $201 billion as of September 30, 2022. Examples of uncollectible taxes include taxpayers who agree they owe the tax but are unlikely to pay and businesses with extreme financial hardships. In FY 2023, overall collectability combines separate collectability calculations for delinquent taxes receivable, Internal Revenue Code Section 965(h) amounts and restitution-based assessments.

Estimated Collectability: Federal Taxes Receivable Gross and Net

($ in Billions)					**As of September 30, 2023**
	Collectability		**Gross**		**Net**
Nondelinquent 965h Unpaid Assessments	94.3%	$	125	$	118
Delinquent Unpaid Assessments	23.1%		279		64
Federal Taxes Receivable, Gross and Net		**$**	**404**	**$**	**182**

($ in Billions)					**As of September 30, 2022**
	Collectability		**Gross**		**Net**
Nondelinquent 965h Unpaid Assessments	96.5%	$	140	$	135
Nondelinquent Social Security Tax Deferral Unpaid Assessments	90.7%		51		47
Delinquent Unpaid Assessments	21.9%		246		54
Federal Taxes Receivable, Gross and Net		**$**	**437**	**$**	**236**

ANALYSIS OF SYSTEMS, CONTROLS AND LEGAL COMPLIANCE

Federal Managers' Financial Integrity Act

Background

The Federal Managers' Financial Integrity Act of 1982 requires executive branch agencies to establish and maintain internal control and financial systems to provide reasonable assurance that:

- Obligations and costs comply with applicable laws.
- Funds, property and other assets are safeguarded against waste, loss, unauthorized use or misappropriation.
- Revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the assets.

Office of Management and Budget Circular A-123 provides implementing guidance for the Federal Managers' Financial Integrity Act and defines management's responsibility for establishing and assessing internal controls. The Circular also requires federal agencies to adhere to the Government Accountability Office's Standards for Internal Control in the Federal Government, and to evaluate and report on the effectiveness of the organization's internal controls to achieve: (1) the objectives of effective and efficient operations, (2) reliable reporting for internal and external use and (3) compliance with applicable laws and regulations (Federal Managers' Financial Integrity Act Section 2). Additionally, agencies are required to assess whether financial management systems comply with federal financial management systems requirements (Federal Managers' Financial Integrity Act Section 4).

The agency's executive assessment team, Management Controls Executive Steering Committee, brief the Deputy Commissioner of Operations Support and the Deputy Commissioner of Services and Enforcement regarding any significant deficiencies. Executives from different divisions provide quarterly updates on the status of these deficiencies and any current or pending audits regarding these.

Analysis of Controls

The Commissioner's Assurance Statement is supported by a comprehensive risk-based internal control evaluation plan that adheres to Treasury guidance. This plan includes a methodology that identifies and documents key controls and provides for the assessment and testing of those controls to provide reasonable assurance that the controls are designed, implemented and operating effectively. As part of the evaluation process, the IRS considered results of this extensive testing and assessment across the IRS.

Internal Control over Reporting

In accordance with Office of Management and Budget Circular A-123, Appendix A, Management of Reporting and Data Integrity Risk, the IRS also assessed internal controls over financial reporting. The IRS applied Treasury's Appendix A guide to assess the effectiveness of these internal controls by testing the design, implementation and operating effectiveness of key internal controls for material transactions to support reliable financial reporting. Based on the results of this assessment the IRS can provide reasonable assurance regarding the effectiveness of its internal control over financial reporting as of September 30, 2023.

Federal Financial Management Improvement Act of 1996

The Federal Financial Management Improvement Act requires federal agencies to implement and maintain financial management systems that comply substantially with federal financial management systems requirements, applicable federal accounting standards and the U.S. Standard General Ledger at the transaction level. As described in Office of Management and Budget Circular A-123, Appendix D, "a financial management system includes an agency's overall financial operation, reflecting the people, processes and technology to capture, classify, summarize and report data in a meaningful manner to support business decisions."

The Federal Financial Management Improvement Act Section 803(c)(1) requires an annual determination of substantial compliance with Section 803(a) of the Act based on review of relevant factors. To support this determination, the IRS assesses its financial management systems annually for conformance with the requirements of Office of Management and Budget Circular A-123, Appendix D, Compliance with the Federal Financial Management Improvement Act and other federal financial management system requirements. The IRS's assessment process includes the use of the Federal Financial Management Improvement Act Compliance Determination Framework, in Office of Management and Budget Circular A-123, Appendix D, which is a risk and evidence-based assessment model that leverages existing audits, evaluations and reviews that auditors and agency management already perform. It is an outcome-based approach to assessing Federal Financial Management Improvement Act compliance through a series of financial management goals that are common to all agencies.

In applying the framework, the IRS assesses available information from audit reports and other relevant and appropriate sources, such as the Federal Information Security Modernization Act compliance activities, to determine whether its financial management systems comply substantially with Federal Financial Management Improvement Act. The IRS also assesses improvements and ongoing efforts to strengthen financial management systems and the impact of instances of noncompliance on overall financial management system performance. Based on the results of the overall assessment, the IRS concluded that its financial management systems did not comply substantially with federal financial management system requirements as of September 30, 2023, due to significant deficiencies.

The IRS has two significant deficiencies in internal control over financial reporting related to its unpaid assessments and information system controls. Specifically, these deficiencies relate to: (1) limitations in the ability of IRS's financial management systems to classify unpaid assessments and report taxes receivable in accordance with federal accounting standards, and (2) unresolved and new internal control deficiencies related to information system controls. The IRS worked diligently during FY 2023 to continue to enhance its information technology security posture and continues to implement a strategy and assessment process to verify the effectiveness of internal controls for the information systems that affect the financial statements. This assessment supports the IRS's overall internal control framework and helps mitigate deficiencies in the information technology environment.

Financial Management Systems

The IRS developed its financial management systems to generate timely and accurate data and comply with applicable laws and regulations, while protecting data and systems through the design, implementation and monitoring of strong internal controls. The IRS objectives are to continuously improve financial management systems by implementing enhancements that expand and streamline financial transaction processing, analysis and reporting, while operating in a robust security environment.

The IRS's financial management systems provide timely, accurate and complete financial information to generate the IRS's financial statements and provide IRS business units data to execute their missions. IRS's financial management systems comprise of two major components.

The Redesigned Revenue Accounting Control System is a custom-built software database used to account for and summarize all IRS revenue tax transactions and activities. The IRS uses the Redesigned Revenue Accounting Control System to record, control, account for, reconcile and balance all revenue accounting activity, including tax payment collections and refunds, receivables, appropriation warrants, refundable tax credits and other transactional revenue activities on behalf of the federal government. The Redesigned Revenue Accounting Control System specifically supports the IRS revenue responsibilities to ensure the accuracy and completeness of tax collections, disbursements and related activities in its financial reports and records.

The Integrated Financial System is comprised of three SAP software components: the Enterprise Resource Planning Central Component, Procurement for Public Sector and Business Warehouse. The Integrated Financial System interfaces with multiple systems, including, but not limited to, Invoice Processing Platform, ConcurGov, MoveLINQ and National Finance Center systems. The Integrated Financial System provides the IRS with comprehensive automated functionality that supports financial and administrative program management. The software provides automated functionality for significant administrative business processes, including core financials, procurement, intragovernmental transactions, purchase card activities and budget formulation and execution. The Integrated Financial System also provides robust cumulative reporting capabilities by merging data from all sub-systems in Business Warehouse.

During FY 2023, IRS implemented several system improvements including:

- New database modernizing data analytics for revenue financial data.
- Government Invoicing functionalities in the Integrated Financial System.
- SAP and Business Warehouse software upgrades.
- System-wide legislative, technical and cybersecurity upgrades.

The IRS will build upon successes of FY 2023 with the vision that fully articulates the goals and objectives of the SOP. The IRS is committed to developing its employees by providing resources, tools and training that will help meet the needs of today and tomorrow and continuing to build its workforce using data-driven planning to strategically understand future workforce needs. It is important for the IRS to foster continued partnerships and build new ones with those who are essential contributors in improving the taxpayer experience. The IRS will continue to expand its network for better information sharing and improved service delivery.

Within the next five years, the IRS plans to continue to enhance financial management systems including:

- Implementing the remaining segments of the Government Invoicing functionality.
- Expanding data analytics across financial systems.
- Building core systemic functionality to support financial accounting program changes related to the IRA and the Creating Helpful Incentives to Produce Semiconductors Act of 2022.
- Enhancing the Integrated Financial System functional capability platform with technical upgrades, including migrating to the SAP NS2 Cloud (HANA) in FY 2024, and continuing to plan and implement the multi-year initiative to upgrade the Integrated Financial System functional software to SAP S/4.

Other Laws

The IRS is required to comply with several legal and regulatory requirements, including the Antideficiency Act. The Management Controls Executive Steering Committee, which includes top IRS administrative and programmatic leadership, provides oversight and governance for the design, implementation and monitoring of controls to comply with these legal and regulatory requirements. The IRS is not aware of any violations of the Antideficiency Act.

MANAGEMENT ASSURANCES

Commissioner's Statement of Assurance

The IRS's management is responsible for managing risks and maintaining effective internal control and financial management systems to meet the objectives of the Federal Managers' Financial Integrity Act of 1982. We conducted our assessment of risk and internal controls in accordance with the Office of Management and Budget Circular A-123, Management's Responsibility for Enterprise Risk Management and Internal Control.

Based on our assessment, we can provide reasonable assurance that, in accordance with Section 2 of the Federal Managers' Financial Integrity Act of 1982, the IRS's internal control over operations, reporting and compliance with laws and regulations were operating effectively as of September 30, 2023. This includes the effective operation of internal control over financial reporting which was considered as part of our assessment.

In addition, we can provide reasonable assurance that, as of September 30, 2023, the IRS was in compliance with the Federal Financial Management Improvement Act of 1996, Section 803(a) federal accounting standards and the U.S. Standard General Ledger at the transaction level. However, we are not in compliance with federal financial management systems requirements because of the two significant deficiencies related to unpaid assessments and information system controls. Therefore, we are in substantial conformance with Section 4 of the Federal Managers' Financial Integrity Act, with the exception of the federal financial management systems requirement discussed above.

As a result of these significant deficiencies, our financial management systems are not in substantial compliance with the Federal Financial Management Improvement Act of 1996 as of September 30, 2023. We continue to make progress in remediating these deficiencies and remain committed to focusing management's attention and resources on appropriate corrective actions. Overall, we continue our efforts to ensure high standards, minimize internal control weaknesses and meet federal financial management systems requirements. Additional information on the deficiencies can be found in Other Information: Section A: Summary of Financial Statement Audit and Management Assurances, of this report.

Daniel I. Werfel
Commissioner of Internal Revenue
November 3, 2023

IRS Management's Report on Internal Control over Financial Reporting Fiscal Year 2023

November 3, 2023

The IRS's internal control over financial reporting is a process effected by those charged with governance, management and other personnel. The objectives of this process are to provide reasonable assurance that: (1) transactions are properly recorded, processed and summarized to permit the preparation of financial statements in accordance with U.S. generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use or disposition, and (2) transactions are executed in accordance with provisions of applicable laws, including those governing the use of budget authority, regulations, contracts, and grant agreements, noncompliance with which could have a material effect on the financial statements.

IRS management is responsible for designing, implementing and maintaining effective internal control over financial reporting relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error. IRS management evaluated the effectiveness of the IRS's internal control over financial reporting as of September 30, 2023, based on the criteria established under 31 U.S. Code 3512(c) and (d) (commonly known as the Federal Managers' Financial Integrity Act).

Based on that evaluation, we conclude that as of September 30, 2023, the IRS's internal control over financial reporting was effective. The IRS has two significant deficiencies in its internal control over financial reporting, for unpaid assessments and information system controls, which we are actively addressing.

Daniel I. Werfel
Commissioner of
Internal Revenue

Jeffrey J. Tribiano
Deputy Commissioner,
Operations Support

Teresa R. Hunter
Chief Financial Officer

FORWARD-LOOKING INFORMATION

The information in this report reflects not only the work the IRS has done to serve taxpayers over the past year but also the challenges the IRS faces and the vision for continuing to improve in the future. The IRS will continue a customer-focused approach that dedicates more resources to helping taxpayers file correctly the first time, while addressing issues in the simplest ways appropriate. Noncompliance will be addressed by using data analytics to expand enforcement in certain segments. The IRS will modernize how it attracts, retains, develops and empowers its employees and become an employer of choice across the government and industry. These changes will enable the IRS to serve all taxpayers more equitably and in ways they want to be served.

To make this strategic vision a reality, and to deliver on the commitments in the SOP, the IRS's Transformation and Strategy Office is responsible for coordinating collaboration across the organization and engaging in disciplined and transparent accountability processes. The Transformation and Strategy Office also supports IRS leadership by providing and maintaining a clear and effective governance and accountability structure; facilitating real-time, transparent enterprise prioritization, performance monitoring and risk management; leading organization-wide capacity building and change management; supporting detailed execution-planning and project management; and enhancing the IRS's culture and operations. These efforts are led by the Chief Transformation and Strategy Officer and coordinated through an advisory committee to facilitate informed decision-making by the Commissioner on issues related to strategic alignment and problem-solving.

The IRS is focused on helping taxpayers get it right the first time—claiming the credits and deductions they are eligible for and avoiding back-and-forth with the IRS when errors arise. To help taxpayers get it right, the IRS will continue working toward taxpayers being able to seamlessly interact with the IRS in the ways that work best for them whether it is on the phone, in-person or online. The IRS will expand in-person service and meet taxpayers where they are, particularly those in underserved and rural communities. The IRS will continue to expand Taxpayer Assistance Centers across the country, while also starting a special series of events to help taxpayers living in areas far from the IRS's in-person offices.

To support the agency's compliance work, the IRS has announced new compliance initiatives as part of a historic effort to restore fairness in tax compliance by shifting more attention on high-income earners, partnerships, large corporations and promoters abusing the nation's tax laws.

The IRS has identified partnerships with over $10 million in assets having ongoing discrepancies between their prior year-ending and current year beginning balance sheets, which is an indicator of potential noncompliance. The IRS will focus on high-risk large partnerships to quickly address any balance sheet discrepancies. Beginning in early FY 2024, the IRS will send correspondence to an initial set of partnerships and, depending on the responses, the IRS may add these to the audit stream for additional work.

The IRS's Large Partnership Compliance program includes examinations of some of the largest and most complex partnership returns in the filing population. In FY 2024, the IRS will expand its Large Partnership Compliance program to additional large partnerships, applying cutting-edge machine learning technology to identify potential compliance risk in the areas of partnership tax; general income tax and accounting; and international tax in a taxpayer segment that historically has been subject to limited examination coverage. The IRS will open examinations of 75 of the largest partnerships in the U.S. that represent a cross section of industries including hedge funds, real estate investment partnerships, publicly traded partnerships, large law firms and other industries. On average, these partnerships each have more than $10 billion in assets.

The IRS Virtual Currency Compliance Campaign will continue in the months ahead after an initial review showed the potential for a 75% noncompliance rate among taxpayers identified through record production from digital currency exchanges. The IRS projects more digital asset cases will be developed for further compliance work early in FY 2024.

High-income taxpayers from all segments continue to utilize foreign bank accounts to avoid disclosure and related taxes. A taxpayer with a financial interest over a foreign financial account is required to file a Report of Foreign Bank and Financial Accounts if the aggregate value of all foreign financial accounts is more than $10,000 at any time. IRS analysis of multi-year filing patterns has identified hundreds of possible Report of Foreign Bank and Financial Accounts non-filers with account balances that average over $1.4 million. The IRS plans to audit the most egregious potential Report of Foreign Bank and Financial Accounts non-filer cases in FY 2024.

Construction contractors are making Form 1099-MISC/1099-NEC payments to subcontractors who are a "shell" company that have no legitimate business relationship with the contractor. Monies paid to "shell" companies are being returned to the original contractor. The IRS will be expanding attention in this area with both civil audits and criminal investigations. Work in this area is critical to improve compliance, and it will also help level the playing field for contractors who play by the rules as well as ensure proper employment tax withholding for vulnerable workers.

The five objectives outlined in the SOP will be achieved through the completion of a set of initiatives as presented under the IRS Strategic Framework section. These objectives and initiatives comprise over 450 projects to be delivered over the life of the SOP. Of these projects, 110 projects are in execution, 144 projects have planning underway and 196 are initiating planning. Prioritization and sequencing of these projects are also currently underway. As this is a multi-year effort, there will be a significant need for management and functional support, such as hiring and procurement capacity, as well as sustained base discretionary funding required to continue delivering improved service while driving transformation efforts.

FINANCIAL INFORMATION

MESSAGE FROM THE CHIEF FINANCIAL OFFICER

I am pleased to join Commissioner Werfel in presenting the IRS's Agency Financial Report. The IRS upholds an unwavering commitment to fiscal integrity and robust financial management. The report serves as a pivotal platform through which we can exhibit our efficient and effective stewardship of taxpayer dollars in pursuit of our mission. In support of the IRS's mission, financial management operations oversaw about $4.7 trillion in tax collections, $659 billion in tax refunds and outlays and $574 billion in unpaid assessments.

We are proud to announce that for the 24th consecutive year, the IRS has received an unmodified opinion on its financial statements. Furthermore, our external auditors have provided an unmodified opinion on the overall effectiveness of our internal controls over financial reporting. Our professionals continue to make progress in resolving the two significant deficiencies and one noncompliance instance identified in prior years related to internal controls over unpaid assessments, information system controls and federal financial management systems requirements. The efforts to remediate the identified deficiencies demonstrate our commitment to continuous improvement and fiduciary responsibility. This unmodified opinion validates those efforts.

The CFO's office plays an integral role in shaping the IRS's strategic direction by leading the development of strategy and budget plans. This includes our significant contribution to the justification for funding included in the IRA legislation. Funding received from the IRA enabled the IRS to continue dramatic improvement on behalf of taxpayers and has further empowered us to bolster crucial resources within our tax enforcement, taxpayer service, and technology divisions as outlined in the SOP.

We take pride in innovating our business processes to enhance efficiency, accuracy, data analytics and on-demand reporting to support critical decision-making and develop a more agile CFO organization. In FY 2023, the IRS became one of the first federal government entities to successfully implement both buyer and seller functions of Government Invoicing. CFO has streamlined operations through the implementation of several key initiatives including the development of interactive dashboards and data visualizations; introducing robotic process automations across the organization, particularly in audit sampling, data retrieval and validation; and continuing to foster a culture of creativity among our employees, encouraging them to explore innovative ways of leveraging those new technologies.

This year's unmodified audit opinions – along with IRS's first-ever Certificate of Excellence in Accountability Reporting awards for last fiscal year – show the IRS's commitment to accountability, continuous improvement and sound financial management. I want to thank the entire CFO staff for their continued dedication to public service, for their innovative ideas and dedication to the IRS. I am proud of the organizational and process changes we have implemented in FY 2023 and look forward to continued successes – such as migrating our financial accounting system to the cloud – in the coming year.

Sincerely,

Teresa R. Hunter
Chief Financial Officer
November 3, 2023

INDEPENDENT AUDITOR'S REPORT

GAO U.S. GOVERNMENT ACCOUNTABILITY OFFICE

441 G St. N.W.
Washington, DC 20548

Independent Auditor's Report

To the Commissioner of Internal Revenue

In our audits of the fiscal years 2023 and 2022 financial statements of the Internal Revenue Service (IRS), we found

- IRS's financial statements as of and for the fiscal years ended September 30, 2023, and 2022, are presented fairly, in all material respects, in accordance with U.S. generally accepted accounting principles;
- although internal controls could be improved, IRS maintained, in all material respects, effective internal control over financial reporting as of September 30, 2023; and
- no reportable noncompliance for fiscal year 2023 with provisions of applicable laws, regulations, contracts, and grant agreements we tested.

The following sections discuss in more detail (1) our report on the financial statements and on internal control over financial reporting, which includes an emphasis-of-matter—federal taxes receivable, required supplementary information (RSI),[1] and other information included with the financial statements;[2] (2) our report on compliance with laws, regulations, contracts, and grant agreements; and (3) agency comments.

Report on the Financial Statements and on Internal Control over Financial Reporting

Opinion on the Financial Statements

In connection with fulfilling our requirement to audit the consolidated financial statements of the U.S. government, and consistent with our authority to audit statements and schedules prepared by executive agency components, we have audited IRS's financial statements because of the significance of IRS's tax collections to the consolidated financial statements of the U.S. government.[3] IRS's financial statements comprise the balance sheets as of September 30, 2023, and 2022; the related statements of net cost, changes in net position, budgetary resources, and custodial activity for the fiscal years then ended; and the related notes to the financial statements. In our opinion, IRS's financial statements present fairly, in all material respects, IRS's financial position as of September 30, 2023, and 2022, and its net cost of

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[1]The RSI consists of Management's Discussion and Analysis and the Required Supplementary Information section, which are included with the financial statements.

[2]Other information consists of information included with the financial statements, other than the RSI and the auditor's report.

[3]See 31 U.S.C. §§ 331(e)(2), 3515, 3521(g), (i). Pursuant to the authority of 31 U.S.C. § 3515, the Office of Management and Budget (OMB) requires IRS to issue annual audited financial statements that are separate from those of the Department of the Treasury or that are presented separately in the department's audited, consolidated financial statements. *See* Office of Management and Budget, *Audit Requirements for Federal Financial Statements*, OMB Bulletin 24-01, app. B (Oct. 19, 2023).

operations, changes in net position, budgetary resources, and custodial activity for the fiscal years then ended in accordance with U.S. generally accepted accounting principles.

Opinion on Internal Control over Financial Reporting

We also have audited IRS's internal control over financial reporting as of September 30, 2023, based on criteria established under 31 U.S.C. § 3512(c), (d), commonly known as the Federal Managers' Financial Integrity Act of 1982 (FMFIA). In our opinion, although certain internal controls could be improved, IRS maintained, in all material respects, effective internal control over financial reporting as of September 30, 2023, based on criteria established under FMFIA. Our fiscal year 2023 audit continued to identify significant deficiencies in internal control over financial reporting concerning IRS's unpaid assessments and information system controls.[4] We considered these significant deficiencies in determining the nature, timing, and extent of our audit procedures on IRS's fiscal year 2023 financial statements.

Although the significant deficiencies in internal control did not affect our opinion on IRS's fiscal year 2023 financial statements, misstatements may occur in unaudited financial information reported internally and externally by IRS because of these significant deficiencies.

In addition, because of the significant deficiencies in internal controls over unpaid assessments and information system controls that existed during fiscal year 2023, IRS's financial management systems did not comply substantially with federal financial management systems requirements as required by the Federal Financial Management Improvement Act of 1996.[5]

We will be reporting additional details concerning the significant deficiency in information system controls separately to IRS management, along with recommendations for corrective actions. In addition to the significant deficiencies in internal controls over unpaid assessments and information system controls, we also identified other deficiencies in IRS's internal control over financial reporting that we do not consider to be material weaknesses or significant deficiencies. Nonetheless, these deficiencies warrant IRS management's attention. We have communicated these matters to IRS management and, where appropriate, will report on them separately.

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[4]An unpaid assessment is an enforceable claim against a taxpayer for which specific amounts are due, have been determined, and the person(s) or entities from which a tax is due have been identified. See implementing guidance in *Internal Revenue Manual* § 1.34.4.1.6 (1) p, *Terms/Definitions* (Aug. 25, 2015). A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

[5]Section 803(a) of the Federal Financial Management Improvement Act of 1996 (FFMIA), which is reprinted in 31 U.S.C. § 3512 note, requires that certain federal agencies, including Treasury, implement and maintain financial management systems that comply substantially with federal financial management systems requirements, applicable federal accounting standards, and the *U.S. Government Standard General Ledger* at the transaction level. While IRS's financial management systems did not comply substantially with federal financial management systems requirements, IRS's financial management systems did comply substantially with federal accounting standards and the *U.S. Government Standard General Ledger* at the transaction level. As a Treasury component, IRS is not required to be assessed separately; however, it is included in Treasury's agency-wide FFMIA assessment. Since IRS is a significant component of Treasury, we conducted this assessment to support the audit of the Treasury agency-wide financial statements. See Office of Management and Budget, *Management of Financial Management Systems – Risk and Compliance*, OMB Circular No. A-123, app. D, § VII.A (Dec. 23, 2022).

Significant Deficiency in Internal Controls over Unpaid Assessments

During fiscal year 2023, the systems IRS uses to account for federal taxes receivable and other unpaid assessment balances continued to have limitations, as well as other control deficiencies that led to errors in taxpayer accounts. Because of these deficiencies, IRS's systems were unable to provide the timely, reliable, and complete transaction-level financial information necessary to enable IRS to appropriately classify and report unpaid assessment balances.[6]

As in prior years,[7] IRS used a manually driven statistical estimation process to compensate for the effects of its system limitations and other deficiencies on a material portion of its federal taxes receivable balance to help ensure that this balance was free of material misstatement.[8] During fiscal year 2023, IRS recorded adjustments totaling about $18.4 billion to correct the effects of continued errors in its underlying data that it identified during its estimation process. While using this process to determine a material portion of taxes receivable has enabled IRS to produce reliable related balances for year-end reporting, it does not provide IRS management with readily available, reliable unpaid assessment information daily throughout the year for effectively managing unpaid assessment balances. Further, errors in taxpayer accounts create a burden for those taxpayers whose accounts were affected.

While not collectively considered a material weakness, IRS's ongoing control deficiencies related to unpaid assessments are important enough to merit attention by those charged with governance of IRS. Therefore, these issues collectively represent a significant deficiency in IRS's internal control over financial reporting as of September 30, 2023. Continued management commitment and sustained efforts are necessary to build on the progress made to date and to fully address IRS's remaining unresolved issues concerning the management and reporting of unpaid assessments.

Significant Deficiency in Information System Controls

During our fiscal year 2023 audit, we determined that unresolved information system control deficiencies from prior audits along with new control deficiencies collectively represent a significant deficiency in IRS's internal control over financial reporting. These control deficiencies relate to information system general controls in the areas of security management, access

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[6]Federal accounting standards classify unpaid assessments into one of the following three categories for reporting purposes: federal taxes receivable, compliance assessments, and write-offs. Federal taxes receivable are taxes due from taxpayers that IRS can support through the existence of a taxpayer agreement, such as filing of a tax return without sufficient payment, or a court ruling in favor of IRS. Compliance assessments are proposed tax assessments where neither the taxpayer (when the right to disagree or object exists) nor a court has affirmed that the amounts are owed. Write-offs represent unpaid assessments for which IRS does not expect further collections because of factors such as the taxpayer's death, bankruptcy, or insolvency. Federal accounting standards require that IRS report only federal taxes receivable, net of an allowance for uncollectible taxes receivable, on the financial statements. See Statement of Federal Financial Accounting Standards No. 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting* (May 10, 1996). See also implementing guidance in *Internal Revenue Manual*, § 1.34.4, *Unpaid Assessments* (March 17, 2023).

[7]See GAO, *Financial Audit: IRS's FY 2022 and FY 2021 Financial Statements*, GAO-23-105564 (Washington, D.C.: Nov. 10, 2022).

[8]In fiscal year 2023, IRS's reported federal taxes receivable consisted of a combination of two distinct types of taxes receivable with different internal control and accounting processes in place: amounts derived from (1) IRS's unpaid assessments statistical estimation process and (2) the Section 965(h) repatriation of foreign earnings provision of the Tax Cuts and Jobs Act of 2017, Pub. L. No. 115-97, § 14103, 131 Stat. 2054, 2195-2208 (Dec. 22, 2017), which is codified at 26 U.S.C. § 965.

controls, and configuration management.[9] The new and continuing control deficiencies include the timely creation of plans of action and milestones to address identified vulnerabilities or weaknesses, use of multifactor authentication, encryption of sensitive data, logging and monitoring of audit records, and management of configuration settings for certain platforms. Such control deficiencies, as well as others that constitute the significant deficiency, increase the risk of unauthorized access to, modification of, and disclosure of sensitive data and programs, as well as the disruption of critical operations.

IRS mitigated the potential effect of these control deficiencies primarily through compensating controls that management has designed to detect potential misstatements on the financial statements. Additionally, over the past several years, IRS management has increased its focus on completing the corrective actions necessary to address many of the information system control deficiencies that make up the significant deficiency. This has resulted in the closure of numerous system-specific recommendations. During fiscal year 2023, we found that IRS successfully completed corrective actions sufficient to address multiple system-specific recommendations involving the use of multifactor authentication and the encryption of sensitive information.

However, while IRS management has demonstrated its commitment to addressing the significant deficiency in information system controls, additional efforts are needed to fully address the remaining unresolved control deficiencies that constitute the significant deficiency. It will be important for IRS management to build on the progress made and to sustain focus on improving the agency's information system controls.

Basis for Opinions

We conducted our audits in accordance with U.S. generally accepted government auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audits of the Financial Statements and Internal Control over Financial Reporting section of our report. We are required to be independent of IRS and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis-of-Matter: Federal Taxes Receivable

This matter deserves emphasis to put the information in IRS's financial statements into context. As discussed in note 1.E., *Federal Taxes Receivable, Net*, taxes receivable consist of unpaid assessments (taxes, associated penalties, and interest) due from taxpayers. The existence of a receivable is supported by a taxpayer agreement, such as filing of a tax return without sufficient payment, or a court ruling in favor of IRS. Consistent with federal accounting standards, IRS's

[9]General controls are the policies and procedures that apply to all or a large segment of an entity's information systems and help ensure their proper operation. General controls are applied at the entity-wide, system, and business process application levels. The effectiveness of general controls is a significant factor in determining the effectiveness of business process application controls. Security management provides a framework and continuing cycle of activity for managing risk, developing security policies, assigning responsibilities, and monitoring the adequacy of the entity's computer-related controls. Access controls limit or detect access to computer resources, such as data, programs, equipment, and facilities, thereby protecting them against unauthorized modification, loss, and disclosure. Configuration management prevents unauthorized changes to information system resources, such as software programs and hardware configurations, and provides reasonable assurance that systems are configured and operating securely and as intended.

financial statements do not include an estimate for the annual tax gap—the difference between the amount of tax that taxpayers owe and the amount they actually pay voluntarily and on time,[10] nor do they include information on tax expenditures.[11] Further detail on the tax gap and tax expenditures, as well as the associated dollar amounts, is provided in the unaudited other information included with the financial statements. Our opinion on IRS's financial statements is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements and Internal Control over Financial Reporting

Management is responsible for

- the preparation and fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles;
- preparing, measuring, and presenting the RSI in accordance with U.S. generally accepted accounting principles;
- preparing and presenting other information included in IRS's financial report, and ensuring the consistency of that information with the audited financial statements and the RSI;
- designing, implementing, and maintaining effective internal control over financial reporting relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error;
- assessing the effectiveness of internal control over financial reporting based on the criteria established under FMFIA; and
- its assessment about the effectiveness of internal control over financial reporting as of September 30, 2023, included in the accompanying Management's Report on Internal Control over Financial Reporting on page 48.

Auditor's Responsibilities for the Audits of the Financial Statements and Internal Control over Financial Reporting

Our objectives are to (1) obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether

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[10]The tax gap arises when taxpayers, whether intentionally or inadvertently, fail to (1) accurately report tax liabilities on tax returns (underreporting), (2) pay taxes due from filed returns (underpayment), or (3) file required tax returns altogether or on time (nonfiling). In October 2022, IRS released its most recent tax gap estimates, which covered tax years 2014–2016. Using results from audits of returns filed in these years and additional analyses, IRS estimated the average annual gross tax gap to be $496 billion for those years. IRS also estimated that $68 billion would be collected through enforcement actions or late payments, leaving a net tax gap of $428 billion. In October 2023, IRS released tax gap projections for tax years 2020 and 2021. The tax gap projections are available for more recent years than the tax gap estimates, but the tax gap projections assume that compliance rates found in the 2014–2016 audits are unchanged in 2020 and 2021. The projected gross tax gap increased to $688 billion in tax year 2021. IRS also projected that $63 billion would be collected through enforcement actions or late payments, leaving a projected net tax gap of $625 billion.

[11]Tax expenditures are provisions of the Internal Revenue Code (Title 26, U.S. Code) that reduce taxpayers' tax liability and therefore the amount of tax revenue paid to the government. Examples include tax credits, deductions, exclusions, exemptions, deferrals, and preferential tax rates.

effective internal control over financial reporting was maintained in all material respects, and (2) issue an auditor's report that includes our opinions.

Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit of the financial statements or an audit of internal control over financial reporting conducted in accordance with U.S. generally accepted government auditing standards will always detect a material misstatement or a material weakness when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered to be material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit of financial statements and an audit of internal control over financial reporting in accordance with U.S. generally accepted government auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audits.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to our audit of the financial statements in order to design audit procedures that are appropriate in the circumstances.
- Obtain an understanding of internal control relevant to our audit of internal control over financial reporting, assess the risks that a material weakness exists, and test and evaluate the design and operating effectiveness of internal control over financial reporting based on the assessed risk. Our audit of internal control also considered IRS's process for evaluating and reporting on internal control over financial reporting based on criteria established under FMFIA. We did not evaluate all internal controls relevant to operating objectives as broadly established under FMFIA, such as those controls relevant to preparing performance information and ensuring efficient operations. We limited our internal control testing to testing controls over financial reporting. Our internal control testing was for the purpose of expressing an opinion on whether effective internal control over financial reporting was maintained, in all material respects. Consequently, our audit may not identify all deficiencies in internal control over financial reporting that are less severe than a material weakness.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Perform other procedures we consider necessary in the circumstances.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the financial statement audit.

Definition and Inherent Limitations of Internal Control over Financial Reporting

An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel. The objectives of internal control over financial reporting are to provide reasonable assurance that

- transactions are properly recorded, processed, and summarized to permit the preparation of financial statements in accordance with U.S. generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition, and
- transactions are executed in accordance with provisions of applicable laws, including those governing the use of budget authority, regulations, contracts, and grant agreements, noncompliance with which could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements due to fraud or error. We also caution that projecting any evaluation of effectiveness to future periods is subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Required Supplementary Information

U.S. generally accepted accounting principles issued by the Federal Accounting Standards Advisory Board (FASAB) require that the RSI be presented to supplement the financial statements. Such information is the responsibility of management and, although not a part of the financial statements, is required by FASAB, which considers it to be an essential part of financial reporting for placing the financial statements in appropriate operational, economic, or historical context.

We have applied certain limited procedures to the RSI in accordance with U.S. generally accepted government auditing standards. These procedures consisted of (1) inquiring of management about the methods used to prepare the RSI and (2) comparing the RSI for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during the audit of the financial statements, in order to report omissions or material departures from FASAB guidelines, if any, identified by these limited procedures. We did not audit and we do not express an opinion or provide any assurance on the RSI because the limited procedures we applied do not provide sufficient evidence to express an opinion or provide any assurance.

Other Information

IRS's other information contains a wide range of information, some of which is not directly related to the financial statements. This information is presented for purposes of additional analysis and is not a required part of the financial statements or the RSI. Management is responsible for the other information included in IRS's financial report. The other information comprises the following sections of the *IRS Fiscal Year 2023 Agency Financial Report*: Introduction, Message from the Chief Financial Officer, Other Information, and Appendices. Other information does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements

In connection with our audits of IRS's financial statements, we tested compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements consistent with our auditor's responsibilities discussed below.

Results of Our Tests for Compliance with Laws, Regulations, Contracts, and Grant Agreements

Our tests for compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements disclosed no instances of noncompliance for fiscal year 2023 that would be reportable under U.S. generally accepted government auditing standards. However, the objective of our tests was not to provide an opinion on compliance with laws, regulations, contracts, and grant agreements applicable to IRS. Accordingly, we do not express such an opinion.

Basis for Results of Our Tests for Compliance with Laws, Regulations, Contracts, and Grant Agreements

We performed our tests of compliance in accordance with U.S. generally accepted government auditing standards.

Responsibilities of Management for Compliance with Laws, Regulations, Contracts, and Grant Agreements

IRS management is responsible for complying with laws, regulations, contracts, and grant agreements applicable to IRS.

Auditor's Responsibilities for Tests of Compliance with Laws, Regulations, Contracts, and Grant Agreements

Our responsibility is to test compliance with selected provisions of laws, regulations, contracts, and grant agreements applicable to IRS that have a direct effect on the determination of material amounts and disclosures in IRS's financial statements, and perform certain other limited procedures. Accordingly, we did not test compliance with all provisions of laws, regulations, contracts, and grant agreements applicable to IRS. We caution that noncompliance may occur and not be detected by these tests.

Intended Purpose of Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements

The purpose of this report is solely to describe the scope of our testing of compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements, and the results of that testing, and not to provide an opinion on compliance. This report is an integral part of an audit performed in accordance with U.S. generally accepted government auditing standards in considering compliance. Accordingly, this report on compliance with laws, regulations, contracts, and grant agreements is not suitable for any other purpose.

Agency Comments

In commenting on a draft of this report, IRS stated that it was pleased to receive an unmodified opinion on its financial statements and commented on its progress in reducing the open recommendations. IRS also noted its intention to continue working to improve its internal controls. The complete text of IRS's response is reproduced in the enclosure.

Dawn Simpson

Dawn B. Simpson
Director
Financial Management and Assurance

November 3, 2023

ENCLOSURE: IRS RESPONSE TO THE INDEPENDENT AUDITOR'S REPORT

COMMISSIONER

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, DC 20224

November 3, 2023

Ms. Dawn B. Simpson
Director
Financial Management and Assurance
U.S. Government Accountability Office
441 G Street, NW
Washington, DC 20548

Dear Ms. Simpson:

Thank you for the opportunity to comment on the draft report titled, Financial Audit: IRS's FY 2023 and FY 2022 Financial Statements. We are pleased the IRS received an unmodified opinion on its combined financial statements. The unmodified opinion demonstrates that the IRS accurately accounts for tax revenue receipts, tax refunds and IRS appropriated funds.

We appreciate the GAO recognizing our successful efforts, and we look forward to working with you to resolve the remaining two significant deficiencies in internal controls over unpaid assessments and information system controls. In addition, we continue to improve financial management in our agency by making noteworthy progress in resolving open recommendations.

The IRS's ability to produce reliable financial statements each year is due to the efforts of our outstanding management team and staff. We are dedicated to promoting the highest standard of financial management, and we look forward to working with the GAO to continue providing accurate reporting and improving our internal controls.

Sincerely,

Daniel I. Werfel — Digitally signed by Daniel I. Werfel

Daniel I. Werfel

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FINANCIAL STATEMENTS

The financial statements have been prepared to report the financial position and results of operations of the IRS, pursuant to the requirements of the Chief Financial Officers Act of 1990 (Public Law 101-576), the Government Management Reform Act of 1994 (Public Law 103-356) and the Office of Management and Budget Circular No. A-136, Financial Reporting Requirements. The responsibility for the integrity of the financial information included in these statements is with the management of the IRS. The audit of the IRS financial statements was performed by the Government Accountability Office.

The IRS financial statements for FY 2023 and FY 2022 are described below:

- The Balance Sheets present the assets, liabilities and net position.
- The Statements of Net Cost present the gross costs incurred less exchange revenue earned from activities and the net cost of operations. The presentation aligns with the objectives as defined in the SOP.
- The Statements of Changes in Net Position present the change in net position resulting from the net cost of operations, budgetary financing sources other than exchange revenues and other financing sources.
- The Statements of Budgetary Resources present the budgetary resources, the status of those resources and the agency outlays, net. Additional detail by major budget accounts is available in the Required Supplementary Information section.
- The Statements of Custodial Activity present the sources of non-exchange federal tax revenues collected and disposition of refunds and outlays disbursed.

Balance Sheets
As of September 30, 2023 and 2022
(in Millions)

	2023	2022
ASSETS		
Intragovernmental		
Fund Balance with Treasury (Notes 2, 3)	$ 86,347	$ 87,389
Accounts Receivable, Net	23	39
Advances and Prepayments	3	1
Other Assets		
Due from the General Fund of the U.S. Government (Note 2)	6,647	6,947
Total Intragovernmental	**93,020**	**94,376**
With the Public		
Cash and Other Monetary Assets (Note 4)	4	4
Accounts Receivable, Net		
Federal Taxes Receivable, Net (Notes 2, 5, 8)	182,000	236,000
Other Receivables, Net	6	6
Property and Equipment, Net (Note 6)	1,747	1,795
Advances and Prepayments	15	9
Total with the Public	**183,772**	**237,814**
Total Assets	**$ 276,792**	**$ 332,190**
LIABILITIES		
Intragovernmental		
Other Liabilities		
Due to the General Fund of the U.S. Government (Note 8)	$ 185,382	$ 238,407
Other Liabilities (Note 10)	251	217
Total Intragovernmental	**185,633**	**238,624**
With the Public		
Accounts Payable		
Federal Tax Refunds Payable	6,648	6,947
Other Payables	14	15
Federal Employee Benefits Payable (Note 9)	1,009	1,003
Other Liabilities (Note 10)	4,354	2,220
Total with the Public	**12,025**	**10,185**
Total Liabilities	**197,658**	**248,809**
Commitments and Contingencies (Note 12)		
NET POSITION		
Unexpended Appropriations		
Funds from Other Than Dedicated Collections	77,569	82,049
Cumulative Results of Operations		
Funds from Dedicated Collections (Note 13)	294	181
Funds from Other Than Dedicated Collections	1,271	1,151
Total Cumulative Results of Operations	**1,565**	**1,332**
Total Net Position	**79,134**	**83,381**
Total Liabilities and Net Position	**$ 276,792**	**$ 332,190**

The accompanying notes are an integral part of these statements.

Statements of Net Cost
For the Years Ended September 30, 2023 and 2022
(in Millions)

	2023	2022
MAJOR PROGRAMS		
Service to the Taxpayer		
Gross Cost	$ 5,949	$ 7,085
Earned Revenue	(60)	(95)
Net Cost of Program	**5,889**	**6,990**
Enforcement of Tax Legislation		
Gross Cost	10,916	8,441
Earned Revenue	(514)	(434)
Net Cost of Program	**10,402**	**8,007**
Transformation of Business Systems		
Gross Cost	943	675
Earned Revenue	(6)	(5)
Net Cost of Program	**937**	**670**
Net Cost of Operations	**$ 17,228**	**$ 15,667**

The accompanying notes are an integral part of these statements.

Statement of Changes in Net Position
For the Year Ended September 30, 2023
(in Millions)

	2023		
	Consolidated Funds from Dedicated Collections (Note 13)	Consolidated Funds from Other Than Dedicated Collections	Consolidated Total
UNEXPENDED APPROPRIATIONS			
Beginning Balances	$ –	$ 82,049	$ 82,049
Appropriations Received	–	12,319	12,319
Appropriations Transferred In/(Out)	–	(7)	(7)
Other Adjustments	–	(1,566)	(1,566)
Appropriations Used	–	(15,226)	(15,226)
Net Change in Unexpended Appropriations	–	(4,480)	(4,480)
Total Unexpended Appropriations, Ending Balances	–	**77,569**	**77,569**
CUMULATIVE RESULTS OF OPERATIONS			
Beginning Balances	181	1,151	1,332
Appropriations Used	–	15,226	15,226
Non-exchange Revenue	138	–	138
Transfers In/(Out) Without Reimbursement	–	6	6
Imputed Financing (Note 14)	1	2,093	2,094
Transfers to the General Fund of the U.S. Government	–	(3)	(3)
Net Cost of Operations	(26)	(17,202)	(17,228)
Net Change in Cumulative Results of Operations	113	120	233
Total Cumulative Results of Operations, Ending Balances	**294**	**1,271**	**1,565**
Net Position	**$ 294**	**$ 78,840**	**$ 79,134**

The accompanying notes are an integral part of these statements.

Statement of Changes in Net Position
For the Year Ended September 30, 2022
(in Millions)

			2022
	Consolidated Funds from Dedicated Collections (Note 13)	**Consolidated Funds from Other Than Dedicated Collections**	**Consolidated Total**
UNEXPENDED APPROPRIATIONS			
Beginning Balances	$ –	$ 3,459	$ 3,459
Appropriations Received	–	92,005	92,005
Appropriations Transferred In/(Out)	–	30	30
Other Adjustments	–	(74)	(74)
Appropriations Used	–	(13,371)	(13,371)
Net Change in Unexpended Appropriations	–	78,590	78,590
Total Unexpended Appropriations, Ending Balances	**–**	**82,049**	**82,049**
CUMULATIVE RESULTS OF OPERATIONS			
Beginning Balances	206	1,300	1,506
Appropriations Used	–	13,371	13,371
Non-exchange Revenue	90	–	90
Transfers In/(Out) Without Reimbursement	–	26	26
Imputed Financing (Note 14)	2	2,008	2,010
Transfers to the General Fund of the U.S. Government	–	(4)	(4)
Net Cost of Operations	(117)	(15,550)	(15,667)
Net Change in Cumulative Results of Operations	(25)	(149)	(174)
Total Cumulative Results of Operations, Ending Balances	**181**	**1,151**	**1,332**
Net Position	**$ 181**	**$ 83,200**	**$ 83,381**

The accompanying notes are an integral part of these statements.

Combined Statements of Budgetary Resources
For the Years Ended September 30, 2023 and 2022
(in Millions)

		2023		2022
BUDGETARY RESOURCES				
Unobligated Balance from Prior Year Budget Authority, Net	$	80,934	$	2,694
Appropriations (Discretionary and Mandatory)		11,422		92,528
Spending Authority from Offsetting Collections (Discretionary and Mandatory)		149		154
Total Budgetary Resources	**$**	**92,505**	**$**	**95,376**
STATUS OF BUDGETARY RESOURCES				
New Obligations and Upward Adjustments (Total)	$	16,526	$	14,570
Unobligated Balance, End of Year				
Apportioned, Unexpired Accounts		75,071		34,338
Exempt from Apportionment, Unexpired Accounts		7		7
Unapportioned, Unexpired Accounts		612		46,196
Unexpired Unobligated Balance, End of Year		75,690		80,541
Expired Unobligated Balance, End of Year		289		265
Unobligated Balance, End of Year (Total)		**75,979**		**80,806**
Total Budgetary Resources	**$**	**92,505**	**$**	**95,376**
OUTLAYS, NET				
Outlays, Net (Total) (Discretionary and Mandatory)	$	15,204	$	13,855
Distributed Offsetting Receipts		(314)		(312)
Agency Outlays, Net (Discretionary and Mandatory)	**$**	**14,890**	**$**	**13,543**

The accompanying notes are an integral part of these statements.

Statements of Custodial Activity
For the Years Ended September 30, 2023 and 2022
(in Billions)

	2023	2022
REVENUE ACTIVITY		
Collections of Federal Tax Revenue (Note 17)		
Individual Income, Federal Insurance Contributions Act, Self-Employment Contributions Act and Other	$ 4,113	$ 4,308
Corporate Income	457	476
Excise	74	71
Estate and Gift	35	33
Railroad Retirement	7	6
Federal Unemployment	8	7
Total Collections of Federal Tax Revenue	**4,694**	**4,901**
(Decrease)/Increase in Federal Taxes Receivable, Net	(54)	(66)
Total Federal Tax Revenue	**$ 4,640**	**$ 4,835**
DISPOSITION OF FEDERAL TAX REVENUE		
Due to the General Fund of the U.S. Government	$ 4,694	$ 4,901
(Decrease)/Increase in Amount Due	(54)	(66)
Total Disposition of Federal Tax Revenue	**4,640**	**4,835**
Net Federal Revenue Activity	**$ –**	**$ –**
FEDERAL TAX REFUND AND OUTLAY ACTIVITIES		
Total Refunds of Federal Taxes and Outlays (Note 18)	$ 659	$ 642
Appropriations Used for Refund of Federal Taxes and Outlays	(659)	(642)
Net Federal Tax Refund and Outlay Activities	**$ –**	**$ –**

The accompanying notes are an integral part of these statements.

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended September 30, 2023 and 2022

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The IRS is a bureau of the Treasury. The IRS originated in 1862, when Congress established the Office of the Commissioner of Internal Revenue. The IRS administers the nation's tax laws and annually collects the tax receipts funding the federal government. The organizational divisions and programs within the IRS contribute to this achievement.

B. Basis of Accounting and Presentation

The financial statements have been prepared from the accounting records of the IRS in conformity with U.S. generally accepted accounting principles and in accordance with Office of Management and Budget Circular No. A-136, Financial Reporting Requirements. Accounting principles for federal entities are the standards prescribed by the Federal Accounting Standards Advisory Board, which is the official body for setting accounting standards of the federal government.

The accounting structure of federal agencies is designed to reflect both accrual and budgetary accounting transactions. Under the accrual method of accounting, revenues are recognized when earned and expenses are recognized when incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal constraints and controls over the use of federal funds. The Statement of Custodial Activity is presented on the modified cash basis of accounting. Under this method, cash collections and transfers to the General Fund of the U.S. Government are reported on a cash basis. The collections and transfers are adjusted on the face of the Statement of Custodial Activity for the net change in taxes receivable, producing modified cash basis balances.

The preparation of financial statements, in conformity with U.S. generally accepted accounting principles, requires management to make certain estimates and assumptions related to the reporting of assets, liabilities, revenues, expenses and the disclosure of contingent liabilities. Actual results could differ from these estimates. Estimates are used in computing tax receivables, allocation of costs to strategic goals in the Statement of Net Cost, year-end accruals for payables and actuarial liabilities.

Certain assets, liabilities, earned revenues and costs have been classified as intragovernmental in the financial statements and notes. Intragovernmental is defined as transactions made between two reporting entities within the federal government.

Accounting standards require all reporting entities to disclose that accounting standards allow certain presentations and disclosures to be modified, if needed, to prevent the disclosure of classified information.

C. Fund Balance with Treasury

The Fund Balance with Treasury is an asset of a reporting entity and a liability of the General Fund of the U.S. Government. The amounts represent commitments by the federal government to provide resources for certain programs, but do not represent net assets to the federal government.

When the IRS seeks to use the Fund Balance with Treasury to liquidate budgetary obligations, Treasury will finance the disbursements in the same way it finances all other disbursements, using some combination of receipts, other inflows and borrowing from the public (if there is a budget deficit).

D. Accounts Receivable, Net

Accounts Receivable, Net, are due to the IRS from federal agencies and the public. Intragovernmental receivables include an expenditure transfer receivable from the Treasury Forfeiture Fund for the repayment of costs incurred in criminal investigations related to seizure and forfeitures. Reimbursable agreements with federal agencies are recorded as receivables and revenues are recognized as services are performed and costs are incurred.

With the Public, Accounts Receivable, Net are reported as Other Receivables on the Balance Sheets and include reimbursable agreements and payroll receivables collected by the National Finance Center. These receivables are the IRS and National Finance Center pay adjustments due to duplicate salary payments, salary overpayments, overdrawn leave, leave buybacks under workers' compensation and federal employees health benefit payments.

The allowance for uncollectible accounts is based on an annual review of groups of accounts by age for accounts receivable balances older than one year.

E. Federal Taxes Receivable, Net

The IRS reduces its taxes receivable amount by an allowance to report the amount of Federal Taxes Receivable, Net, on its Balance Sheets. The allowance reflects an estimate of the portion of total taxes receivable deemed to be uncollectible.

Accruals are made to reflect penalties and interest on taxes receivable through the Balance Sheet date. The majority of the Due to the General Fund of the U.S. Government balance is the offsetting liability of Federal Taxes Receivable, Net.

Taxes receivable consist of unpaid assessments (taxes, associated penalties and interest) due from taxpayers. The existence of a receivable is supported by a taxpayer agreement, such as filing of a tax return without sufficient payment, or a court ruling in favor of the IRS. Restitution-based assessments are federal court ordered assessments for compensation from defendants to the federal government for revenue losses caused by tax-related crimes, including conspiracy to defraud IRS and tax evasion, and are included in the taxes receivable balance. The Internal Revenue Code Section 965(h) requires U.S.

shareholders to pay a transition tax on the untaxed foreign earnings of certain specified foreign corporations as if those earnings had been repatriated to the U.S. This provision allowed taxpayers to elect to pay their transition tax on an eight-year installment schedule. The Coronavirus Aid, Relief, and Economic Security Act, Section 2302, contains a provision which allows employers to defer payment, without penalty, of the entire amount of the employer's share of the social security portion of Federal Insurance Contributions Act. This also includes the employer's and employee representative's share of the Railroad Retirement tax. The deferred amount was due in two installments with 50% due as of December 31, 2021, and the remaining amount by December 31, 2022.

Other Unpaid Assessments

Compliance assessments are unpaid assessments which neither the taxpayer nor a court has affirmed is owed to the federal government. This includes assessments resulting from an IRS audit or examination in which the taxpayer does not agree with the results. Write-off assessments consist of unpaid assessments for which the IRS does not expect further collections due to factors such as taxpayers' bankruptcy, insolvency or death. Compliance assessments and write-off assessments are not reported on the Balance Sheets. Statutory provisions authorize the IRS to collect on unpaid assessments for a specific statutory timeframe. To pursue collections and account for collection efforts, the IRS maintains unpaid assessment accounts in the financial records until the statute for collection expires.

Tax Assessments

Under Internal Revenue Code Section 6201, the Secretary of the Treasury is authorized and required to make inquiries, determinations and assessments of all taxes imposed and accrued under any internal revenue law, which have not been duly paid, including interest, additions to the tax and assessable penalties. The Secretary of the Treasury has delegated this authority to the Commissioner of Internal Revenue. Unpaid assessments result from taxpayers filing returns without sufficient payments and from the enforcement programs of the IRS, such as examination, under-reporter, substitute for return and combined annual wage reporting.

Abatements

Internal Revenue Code Section 6404 authorizes the Commissioner of Internal Revenue to abate certain paid or unpaid portions of assessed taxes, interest and penalties. Abatements occur for several reasons and are a standard part of the tax administration process. Abatements may be allowed for qualifying corporations claiming net operating losses that create a credit when carried back and applied against a prior year's tax liability. Additionally, abatements can correct previous assessments from enforcement programs, eliminate taxes discharged in bankruptcy, reduce, or eliminate taxes encompassed in offers-in-compromise, eliminate penalty assessments for reasonable cause, eliminate contested assessments caused by mathematical or clerical errors and eliminate assessments contested after the liability has been satisfied. Abatements may result in claims for refunds or reductions of the unpaid assessed amounts.

F. Cash and Other Monetary Assets

Imprest funds are maintained by headquarters and field offices in commercial bank accounts. Other monetary assets consist of seized monies pending the results of criminal investigations.

G. Property and Equipment

The IRS's property and equipment are recorded at historical cost and consist of tangible and intangible assets, including equipment, leasehold improvements, assets under capital lease and internal use software with a useful life of two or more years. Asset disposals are generally recorded at the end of the fiscal year based upon organization reviews and impairment testing. Normal repairs and maintenance costs are recognized as an expense in the current period.

In FY 2022, the IRS changed its policy for depreciation to use a straight-line method based on the in-service date. Prior to FY 2022, depreciation was calculated on a straight-line basis over the estimated useful life using a half year convention. Leasehold improvements are depreciated over the lesser of the useful life of the asset or the remaining lease term (refer to **Note 6. Property and Equipment, Net** and **Note 11. Leases**).

IRS Capitalization Policy	
Asset Class	**Capitalization Threshold**
Information Technology Equipment (mainframe, server & telecommunication)	Bulk cost of $50 thousand or greater.
Non-Information Technology Equipment	Assets with bulk cost of $50 thousand or greater and the individual cost is $5 thousand or greater.
Investigative Equipment	Bulk cost of $50 thousand or greater.
Vehicles	No threshold.
Internal Use Software	Projects with an estimated cost greater than or equal to $10 million per year or greater than or equal to $50 million over the life cycle.
Leasehold Improvements	Improvements with bulk cost of $50 thousand or greater.
Assets under Capital Lease	Assets with bulk cost of $50 thousand or greater.

H. Advances and Prepayments

Intragovernmental advances and prepayments include postage purchased from the U.S. Postal Service for postage meters, business reply mail, bulk mailing permits, stamps and postage paid envelopes. The U.S. Postal Service requires payment for the postage in advance. Advances and prepayments to the public represent cash outlays for criminal investigations and employee travel.

I. Inventory and Related Property, Net

Forfeited property held for sale is acquired because of forfeiture proceedings or foreclosure sales to satisfy a tax liability. The Federal Tax Lien Revolving Fund, established in accordance with Title 26 U.S. Code Section 7810, is used to redeem real property foreclosed upon by a holder of a lien. The IRS may sell the property, reimburse the revolving fund in an amount equal to the redemption and apply any net proceeds to the outstanding tax obligation.

Seized monetary instruments are recognized at their market value when seized as other monetary assets and an offsetting liability in other liabilities of equal value is recognized. The seized asset is reclassified to a forfeited asset if a forfeiture judgment is obtained, the revenue is recognized and the other liability is removed.

Seized property value, other than monetary instruments, is accounted for in criminal investigation records until the property is forfeited, returned or otherwise liquidated. Valuation of property seized under the Internal Revenue Code shall be based on the taxpayer's equity at the fair market value less any third-party liens. Forfeited intangible assets are recognized at fair market value at the time of forfeiture with an offsetting deferred revenue.

Cryptocurrency and digital assets are non-monetary assets. Forfeited cryptocurrency and other digital assets are recognized at fair market value at the time of forfeiture and disclosed as non-monetary instruments.

Seized and forfeited digital assets are disclosed, if material, for the types and quantity of the most significant seized and forfeited cryptocurrency and any other digital assets at the fair market value (at time of seizure or forfeiture).

J. Due to the General Fund of the U.S. Government

Due to the General Fund of the U.S. Government comprises two sources, Federal Taxes Receivable, Net, and State Innovation Waiver Program. The portion of the liability for federal taxes receivable is to be distributed to the General Fund of the U.S. Government upon collection. The portion of the liability for the State Innovation Waiver Program represents awards by the Centers for Medicare and Medicaid Services, under Section 1332 of the Patient Protection and Affordable Care Act, where the grantees participating in the program have not drawn down the funds per the term of the grant. The program is also referred to as a State Relief and Empowerment Waiver.

K. Federal Tax Refunds Payable and Due from the General Fund of the U.S. Government

Federal tax refunds payable comprises measurable and legally payable amounts due to taxpayers under established refund processes of the IRS. It is a fully funded liability offset by a corresponding asset, Due from the General Fund of the U.S. Government. The IRS records an amount Due from the General Fund of the U.S. Government to designate approved funding to pay year-end tax refund liabilities to taxpayers.

L. Contingent Liabilities

Contingent liabilities are liabilities that may be incurred by the IRS depending on the outcome of an uncertain future event, such as pending or threatened litigation. Contingencies are classified into three categories: probable, reasonably possible, and remote. A contingency is considered probable when the future confirming events are likely to occur. Probable contingent liabilities are recognized by the IRS in the financial statements provided the amount can reasonably be estimated. Contingencies are reasonably possible when the chance of the future confirming event occurring is more than remote but less than probable. Reasonably possible contingencies are disclosed by the IRS in the notes to the financial statements, as well as probable contingencies that cannot reasonably be estimated. Remote contingencies are not recognized in the financial statements or disclosed in the notes to the financial statements.

M. Financing Sources and Revenues

Appropriations Received

The IRS receives most of its funding through annual, multi-year and no-year appropriations available for use within statutory limits for operating and capital expenditures. Appropriations received are presented on the Statement of Changes in Net Position.

Exchange Revenue

Exchange revenue is recognized when earned and is derived from transactions where both the U.S. government and the other party receive value. The IRS exchange revenue represents reimbursements, user fees and collections of outstanding inactive tax receivables. Reimbursements are recognized as the result of costs incurred for services performed for federal agencies or the public under reimbursable agreements. User fees are from transactions with the public and are generally recognized when earned. The Fixing America's Surface Transportation Act (Public Law 114-94) authorizes the IRS's Private Collection Agencies program, which provides the IRS with the authority to enter into qualified tax collection contracts with private collection agents to perform the collection of outstanding inactive tax receivables from the public. A portion of the collections are retained for cost of services performed through the contracts.

Non-exchange Revenue

Non-exchange revenue results from the U.S. government’s power to demand payments from the public. The Special Compliance Personnel Program has a specifically, identifiable, legally enforceable claim to a portion of the collections from outstanding inactive tax receivables to fund the administration of the program.

Imputed Financing Source

The IRS receives goods and services from other federal entities at no cost or at less than the full cost to the providing entity. When costs are identifiable to the IRS, these amounts are recognized as imputed costs in the Statement of Net Cost and as an imputed financing source on the Statement of Changes in Net Position. Imputed financing sources include Bureau of the Fiscal Service costs of processing tax payments and collections, employee benefits administered by the Office of Personnel Management and settled claims paid by the Treasury Judgment Fund.

N. Major Programs

The Statement of Net Cost major programs present the strategic goals which align to the IRS mission of delivering high quality taxpayer service and fair enforcement of the tax law.

Service to the Taxpayer includes activities and programs, such as pre-filing assistance, processing tax returns and related documents, offering filing and account services, taxpayer assistance, providing taxpayer advocacy services and supporting activities. Earned revenues include reimbursable revenues for services provided and user fees including several services performed including photocopies, U.S. residency certifications and Income Verification Express Service.

Enforcement of Tax Legislation includes the examination of tax returns, both domestic and international; administrative and judicial settlement of taxpayer appeals of examination findings; technical rulings; monitoring of employee pension plans; determination of qualifications of organizations seeking tax-exempt status; examination of tax returns of exempt organizations; enforcement of statutes relating to detection and investigation of criminal violations of the internal revenue laws; identification of underreporting of tax obligations; securing of unfiled tax returns; collection of unpaid accounts; and supporting activities. Earned revenues are primarily from user fees for installment agreements, letter rulings and determinations, offers in compromise, enrolled agent and actuary programs, return preparer registrations, advance pricing agreements, services provided from reimbursable revenues and Private Collection Agencies program.

Transformation of Business Systems includes resources for the planning and capital asset acquisition of Information Technology to modernize the IRS business systems. Primary activities include expanding online account capabilities to improve the taxpayer experience, improving individual tax processing technologies, streamlining case and workload management processes and promoting cybersecurity.

O. Custodial Activity

Revenues

The IRS collects custodial non-exchange tax revenues levied for: individual and corporate income, Federal Insurance Contributions Act, Self-Employment Contributions Act, excise, estate, gift, railroad retirement and federal unemployment taxes. This revenue is not available to the IRS for obligation or expenditure. The sources of federal tax revenue and their distribution to the General Fund of the U.S. Government are reported on the Statement of Custodial Activity.

Appropriations

The IRS was granted permanent and indefinite budgetary authority through legislation to disburse tax refund principal and related interest as they become due. The permanent and indefinite appropriations are not subject to budgetary ceilings set by Congress during the annual appropriation process.

Refunds due to taxpayers are reported as Federal Tax Refunds Payable on the Balance Sheets. The IRS recognizes an offsetting asset, Due from the General Fund of the U.S. Government, to reflect the year-end budget authority to pay this liability.

Disbursements for tax refunds, refundable tax credits and other outlays, reported on the Statement of Custodial Activity, are offset by appropriations used for refunds. Disbursements for refunds are not a cost to the IRS, but rather a cost to the federal government as a whole.

P. Funds from Dedicated Collections

Funds from Dedicated Collections are specifically identified revenues, often supplemented by other financing sources, which remain available over time. These specifically identified revenues and other financing sources are required by statute to be used for designated activities, benefits, or purposes and must be accounted for separately from the federal government's general revenues.

Q. Allocation Transfers

The IRS is a party to allocation transfers with other federal agencies as both a transferring (parent) entity and a receiving (child) entity. Allocation transfers are legal delegations by one federal entity of its authority to obligate budget authority and outlay funds to another federal entity. A separate fund account (allocation account) is created in Treasury as a subset of the parent fund account for tracking and reporting purposes. All allocation transfers of balances are credited to this account and subsequent obligations and outlays incurred by the child entity are charged to this allocation account as they execute the delegated activity on behalf of the parent entity. Financial activity related to these allocation transfers is reported in the financial statements of the parent entity, from which the underlying legislative authority, appropriations and budget apportionments are derived. The IRS allocates funds, as the parent entity, to the Department of Health and Human Services. Also, the IRS receives allocation transfers, as the child entity, from the Department of Transportation's Federal Highway Administration and Department of Health and Human Services.

R. Fiduciary Activities

Fiduciary activities are the collection or receipt, and the management, protection, accounting, investment and disposition by the federal government of cash or other assets in which non-federal individuals or entities have an ownership interest the federal government must uphold.

The IRS fiduciary activities include the net collections for a taxable year from U.S. military and federal employees working in the U.S. territories of the Northern Mariana Islands, the U.S. Virgin Islands, Guam and American Samoa. These fiduciary assets are not assets of the IRS.

S. Budgetary Terms

The purpose of federal budgetary accounting is to control, monitor and report on funds made available to federal agencies by law and help ensure compliance with the law.

Appropriation. A provision of law (not necessarily in an appropriations act) authorizing the expenditure of funds for a given purpose. Usually, but not always, an appropriation provides budget authority.

Budgetary resources. Amounts available to incur obligations in a given fiscal year. Budgetary resources consist of new budget authority and unobligated balances of budget authority provided in previous years.

Obligation. A binding agreement resulting in outlays, immediately or in the future. Budgetary resources must be available before obligations can be incurred legally.

Offsetting collections. Payments to the U.S. government, by law, are credited directly to expenditure accounts and deducted from gross budget authority and outlays of the expenditure account, rather than added to receipts. Usually, offsetting collections are authorized to be spent for the purposes of the account without further action by Congress. They usually result from business-like transactions with the public, including payments from the public in exchange for goods and services, reimbursements for damages, and gifts or donations of money to the U.S. government and from intragovernmental transactions with other U.S. government accounts.

Offsetting receipts. Payments to the U.S. government are credited to offsetting receipt accounts and deducted from gross budget authority and outlays, rather than added to receipts. Usually, they are deducted at the level of the agency and subfunction, but in some cases they are deducted at the level of the U.S. government as a whole. They are not authorized to be credited to expenditure accounts. The legislation authorizing the offsetting receipts may earmark them for a specific purpose and either appropriate them for expenditure for the specific purpose or require them to be appropriated in annual appropriations acts before they can be spent. Like offsetting collections, they usually result from business-like transactions with the public, including payments from the public in exchange for goods and services, reimbursements for damages, and gifts or donations of money to the U.S. government, and from intragovernmental transactions with other U.S. government accounts.

Outlay. A payment to liquidate an obligation. Not every disbursement is an outlay liquidating an obligation, such as, deposit funds are excluded from the budget and refunds of receipts resulting from overpayments are decreases in receipts. Outlays generally are equal to cash disbursements but also are recorded for cash-equivalent transactions, such as federal employee salary deductions, and in a few cases are recorded on an accrual basis. Outlays are the measure of U.S. government spending.

Expenditures resulting from offsetting receipts are recorded as gross outlays and the collections of offsetting receipts are then subtracted from gross outlays to derive net outlays. Net outlays reflect the Government's net transactions with the public.

T. Employee Compensation and Benefits

Accrued Annual, Sick and Other Leave

Annual and compensatory leave is accrued and expensed as earned and used. Each year, the IRS adjusts the balance in the accrued annual leave liability account to reflect current pay rates. To the extent current or prior year appropriations are not available to fund annual and compensatory leave earned but not taken, funding is obtained from future financing sources. Sick leave and other types of non-vested leave are expensed as used.

Federal Employees' Compensation Act

The Federal Employees' Compensation Act provides income and medical cost protection and other death benefits to beneficiaries for federal civilian employees with proper coverage who are injured on the job, have incurred work-related occupational diseases and whose deaths were attributed to job-related injuries or occupational diseases. The Federal Employees' Compensation Act program is administered by the Department of Labor, which pays valid claims and subsequently seeks reimbursement for claims paid. Accrued Federal Employees' Compensation Act liability represents amounts due to the Department of Labor for claims paid on behalf of the IRS. Actuarial Federal Employees' Compensation Act liability represents the liability for future workers' compensation benefits, which includes the expected liability for death, disability, medical and miscellaneous costs for approved cases. The Department of Labor estimates the liability for future payments because of past events.

Employee Health and Life Insurance Benefits

Employees are eligible to participate in the Federal Employees Health Benefit Program and Federal Employees' Group Life Insurance Program. The Federal Employees Health Benefit Program offers a wide variety of group plans and coverage. The coverage is available to employees, retirees and their eligible family members. The cost for each plan varies and is shared between the IRS and the employee.

An employee participating in the Federal Employees' Group Life Insurance Program can obtain basic term life insurance, with the employee paying two-thirds of the cost and the IRS paying one-third. Additional coverage is optional, to be paid fully by the employee. The basic life coverage may continue into retirement if certain requirements are met. The IRS recognizes the full cost of providing these benefits.

Employee Pension Benefits

The IRS recognizes the full costs of its employees' pension benefits. The liabilities associated with these costs are reported by the Office of Personnel and Management, who administers the plans. Eligibility of employees to participate in the Civil Service Retirement System or the Federal Employees Retirement System is based on their hire date with the federal government and the IRS contributes a percentage of an employee's basic pay toward the retirement plan.

Employees covered by either Civil Service Retirement System or Federal Employees Retirement System are also eligible to contribute to the Thrift Savings Plan, a defined contribution plan. The IRS is required to contribute to Thrift Savings Plan a minimum of 1% per year of the basic pay of employees covered by this system, match voluntary employee contributions up to 3% of the employee's basic pay and match one-half of contributions between 3% and 5% of the employee's basic pay. No Thrift Savings Plan matching contributions are made to the Civil Service Retirement System.

Employee Pension Benefit Contribution Rates			
	Category	Employee	Agency
Civil Service Retirement System Rates	Regular	7.0%	7.0%
	Law enforcement officers	7.5%	7.5%
Federal Employees Retirement System Rates hired prior to January 1, 2013	Regular	0.8%	18.4%
	Law enforcement officers	1.3%	37.6%
Federal Employees Retirement System – Revised Annuity Rate hired January 1, 2013–December 31, 2013	Regular	3.1%	16.6%
	Law enforcement officers	3.6%	35.8%
Federal Employees Retirement System – Further Revised Annuity Rate hired January 1, 2014 or later	Regular	4.4%	16.6%
	Law enforcement officers	4.9%	35.8%

U. Changes in Presentation

A disclosure has been revised to reflect more detail for previous line items as presented in the prior year disclosures. Revised note line items are included in Fund Balance with Treasury.

Note 2. Non-entity Assets

(In Millions)	2023	2022
INTRAGOVERNMENTAL		
Fund Balance with Treasury	$ 3,245	$ 1,383
Due from the General Fund of the U.S. Government	6,647	6,947
Intragovernmental	**9,892**	**8,330**
WITH THE PUBLIC		
Federal Taxes Receivable, Net	182,000	236,000
With the Public	**182,000**	**236,000**
Non-entity Assets	191,892	244,330
Entity Assets	84,900	87,860
Assets	**$ 276,792**	**$ 332,190**

Non-entity assets are not available for use by the IRS. Federal Taxes Receivable, Net are collected for the U.S. government, but the IRS does not have the authority to spend them. The Fund Balance with Treasury, as presented in this note, consists of offers-in-compromise and voluntary deposits received from taxpayers pending application of the funds to taxpayer's account.

Note 3. Fund Balance with Treasury

(In Millions)	2023	2022
UNOBLIGATED BALANCES		
Available	$ 75,078	$ 34,345
Unavailable	901	46,461
Obligated Balance Not Yet Disbursed	3,730	2,786
Non-Budgetary and Other Fund Balance with Treasury		
Deposit Funds and Clearing Accounts	3,246	1,385
State Innovation Waiver Program	3,382	2,407
Other	10	5
Status of Fund Balance with Treasury	**$ 86,347**	**$ 87,389**

The status of Fund Balance with Treasury includes unobligated and obligated balances. Unobligated balances, available represent amounts in unexpired appropriations as of the end of the current fiscal year. Unobligated balances become available when apportioned by the Office of Management and Budget. Unobligated balances, unavailable represent amounts in expired appropriations and amounts not apportioned for obligation as of the end of the current fiscal year. The obligated balances not yet disbursed represent the unpaid funds with budgetary obligations.

Non-budgetary and other Fund Balance with Treasury includes Section 1332 State Innovation Waiver Program funds. As of September 30, 2023, the grantee has not drawn down the funds per the terms of the grant.

Note 4. Cash and Other Monetary Assets

As of September 30, 2023 and 2022, the imprest fund amount was $4 million. Imprest funds are used by investigative services to provide special agents with funding for ongoing covert operations and is non-restricted cash. Other monetary assets are non-entity assets recorded in a deposit fund account.

Note 5. Federal Taxes Receivable, Net

(In Billions)		2023		2022
WITH THE PUBLIC				
Federal Taxes Receivable	$	404	$	437
Allowance for Uncollectible Taxes Receivable		(222)		(201)
Federal Taxes Receivable, Net	**$**	**182**	**$**	**236**

Federal taxes receivable are taxes due from taxpayers for which the IRS can support the existence of a receivable through either a taxpayer agreement or a court ruling determining an assessment. Federal Taxes Receivable, Net is the portion of Federal taxes receivable estimated to be collectible and the corresponding liability is Due to the General Fund of the U.S. Government which is to be transferred when collected. The taxes receivable consists primarily of two categories:

- Delinquent tax assessments, penalties and interest not paid or abated, which were agreed to by the taxpayer and the IRS or upheld by the courts. As of September 30, 2023, the net delinquent unpaid assessments for this category was $64 billion, an increase of $10 billion from the $54 billion reported for FY 2022.
- Non-delinquent assessments are detailed in **Note 1.E. Federal Taxes Receivable, Net**. As of September 30, 2023, the net Federal taxes receivable for this category was $118 billion. These non-delinquent assessments consist of three categories, one of which ended in FY 2023:
    - Internal Revenue Code Section 965(h) which allowed taxpayers to elect to pay this tax on an eight-year installment schedule. As of September 30, 2023, net Federal taxes receivable for Internal Revenue Code Section 965(h) consist of $116 billion, a decrease of $19 billion from $135 billion reported for FY 2022. The decrease was primarily due to yearly installment payments applied to these deferrals.
    - The Coronavirus Aid, Relief, and Economic Security Act, section 2302, contains a provision for employers to defer payment of the employer's share of the social security portion of Federal Insurance Contributions Act, and their portion and the employee representative's share of the Railroad Retirement tax. The final installment was due December 31, 2022. As of January 1, 2023, the net Federal taxes receivable for Section 2302 decreased to zero. Any remaining unpaid deferral amounts are delinquent tax assessments.

- As of September 30, 2023, there was $2 billion in Federal taxes receivable from uncollected Branded Prescription Drug fees. As of September 30, 2022, there were no Federal taxes receivable from uncollected Branded Prescription Drug fees.

For taxes receivable, specific collectability methods were applied to each of the categories mentioned above to determine allowance for uncollected taxes receivable:

- **Delinquent tax assessments.** In FY 2023, to derive the estimated collectability rate applied to delinquent gross Federal taxes receivable, the IRS utilized the FY 2023 sample collectible point estimate of $60 billion (+/- $12.2 billion). The IRS averaged three years of collectability rates (FY 2021–2023) to normalize the effect of year-to-year fluctuations. In FY 2022, the $53 billion in collectible delinquent tax assessments was derived from a three-year average (FY 2020–2022) including the FY 2022 collectible point estimate of $52 billion (+/- $10.7 billion).
- **Internal Revenue Code Section 965(h) elections.** In FY 2023, the IRS considered indicators of financial health of the largest business modules (93% of the remaining unpaid deferral balance) along with industry specific data in determining the degree to which Internal Revenue Code Section 965(h) taxpayers are considered at-risk of non-payment. Internal Revenue Code Section 965(h) taxes receivable estimated collectability was 94.2% overall. The FY 2022 overall collectability estimate for Internal Revenue Code Section 965(h) was 96.5%.
- **Social Security Tax Deferral.** For FY 2023, all payments were due December 31, 2022, and any unpaid amounts are delinquent tax assessments. For FY 2022, the first installment payment was due on or before December 31, 2021. Modules were considered at-risk of less than full payment if there was evidence of nonpayment. The IRS considered modules not at-risk to be fully collectible. This resulted in an estimated 90.7% collectability for Social Security Tax Deferrals in FY 2022.
- Uncollected Branded Prescription Drug fees are deemed fully collectible.

Note 6. Property and Equipment, Net

2023 (In Millions)	Useful Life (Years)		Acquisition Value		Accumulated Depreciation		Net Book Value
ASSET CLASS							
Information Technology Equipment	3 to 7	$	833	$	(547)	$	286
Internal Use Software	2 to 15		3,647		(3,081)		566
Internal Use Software – In Development	N/A		695		–		695
Leasehold Improvements	2 to 10		290		(143)		147
Vehicles	5		5		(3)		2
Non-Information Technology	8 and 10		69		(46)		23
Assets Under Capital Lease	4.5 to 8		–		–		–
Investigative Equipment	10		4		(3)		1
Leasehold Improvements Construction – In Progress	N/A		27		–		27
Property and Equipment		**$**	**5,570**	**$**	**(3,823)**	**$**	**1,747**

2022 (In Millions)	Useful Life (Years)		Acquisition Value		Accumulated Depreciation		Net Book Value
ASSET CLASS							
Information Technology Equipment	3 to 7	$	955	$	(626)	$	329
Internal Use Software	2 to 15		3,512		(2,819)		693
Internal Use Software – In Development	N/A		579		–		579
Leasehold Improvements	2 to 10		279		(148)		131
Vehicles	5		4		(3)		1
Non-Information Technology	8 and 10		77		(48)		29
Assets Under Capital Lease	4.5 to 8		27		(21)		6
Investigative Equipment	10		4		(3)		1
Leasehold Improvements Construction – In Progress	N/A		26		–		26
Property and Equipment		**$**	**5,463**	**$**	**(3,668)**	**$**	**1,795**

In FY 2022, the IRS entered an Energy Savings Performance Contract with a useful life of 17 years to align the amortization with the liability. This agreement is the only exception to the leasehold improvement useful life threshold in the table above.

Components of the Changes in Property and Equipment, Net

(In Millions)		2023		2022
Balance Beginning of Year	$	1,795	$	1,822
Capitalized Acquisitions		382		354
Dispositions		(32)		(4)
Depreciation Expense		(398)		(377)
Balance at End of Year	**$**	**1,747**	**$**	**1,795**

Note 7. Liabilities Not Covered by Budgetary Resources

(In Millions)	2023	2022
INTRAGOVERNMENTAL		
Unfunded Federal Employees' Compensation Act	$ 67	$ 69
Unfunded Unemployment Compensation for Federal Employees	1	1
Intragovernmental	**68**	**70**
WITH THE PUBLIC		
Unfunded Accrued Annual Leave	598	583
Actuarial Federal Employees' Compensation Act	392	403
Energy Savings Performance Contract	29	30
With the Public	**1,019**	**1,016**
Liabilities Not Covered By Budgetary Resources	1,087	1,086
Liabilities Covered By Budgetary Resources	11,325	10,338
Liabilities Not Requiring Budgetary Resources	185,246	237,385
Liabilities	**$ 197,658**	**$ 248,809**

Liabilities not covered by budgetary resources are from the receipt of goods and services, or occurrence of eligible events in the current or prior periods, for which revenue or other funds to pay the liabilities has not been made available through appropriations of the IRS.

Liabilities covered by budgetary resources are liabilities which Congress has appropriated funds or funding is otherwise available to pay amounts due.

Liabilities not requiring budgetary resources are liabilities that have not in the past required and will not in the future require the use of budgetary resources. This includes liabilities for clearing accounts, non-fiduciary deposit funds and custodial collections.

Note 8. Due to the General Fund of the U.S. Government

(In Millions)	2023	2022
INTRAGOVERNMENTAL		
Federal Taxes Receivable, Net	$ 182,000	$ 236,000
Fund Balance with Treasury	3,382	2,407
Due to the General Fund of the U.S. Government	**$ 185,382**	**$ 238,407**

Due to the General Fund of the U.S. Government reports General Fund assets held and managed on behalf of the U.S. government. These General Fund assets constitute resources available to meet the operating needs of the U.S. government. The Federal Taxes Receivable, Net is the portion of gross Federal taxes receivable estimated to be collectible and will be transferred to the General Fund when collected. The Fund Balance with Treasury represents funds to administer the State Innovation Waiver Program. These funds are not available for use by the IRS.

Note 9. Federal Employee Benefits Payable

Unfunded accrued annual leave is a current liability not covered by budgetary resources.

(In Millions)		2023		2022
WITH THE PUBLIC				
Unfunded Accrued Annual Leave	$	598	$	583
Actuarial Federal Employees' Compensation Act		392		403
Employer Contributions for Thrift Savings Plan		19		17
Federal Employee Benefits Payable	**$**	**1,009**	**$**	**1,003**

Note 10. Other Liabilities

(In Millions)		2023		2022
INTRAGOVERNMENTAL				
Benefit Program Contributions Payable	$	151	$	138
Unfunded Federal Employees' Compensation Act		67		69
Accrued Expenses		32		9
Unfunded Unemployment Compensation for Federal Employees		1		1
Other Liabilities	**$**	**251**	**$**	**217**
WITH THE PUBLIC				
Accrued Funded Payroll	$	498	$	414
Accrued Expenses		581		391
Deposit Fund and Clearing Accounts		3,246		1,385
Energy Savings Performance Contract		29		30
Other Liabilities	**$**	**4,354**	**$**	**2,220**

The current liabilities not covered by budgetary resources for FY 2023 are Unfunded Federal Employees' Compensation Act for $29 million, Unfunded Unemployment Compensation for Federal Employees for $1 million and Energy Savings Performance contract for $1 million. In FY 2022, the current liabilities not covered by budgetary resources for Unfunded Federal Employees' Compensation Act, Unfunded Unemployment Compensation for Federal Employees and Energy Savings Performance contract were $32 million, $1 million and $2 million, respectively.

Note 11. Leases

Capital Leases

The IRS leased information technology telecom equipment for toll-free call centers and software licenses with the public. These leases are no longer active as of September 30, 2023.

The IRS has leases with the General Services Administration for furniture. Furniture is being leased over a period of five years.

The capital lease liability is less than $1 million in FY 2023 and in FY 2022. These leases are not covered by budgetary resources. The future payments due for FY 2024 are less than $1 million.

Summary of Assets Under Capital Lease:

(In Millions)	**2023**	**2022**
CAPITAL LEASE CATEGORY		
Telecom Equipment	$ –	$ 8
Software License Agreement	–	17
Furniture	–	2
Accumulated Depreciation	–	(21)
Assets Under Capital Lease, Net	**$ –**	**$ 6**

Operating Leases

The IRS leases office space from the General Services Administration under non-cancelable occupancy agreements with lease terms from 1 to 30 years. Future lease payments under non-cancelable leases of office spaces are:

(In Millions)	**Intragovernmental**
FISCAL YEAR	
2024	$ 161
2025	145
2026	143
2027	143
2028	133
After 2028	820
Future Lease Payments	**$ 1,545**

Also, the IRS maintains annual operating leases with the General Services Administration, for office space, and with commercial entities, for equipment and software licenses. These leases may be cancelled or renewed on an annual basis by the IRS.

Note 12. Commitments and Contingencies

The IRS is a party to legal actions that may ultimately result in settlements or decisions adverse to the federal government. As of September 30, 2023, the IRS is a party to a lawsuit categorized as reasonably possible where the claimant seeks the return of user fees paid to obtain a tax identification number plus interest. The range of loss is depicted in the table below.

(In Millions)		2023		2022
REASONABLY POSSIBLE				
Lower End Range of Loss	$	–	$	–
Upper End Range of Loss	$	246	$	230

The IRS does not have a contingent legal liability recognized as of September 30, 2023 and 2022, respectively. The IRS is a party in four cases that are indeterminable in probability and range of loss as of September 30, 2023, and three cases indeterminable in probability and range of loss as of September 30, 2022. These cases include actions that argue malicious and negligent prosecution by the IRS.

Note 13. Funds from Dedicated Collections

The IRS administers four Funds from Dedicated Collections. They are presented in accordance with Statement of Federal Financial Accounting Standards No. 27, Identifying and Reporting Earmarked Funds, as amended by Statement of Federal Financial Accounting Standards No. 43, Funds from Dedicated Collections: Amending Statement of Federal Financial Accounting Standards No. 27. There are no eliminations between the four Funds from Dedicated Collections for FY 2023 and FY 2022.

						2023
(In Millions)		**Private Debt Collection**		**Other Dedicated Collections**		**Consolidated Funds from Dedicated Collections**
BALANCE SHEET						
Assets						
Intragovernmental						
Fund Balance with Treasury	$	297	$	8	$	305
Advances and Prepayments		1		–		1
Total Intragovernmental		**298**		**8**		**306**
Total Assets	**$**	**298**	**$**	**8**	**$**	**306**
Liabilities						
Intragovernmental						
Other Liabilities	$	1	$	–	$	1
Total Intragovernmental		**1**		**–**		**1**
With the Public						
Federal Employee Benefits Payable		2		–		2
Other Liabilities		9		–		9
Total with the Public		**11**		**–**		**11**
Total Liabilities		**12**		**–**		**12**
NET POSITION						
Cumulative Results of Operations		286		8		294
Total Liabilities and Net Position	**$**	**298**	**$**	**8**	**$**	**306**
STATEMENT OF NET COST						
Gross Costs	$	124	$	–	$	124
Earned Revenue		(98)		–		(98)
Net Costs of Operations	**$**	**26**	**$**	**–**	**$**	**26**
STATEMENT OF CHANGES IN NET POSITION						
Cumulative Results of Operations						
Beginning Balances	$	173	$	8	$	181
Intragovernmental Non-exchange Revenues		138		–		138
Imputed Financing		1		–		1
Net Costs of Operations		(26)		–		(26)
Net Change		**113**		**–**		**113**
Ending Balances	**$**	**286**	**$**	**8**	**$**	**294**

(In Millions)	2022 Private Debt Collection	Other Dedicated Collections	Consolidated Funds from Dedicated Collections
BALANCE SHEET			
Assets			
Intragovernmental			
Fund Balance with Treasury	$ 249	$ 8	$ 257
Total Intragovernmental	**249**	**8**	**257**
Total Assets	**$ 249**	**$ 8**	**$ 257**
Liabilities			
Intragovernmental			
Other Liabilities	$ 1	$ –	$ 1
Total Intragovernmental	1	–	1
With the Public			
Federal Employee Benefits Payable	67	–	67
Other Liabilities	8	–	8
Total with the Public	**75**	**–**	**75**
Total Liabilities	**76**	**–**	**76**
NET POSITION			
Cumulative Results of Operations	173	8	181
Total Liabilities and Net Position	**$ 249**	**$ 8**	**$ 257**
STATEMENT OF NET COST			
Gross Costs	$ 181	$ –	$ 181
Earned Revenue	(64)	–	(64)
Net Costs of Operations	**$ 117**	**$ –**	**$ 117**
STATEMENT OF CHANGES IN NET POSITION			
Cumulative Results of Operations			
Beginning Balances	$ 198	$ 8	$ 206
Intragovernmental Non-exchange Revenues	90	–	90
Imputed Financing	2	–	2
Net Costs of Operations	(117)	–	(117)
Net Change	**(25)**	**–**	**(25)**
Ending Balances	**$ 173**	**$ 8**	**$ 181**

Private Debt Collection

Established under the American Jobs Creation Act of 2004, the Private Collection Agent program, Treasury Account Symbol 20X5510, ended in March 2009. The remaining unobligated funds were retained by the IRS. The Fixing America's Surface Transportation Act, (Public Law 114-94), enacted in December 2015, amended Title 26 U.S. Code, Section 6306, requiring the IRS to enter one or more qualified tax collection contracts for the collection of outstanding inactive tax receivables in the Private Collection Agencies Program. This program has the authority to retain a portion of these collections to use for the costs performed under the contracts. The revenue is recognized as exchange revenue on the Statement of Net Cost.

The Fixing America's Surface Transportation Act amended title 26, U.S. Code, Section 6307, to establish the Special Compliance Personnel Program Account, Treasury Account Symbol 20X5622. The program requires hiring, training and employment of special compliance personnel. A portion of the collections from outstanding inactive tax receivables funds the program. The revenue is recognized as non-exchange revenue on the Statement of Changes in Net Position.

Other Dedicated Collections

The Federal Tax Lien Revolving Fund, Treasury Account Symbol 20X4413, was established pursuant to Section 112(a) of the Federal Tax Lien Act of 1966, to serve as the source of financing for the redemption of real property by the U.S. The forfeited property may be sold at auction to reimburse the revolving fund in an amount equal to the redemption. The net proceeds are applied to the outstanding tax obligation.

The Informant Payments Fund, Treasury Account Symbol 20X5433, was established by the Taxpayer Bill of Rights of 1996 (Public Law 104-168). It provides for payments to individuals from the proceeds of amounts collected by reason of the information provided, and any amount collected shall be available for such payments. The custodial collection activities are reported in the Statement of Custodial Activity.

Note 14. Inter-Entity Costs

(In Millions)		2023		2022
Fiscal Service Cost for Tax Collections and Refunds	$	1,168	$	1,355
Federal Employees Benefit Programs		919		654
Treasury Judgment Fund		7		1
Inter-Entity Costs	**$**	**2,094**	**$**	**2,010**

Imputed financing sources are recognized for goods or services received from other federal agencies without reimbursement from the IRS. This includes pension and other benefit costs administered by the Office of Personnel Management, costs of processing payments and collections by the Bureau of the Fiscal Service and legal judgments paid by the Treasury Judgment Fund. Unreimbursed costs of goods and services other than those identified above are not included in the IRS financial statements.

Note 15. Undelivered Orders at the End of the Period

	2023		
(In Millions)	Intragovernmental	With the Public	Total
Unpaid	$ 375	$ 2,102	$ 2,477
Paid	3	15	18
Undelivered Orders at the End of the Period	**$ 378**	**$ 2,117**	**$ 2,495**

	2022		
(In Millions)	Intragovernmental	With the Public	Total
Unpaid	$ 235	$ 1,618	$ 1,853
Paid	1	9	10
Undelivered Orders at the End of the Period	**$ 236**	**$ 1,627**	**$ 1,863**

Undelivered orders are the value of goods and services ordered and obligated, but not yet received. Amounts include any prepaid or advanced orders for which delivery or performance has not yet occurred.

Note 16. Statement of Budgetary Resources

Explanation of differences Between the FY 2022 Statement of Budgetary Resources and the FY 2024 Budget of the U.S. Government

(In Millions)	Budgetary Resources	New Obligations and Upward Adjustments	Distributed Offsetting Receipts	Outlays, Net
Statement of Budgetary Resources	**$ 95,376**	**$ 14,570**	**$ 312**	**$ 13,855**
IN THE STATEMENT OF BUDGETARY RESOURCES				
Expired Funds	(322)	–	–	–
Other	1	–	–	(1)
NOT IN THE STATEMENT OF BUDGETARY RESOURCES				
Refundable Tax Credits, Interest Refunds to Taxpayers, and Other Outlays	344,798	344,798	–	338,240
Informant Payments	27	27	–	27
Budget of the U. S. Government	**$ 439,880**	**$ 359,395**	**$ 312**	**$ 352,121**

The FY 2025 Budget of the U.S. Government presenting the actual amounts for the year ended September 30, 2023, has not been published as of the issue date of these financial statements and will be available at a future date on the Office of Management and Budget President's Budget webpage (www.whitehouse.gov/omb/budget/). A reconciliation of the FY 2022 Statement of Budgetary Resources and the FY 2022 actual amounts in the FY 2024 Appendix, Budget of the U.S. Government for budgetary resources, new obligations and upward adjustments, distributed offsetting receipts and outlays, net is presented above.

Refundable tax credits, interest refunds, other outlays and informant payments total $345 billion in appropriations. These appropriations are primarily Additional Child Tax Credit, Premium Tax Credit and Earned Income Tax Credit reported with refunds as custodial activities on the Statement of Custodial Activity and are not reported as budgetary resources on the Statement of Budgetary Resources.

Net Adjustments to Unobligated Balance, Brought forward, October 1

(In Millions)	2023	2022
Unobligated Balance, Brought Forward from Prior Year	$ 80,806	$ 2,560
Adjustments to Unobligated Balance Brought Forward:		
Recoveries of Prior Year Unpaid Obligations	199	152
Recoveries of Prior Year Paid Obligations	30	56
Cancelled Authority	(94)	(74)
Transfers to Other Accounts	(7)	–
Unobligated Balance from Prior Year Budget Authority, Net	**$ 80,934**	**$ 2,694**

Net adjustments to the Unobligated Balance, Brought Forward, October 1 primarily includes current year activity related to downward adjustments of prior year undelivered orders and delivered orders, and cancelled authority.

Note 17. Collections of Federal Tax Revenue

	Tax Year				Fiscal Year	
(In Billions)	2023	2022	2021	Prior Years	2023	2022
Individual Income, Federal Insurance Contributions Act, Self-Employment Contributions Act, and Other	$ 2,547*	$ 1,414	$ 70	$ 82	$ 4,113	$ 4,308
Corporate Income	270**	156	5	26	457	476
Excise	53	21	–	–	74	71
Estate and Gift	1	30	2	2	35	33
Railroad Retirement	5	2	–	–	7	6
Federal Unemployment	5	3	–	–	8	7
Collections of Federal Tax Revenue	**$ 2,881**	**$ 1,626**	**$ 77**	**$ 110**	**$ 4,694**	**$ 4,901**

*Includes other collections of $591 million.

**Includes Tax Year 2024 corporate income tax receipts of $12 billion.

Note 18. Federal Tax Refund and Outlay Activities

Federal tax refunds and outlays include: overpayments from taxpayers; payments for the various refundable credits, including Earned Income Tax Credit and Premium Tax Credit; and other payments for Basic Health Program and State Innovation Waiver Program under the Patient Protection and Affordable Care Act of 2010. The Coronavirus Aid, Relief, and Economic Security Act of 2020, Coronavirus Response and Relief Supplemental Appropriations Act 2021 and the American Rescue Plan Act of 2021 included provisions to help stimulate the economy through The Recovery Rebate Credits in lieu of receiving Economic Impact Payments for those eligible taxpayers who did not receive the full amount of the Economic Impact Payment. The IRS disbursed $2 billion payments in FY 2023, and $13 billion payments in FY 2022, respectively, to eligible taxpayers based upon the criteria in each Act. The Coronavirus Aid, Relief, and Economic Security Act of 2020 authorized an Economic Impact Payment for eligible taxpayers of up to $1,200 for individuals and $2,400 for individuals filing a joint tax return, with up to an additional $500 for each eligible child. The Coronavirus Response and Relief Supplemental Appropriations Act of 2021 created an additional Economic Impact Payment of up to $600 for individuals and $1,200 for individuals filing a joint tax return, with up to an additional $600 for each eligible child. Additionally, the American Rescue Plan Act of 2021 created an additional Economic Impact Payment of up to $1,400 for individuals, and $2,800 for individuals filing a joint tax return, with up to an additional $1,400 for each qualifying dependent.

	Tax Year				Fiscal Year	
(In Billions)	**2023**	**2022**	**2021**	**Prior Years**	**2023**	**2022**
Individual Income, Federal Insurance Contributions Act, Self-Employment Contributions Act, and Other	$ 100	$ 303	$ 161	$ 47	$ 611	$ 585
Corporate Income	4	9	11	20	44	55
Excise	–	1	–	1	2	1
Estate and Gift	–	–	1	1	2	1
Federal Tax Refund and Outlay Activities	**$ 104**	**$ 313**	**$ 173**	**$ 69**	**$ 659**	**$ 642**

Note 19. Fiduciary Activities

The IRS has four fiduciary funds not reported on the Balance Sheets:

- Internal Revenue Collections for Northern Mariana Islands 20X6737
- Coverover Withholdings – U.S. Virgin Islands 20X6738
- Coverover Withholdings – Guam 20X6740
- Coverover Withholdings – American Samoa 20X6741

					2023
(In Millions)	**20X6737**	**20X6738**	**20X6740**	**20X6741**	**Total**
Fiduciary Net Assets, Beginning of Year	$ –	$ 40	$ –	$ 1	$ 41
Contributions	56	39	817	72	984
Disbursements to and On Behalf of Beneficiaries	(56)	(34)	(817)	(72)	(979)
Increase In Fiduciary Net Assets	–	5	–	–	5
Fiduciary Net Assets, End of Year	**$ –**	**$ 45**	**$ –**	**$ 1**	**$ 46**

					2022
(In Millions)	**20X6737**	**20X6738**	**20X6740**	**20X6741**	**Total**
Fiduciary Net Assets, Beginning of Year	$ –	$ 28	$ –	$ –	$ 28
Contributions	42	37	697	47	823
Disbursements to and On Behalf of Beneficiaries	(42)	(25)	(697)	(46)	(810)
Increase In Fiduciary Net Assets	–	12	–	1	13
Fiduciary Net Assets, End of Year	**$ –**	**$ 40**	**$ –**	**$ 1**	**$ 41**

In fiduciary fund 20X6738, the fiduciary net assets, end of year balances are pending a tax matter resolution.

Internal Revenue Code Section 7654 governs the tax coordination between the governments of the U.S. and the U.S. territories of the Northern Mariana Islands, the U.S. Virgin Islands, Guam and American Samoa.

The collections of federal income taxes withheld from U.S. military and federal employees working in these U.S. territories are maintained in fiduciary funds of the IRS. The disbursements of these collections to these U.S. territory governments represent the transfer of the individual tax liability for a taxable year.

Note 20. Budget and Accrual Reconciliation

			2023
(In Millions)	Intragovernmental	With the Public	Total
Net Cost of Operations	**$ 5,999**	**$ 11,229**	**$ 17,228**
COMPONENTS OF NET COST THAT ARE NOT PART OF NET OUTLAYS:			
Property and Equipment Depreciation	–	(398)	(398)
Property and Equipment Disposal and Reevaluation	–	(32)	(32)
Private Collection Agencies Revenue Not In Actual Offsetting Collections	98	–	98
Applied Overhead and Cost Capitalization Offset	–	289	289
Other	–	33	33
INCREASE/(DECREASE) IN ASSETS:			
Accounts Receivable	(16)	–	(16)
Advances, Prepayments and Inventory	2	6	8
(INCREASE)/DECREASE IN LIABILITIES			
Federal Employee Benefits Payable	–	(6)	(6)
Other Liabilities	(34)	(273)	(307)
OTHER FINANCING SOURCES			
Federal Costs Imputed to the Agency	(2,094)	–	(2,094)
Transfers Out/(In) Without Reimbursement	(6)	–	(6)
Total Components of Net Cost Not Part of the Net Outlays	(2,050)	(381)	(2,431)
COMPONENTS OF THE NET OUTLAYS THAT ARE NOT PART OF NET COST			
Acquisition of Capital Assets	–	93	93
Total Components of the Net Outlays That Are Not Part of Net Cost	–	93	93
Net Outlays	**$ 3,949**	**$ 10,941**	**$ 14,890**

In accordance with Statement of Federal Financial Accounting Standards No. 53, Budget and Accrual Reconciliation, the net cost of the programs and operations presented on an accrual basis must be reconciled to the net outlays presented on the budgetary basis during the reporting period. The accrual basis of accounting reports the net cost of resources used and includes information about costs arising from the consumption of assets and the incurrence of liabilities. Budgetary accounting reports the outlays of financial resources to acquire or provide goods and services.

The IRS transactions are recorded in budgetary and proprietary accounts, and because different accounting guidelines are used for budgetary and proprietary accounting, some transactions may appear in only one set of accounts. This reconciliation serves not only to identify costs paid for in the past and those to be paid in the future, but also to assure integrity between budgetary and financial accounting.

(In Millions)	Intragovernmental	With the Public	Total
			2022
Net Cost of Operations	$ 5,780	$ 9,887	$ 15,667
COMPONENTS OF NET COST THAT ARE NOT PART OF NET OUTLAYS:			
Property and Equipment Depreciation	–	(377)	(377)
Property and Equipment Disposal and Reevaluation	–	(4)	(4)
Private Collection Agencies Revenue Not In Actual Offsetting Collections	64	–	64
Applied Overhead and Cost Capitalization Offset	3	241	244
Other	–	26	26
INCREASE/(DECREASE) IN ASSETS:			
Accounts Receivable	5	(3)	2
Advances, Prepayments and Inventory	(10)	–	(10)
(INCREASE)/DECREASE IN LIABILITIES			
Accounts Payable	–	(12)	(12)
Federal Employee Benefits Payable	–	55	55
Other Liabilities	(17)	(138)	(155)
OTHER FINANCING SOURCES			
Federal Costs Imputed to the Agency	(2,010)	–	(2,010)
Transfers Out/(In) Without Reimbursement	(26)	–	(26)
Total Components of Net Cost Not Part of the Net Outlays	(1,991)	(212)	(2,203)
COMPONENTS OF THE NET OUTLAYS THAT ARE NOT PART OF NET COST			
Acquisition of Capital Assets	(3)	82	79
Total Components of the Net Outlays That Are Not Part of Net Cost	(3)	82	79
Net Outlays	$ 3,786	$ 9,757	$ 13,543

Note 21. COVID-19 Activity

Program Administration

The American Rescue Plan funding was received in FY 2021 and accelerates the IRS efforts to integrate, modernize and secure the IRS information technology systems. The funding was used to provide education and assistance to taxpayers and expand their Taxpayer Digital Communications functionality, which allows taxpayers to securely exchange information and messages with the IRS.

The Fiscal Responsibility Act of 2023, Public Law 118-5, rescinded $82 million of IRS funding that was originally provided by the American Rescue Plan Act of 2021.

COVID-19 Activity

(In Millions)		**2023**		**2022**
Budgetary Resources: Unobligated (and unexpired) Balance Carried Forward from Prior Year	$	332	$	1,415
Rescissions/Other Changes to Budgetary Resources		(43)		72
Budgetary Resources Obligated (less)		(255)		(1,155)
Budgetary Resources: Ending Unobligated (and unexpired) Balance to be Carried Forward	**$**	**34**	**$**	**332**
Outlays, Net	$	354	$	1,237

Financial Resources from COVID-19 Activity

(In Millions)		**2023**		**2022**
Fund Balance with Treasury	$	119	$	556
Property and Equipment	$	37	$	73
Other Liabilities, With the Public	$	17	$	39
Undelivered Orders at the End of the Period	$	68	$	184

Note 22. Inflation Reduction Act

The IRA legislation was signed into law on August 16, 2022. The IRS received $79,411 million in funding in August 2022 consisting of $79,396 million in ten-year appropriations and $15 million in two-year appropriations. The Fiscal Responsibility Act of 2023, Public Law 118-5, rescinded $1,389 million. The funding gives the IRS the resources to transform tax administration and services to taxpayers and tax professionals, while updating technology capabilities and investing in new tools to enhance employee skills.

In FY 2023, the IRS obligated $3,396 million to provide continued enhancement of services to taxpayers and improvements to business modernization and information systems. In FY 2022, the IRS obligated $106 million for business modernization improvements, planning and budgeting strategics and enhancing taxpayer services.

IRA Activity

(In Millions)		**2023**
Budgetary Resources: Unobligated (and unexpired) Balance Carried Forward from Prior Year	$	79,305
Rescissions/Other Changes to Budgetary Resources		(1,389)
Budgetary Resources Obligated (less)		(3,396)
Budgetary Resources: Ending Unobligated (and unexpired) Balance to be Carried Forward	**$**	**74,520**
Outlays, Net	$	2,321

Financial Resources from IRA Activity

(In Millions)		**2023**
Fund Balance with Treasury	$	75,700
Property and Equipment	$	14
Accounts Payable, With the Public	$	4
Other Liabilities, Intragovernmental	$	4
Other Liabilities, With the Public	$	228
Unexpended Appropriations	$	75,464
Cumulative Results of Operations	$	14
Undelivered Orders at the End of the Period	$	944

REQUIRED SUPPLEMENTARY INFORMATION

Unaudited, See Accompanying Auditor's Report

Combining Statement of Budgetary Resources by Major Budget Account

(In Millions)	Taxpayer Services	Enforcement	Business Modernization	Operations Support	Other	2023 Total
BUDGETARY RESOURCES						
Unobligated Balance from Prior Year Budget Authority, Net	$ 3,369	$ 46,005	$ 4,882	$ 25,701	$ 977	$ 80,934
Appropriations (Discretionary & Mandatory)	2,880	3,776	10	4,181	575	11,422
Spending Authority from Offsetting Collections (Discretionary & Mandatory)	27	53	–	69	–	149
Total Budgetary Resources	**$ 6,276**	**$ 49,834**	**$ 4,892**	**$ 29,951**	**$ 1,552**	**$ 92,505**
STATUS OF BUDGETARY RESOURCES						
New Obligations and Upward Adjustments (Total)	$ 3,915	$ 5,680	$ 899	$ 5,827	$ 205	$ 16,526
UNOBLIGATED BALANCE, END OF YEAR						
Apportioned, Unexpired Accounts	2,322	44,070	3,984	23,967	728	75,071
Exempt from Apportionment, Unexpired Accounts	–	–	–	–	7	7
Unapportioned, Unexpired Accounts	–	–	–	–	612	612
Unexpired Unobligated Balance, End of Year	2,322	44,070	3,984	23,967	1,347	75,690
Expired Unobligated Balance, End of Year	39	84	9	157	–	289
Unobligated Balance, End of Year (Total)	**2,361**	**44,154**	**3,993**	**24,124**	**1,347**	**75,979**
Total Budgetary Resources	**$ 6,276**	**$ 49,834**	**$ 4,892**	**$ 29,951**	**$ 1,552**	**$ 92,505**
OUTLAYS, NET						
Outlays, Net (Total) (Discretionary & Mandatory)	$ 3,809	$ 5,322	$ 641	$ 5,234	$ 198	$ 15,204
Distributed Offsetting Receipts	–	–	–	–	(314)	(314)
Agency Outlays, Net (Discretionary & Mandatory)	**$ 3,809**	**$ 5,322**	**$ 641**	**$ 5,234**	**$ (116)**	**$ 14,890**

The Statements of Budgetary Resources major budget account funding provides resources for the Statements of Net Cost major programs:

- Service to the Taxpayer,
- Enforcement of Tax Legislation, and
- Transformation of Business Systems.

The Statements of Net Cost programs receive funding from the Statements of Budgetary Resources Other budget accounts including the Private Debt Collections user fees and the IRA for Energy Security and Direct e-File. The Federal Tax Lien Revolving Fund budget account is not reported on the Statements of Net Cost.

	Major Programs		
Major Budget Accounts	**Service to Taxpayer**	**Enforcement of Tax Legislation**	**Transformation of Business Systems**
Taxpayer Service	X		
Enforcement		X	
Business Modernization			X
Operations Support	X	X	X
Other			
Private Debt Collection		X	
IRS Miscellaneous Retained Fees (User Fees)	X	X	
IRA Energy Security	X		
IRA Direct e-File	X		

(In Millions)	Taxpayer Services	Enforcement	Business Modernization	Operations Support	Other	Total
						2022
BUDGETARY RESOURCES						
Unobligated Balance From Prior Year Budget Authority, Net	$ 604	$ 350	$ 240	$ 1,212	$ 288	$ 2,694
Appropriations (Discretionary & Mandatory)	6,038	51,032	5,025	29,631	802	92,528
Spending Authority From Offsetting Collections (Discretionary & Mandatory)	33	65	–	55	1	154
Total Budgetary Resources	**$ 6,675**	**$ 51,447**	**$ 5,265**	**$ 30,898**	**$ 1,091**	**$ 95,376**
STATUS OF BUDGETARY RESOURCES						
New Obligations and Upward Adjustments (Total)	$ 3,343	$ 5,459	$ 414	$ 5,235	$ 119	$ 14,570
UNOBLIGATED BALANCE, END OF YEAR						
Apportioned, Unexpired Accounts	3,296	275	4,848	25,512	407	34,338
Exempt From Apportionment, Unexpired Accounts	–	–	–	–	7	7
Unapportioned, Unexpired Accounts	–	45,638	–	–	558	46,196
Unexpired Unobligated Balance, End of Year	3,296	45,913	4,848	25,512	972	80,541
Expired Unobligated Balance, End of Year	36	75	3	151	–	265
Unobligated Balance, End of Year (Total)	**3,332**	**45,988**	**4,851**	**25,663**	**972**	**80,806**
Total Budgetary Resources	**$ 6,675**	**$ 51,447**	**$ 5,265**	**$ 30,898**	**$ 1,091**	**$ 95,376**
OUTLAYS, NET						
Outlays, Net (Total) (Discretionary & Mandatory)	$ 3,169	$ 5,182	$ 392	$ 5,000	$ 112	$ 13,855
Distributed Offsetting Receipts	–	–	–	–	(312)	(312)
Agency Outlays, Net (Discretionary & Mandatory)	**$ 3,169**	**$ 5,182**	**$ 392**	**$ 5,000**	**$ (200)**	**$ 13,543**

Other Claims for Refunds

Management has estimated amounts that may be paid out as other claims for tax refunds. This estimate represents the amount (principal and interest) which may be paid for claims pending judicial review by the federal courts or internally by Appeals. In FY 2023, the total estimated payout (including principal and interest) for claims pending judicial review by the federal courts is $1.1 billion and by Appeals is $1.3 billion. In FY 2022, the total estimated payout (including principal and interest) for claims pending judicial review by the federal courts was $2.1 billion and by Appeals was $1.3 billion. To the extent judgments against the government in these cases prompt other similarly situated taxpayers to file similar refund claims, these amounts could become significantly greater.

Federal Taxes Receivable, Net

In accordance with the Statement of Federal Financial Accounting Standards No. 7, some unpaid assessments do not meet the criteria for financial statement recognition as discussed in Note 1.E. Federal Taxes Receivable, Net and Note 1.J. Due to the General Fund of the U.S. Government. Although compliance assessments and write-offs are not considered receivables under federal accounting standards, they represent legally enforceable claims of the IRS acting on behalf of the federal government. There is, however, a significant difference in the collection potential of these categories.

The components of the total unpaid assessments and derivation of net Federal taxes receivable were as follows:

(In Billions)		**2023**		**2022**
Total Unpaid Assessments	$	574	$	602
Compliance Assessments		(94)		(88)
Write-Offs		(76)		(77)
Gross Federal Taxes Receivables		404		437
Allowance for Uncollectible Taxes Receivable		(222)		(201)
Federal Taxes Receivable, Net	**$**	**182**	**$**	**236**

The total unpaid assessments as of September 30, 2023, decreased $28 billion since September 30, 2022, due primarily to final installments (due December 31, 2022) of the Social Security Tax Deferral and decrease in Internal Revenue Code Section 965(h) deferred amounts.

In FY 2023, total unpaid assessments include $116 billion of nondelinquent taxes receivable in Internal Revenue Code Section 965(h) tax, which is collectible based on the type of taxpayer and the financial health of large dollar businesses. The nondelinquent Internal Revenue Code Section 965(h) component refers to taxpayers who elected to pay their Internal Revenue Code Section 965(h) tax on an eight-year installment schedule. In FY 2022, total unpaid assessments included nondelinquent taxes receivable in both IRS Section 965(h) tax and Social Security Tax Deferral. The Social Security Tax Deferral is from the Coronavirus Aid, Relief, and Economic Security Act, Section 2302, which contains a provision for employers to defer the employer's share of the Social Security portion of Federal Insurance Contributions Act and the employer's and employee representative's share of the Railroad Retirement tax (refer to **Note 1.E. Federal Taxes Receivable, Net** for additional information). The final installment was due by December 31, 2022 (refer to **Note 5. Federal Taxes Receivable, Net** for additional information). The $28 billion decrease in total unpaid assessments comes from the $33 billion decrease in gross taxes receivable offset by an increase in compliance assessments. The $54 billion decrease in net taxes receivables is primarily due to the net impact of the $47 billion reduction in non-delinquent Social Security Tax Deferral and the $19 billion reduction in Internal Revenue Code Section 965(h), and the increase in delinquent taxes receivable and uncollected Branded Prescription Drugs.

In FY 2023, the IRS cannot reasonably estimate the allowance for uncollectible amounts pertaining to the value of pre-assessment work in process. In addition, in accordance with federal accounting standards, IRS does not include the compliance assessments amount in its taxes receivable.

OTHER INFORMATION

SECTION A: SUMMARY OF FINANCIAL STATEMENT AUDIT AND MANAGEMENT ASSURANCES

The following table summarizes the results of the IRS's FY 2023 financial statement audit, as well as management's assurances regarding conformance with the Federal Managers' Financial Integrity Act of 1982 and compliance with the Federal Financial Management Improvement Act of 1996.

Table 1: Summary of Financial Statement Audit

Audit Opinion: Unmodified

Restatement: No

Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Total Material Weaknesses	0	0	0	0	0

Table 2: Summary of Management Assurances

Effectiveness of Internal Control Over Financial Reporting

(Federal Managers' Financial Integrity Act of 1982 Section 2)

Statement of Assurance: Unmodified

Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Total Material Weaknesses	0	0	0	0	0

Effectiveness of Internal Control Over Operations

(Federal Managers' Financial Integrity Act of 1982 Section 2)

Statement of Assurance: Unmodified

Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Total Material Weaknesses	0	0	0	0	0

Conformance with Federal Financial Management System Requirements

(Federal Managers' Financial Integrity Act of 1982 Section 4)

Statement of Assurance: Federal systems conform, except for instances of non-conformance, to financial management system requirements

Non-Conformances	Beginning Balance	New	Resolved	Reassessed	Ending Balance
Unpaid Assessments[1]	1	0	0	0	1
Information System Controls[1]	1	0	0	0	1
Total Non-Conformances	2	0	0	0	2

[1]Refer to Independent Auditor's Report in Part 2 of this report.

Compliance with Federal Financial Management Improvement Act of 1996 Section 803(a)

	Agency	Auditor
1. Federal Financial Management System Requirements	Lack of Compliance Noted	Lack of Compliance Noted
2. Applicable Federal Accounting Standards	No Lack of Compliance Noted	No Lack of Compliance Noted
3. U.S. Standard General Ledger at Transaction Level	No Lack of Compliance Noted	No Lack of Compliance Noted

Federal Managers' Financial Integrity Act of 1982 and Federal Financial Management Improvement Act of 1996 Requirements

The Federal Managers' Financial Integrity Act of 1982 requires agencies to establish and maintain internal control to ensure that federal programs operate efficiently, effectively and in compliance with laws and regulations. In support of the Treasury Secretary's Assurance Statement, the Commissioner must evaluate and report annually on (a) whether there is reasonable assurance that the IRS's controls are achieving their intended objectives and (b) material weaknesses in the IRS's controls (Federal Managers' Financial Integrity Act of 1982 Section 2). Additionally, the Commissioner must evaluate and report separately on whether the IRS's financial management systems comply with government-wide requirements (Federal Managers' Financial Integrity Act of 1982 Section 4). The Federal Managers' Financial Integrity Act of 1982 requires agencies to implement and maintain financial management systems that comply substantially with federal financial management systems requirements. The requirements of the Federal Managers' Financial Integrity Act of 1982 serve as an umbrella under which other reviews, evaluations and audits should be coordinated and considered to support management's assertion about the effectiveness of internal controls over operations, reporting and compliance with laws and regulations.

As of September 30, 2023, the IRS had no material weaknesses under Section 2 or Section 4 of the Federal Managers' Financial Integrity Act of 1982. However, the IRS has two instances of non-conformance with the federal financial management systems requirements of Section 4 of the Federal Managers' Financial Integrity Act of 1982. These non-conformances also constitute a lack of compliance with the federal financial management system requirements, as reported above under Federal Financial Management Improvement Act of 1996 Section 803(a); the IRS is actively working on resolving these non-conformances. Refer to Analysis of Systems, Controls and Legal Compliance in Section 1: Management's Discussion and Analysis and the Independent Auditor's Report in Section 2: Financial Section for additional information on the non-conformances.

SECTION B: TAX BURDEN, TAX GAP AND TAX EXPENDITURES

Tax Burden

The Internal Revenue Code provides for progressive rates of tax, whereby higher incomes are generally subject to higher rates of tax. The following pages present, in both graph and table format, various income levels and tax liability levels reported by individuals and corporations (that is, these amounts do not account for tax burdens that taxpayers do not report on their returns). This information is the most recent available for individuals (Tax Year 2021) and corporations (Tax Year 2020). The graphs and charts are representative of more detailed data and analyses available from the IRS Statistics of Income Office.

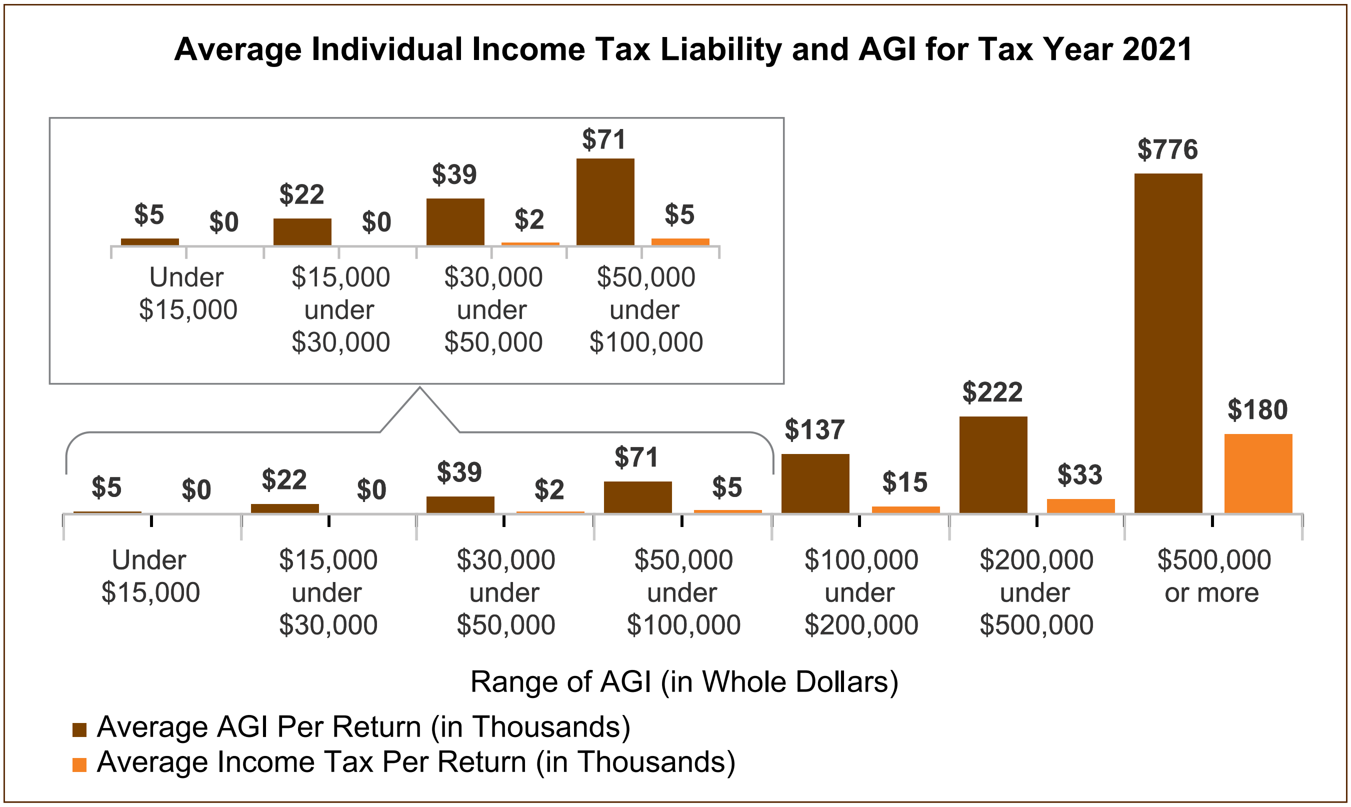
For individuals, the information illustrates, in both percentage and dollar terms, the tax burden that taxpayers bear by varying levels of adjusted gross income (AGI). The corporate information illustrates, for varying corporate asset categories, the tax burden borne by these entities as a percentage of taxable income.

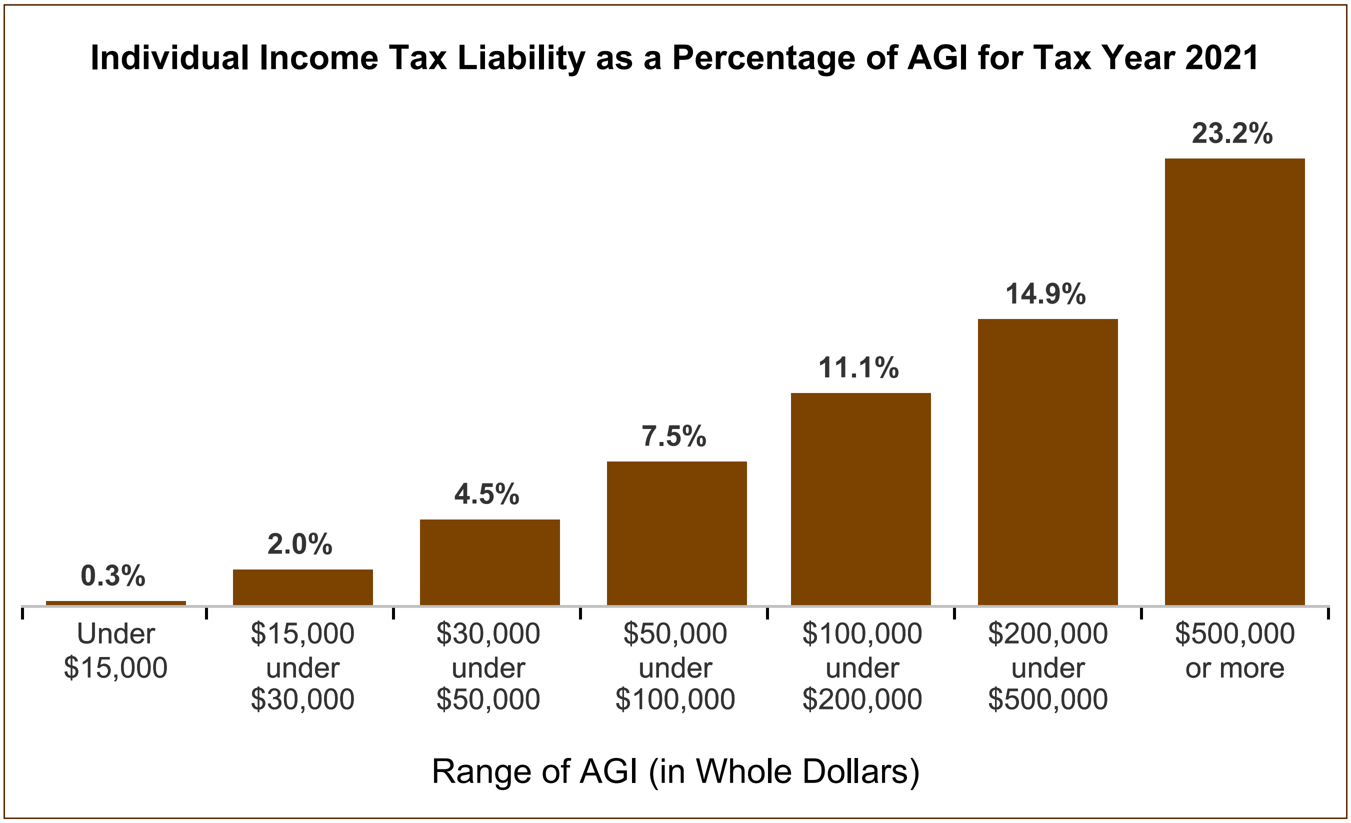
The IRS Statistics of Income Office compiled statistics on stratified probability samples of income tax returns or other forms filed with the IRS. As returns are filed and processed for tax purposes, they are assigned to sampling classes (strata) based on such criteria as: industry, presence or absence of a tax form or schedule, and various income factors or other measures of economic size (such as total assets, total receipts, size of gift and size of estate). The samples are selected from each stratum over the appropriate filing periods.

The table below presents individual income tax liability by levels of AGI. All figures below are estimates and based on sampling provided by the IRS Statistics of Income Office. All negative AGI under $15,000 are treated as zero-dollar amounts.

Individual Income Tax Liability Tax Year 2021

AGI	Number of Taxable Returns (In Thousands)	AGI (In Millions)	Total Income Tax (In Millions)	Average AGI Per Return (In Whole Dollars)	Average Income Tax Per Return (In Whole Dollars)	Income Tax as a Percentage of AGI
Under $15,000	30,714	$ 160,421	$ 535	$ 5,223	$ 17	0.3%
$15,000 under $30,000	27,410	610,846	12,033	$ 22,286	$ 439	2.0%
$30,000 under $50,000	28,926	1,135,403	50,662	$ 39,252	$ 1,751	4.5%
$50,000 under $100,000	37,547	2,681,108	200,702	$ 71,407	$ 5,345	7.5%
$100,000 under $200,000	24,180	3,318,595	367,380	$ 137,245	$ 15,194	11.1%
$200,000 under $500,000	3,728	828,814	123,563	$ 222,321	$ 33,145	14.9%
$500,000 or more	7,888	6,117,860	1,421,518	$ 775,591	$ 180,213	23.2%
Totals	**160,393**	**$14,853,047**	**$ 2,176,393**			


Average Individual Income Tax Liability and AGI for Tax Year 2021
$5
$0
$22
$0
$39
$2
$71
$5
Under $15,000
$15,000 under $30,000
$30,000 under $50,000
$50,000 under $100,000
$5
$0
$22
$0
$39
$2
$71
$5
$137
$15
$222
$33
$776
$180
Under $15,000
$15,000 under $30,000
$30,000 under $50,000
$50,000 under $100,000
$100,000 under $200,000
$200,000 under $500,000
$500,000 or more
Range of AGI (in Whole Dollars)
Average AGI Per Return (in Thousands)
Average Income Tax Per Return (in Thousands)

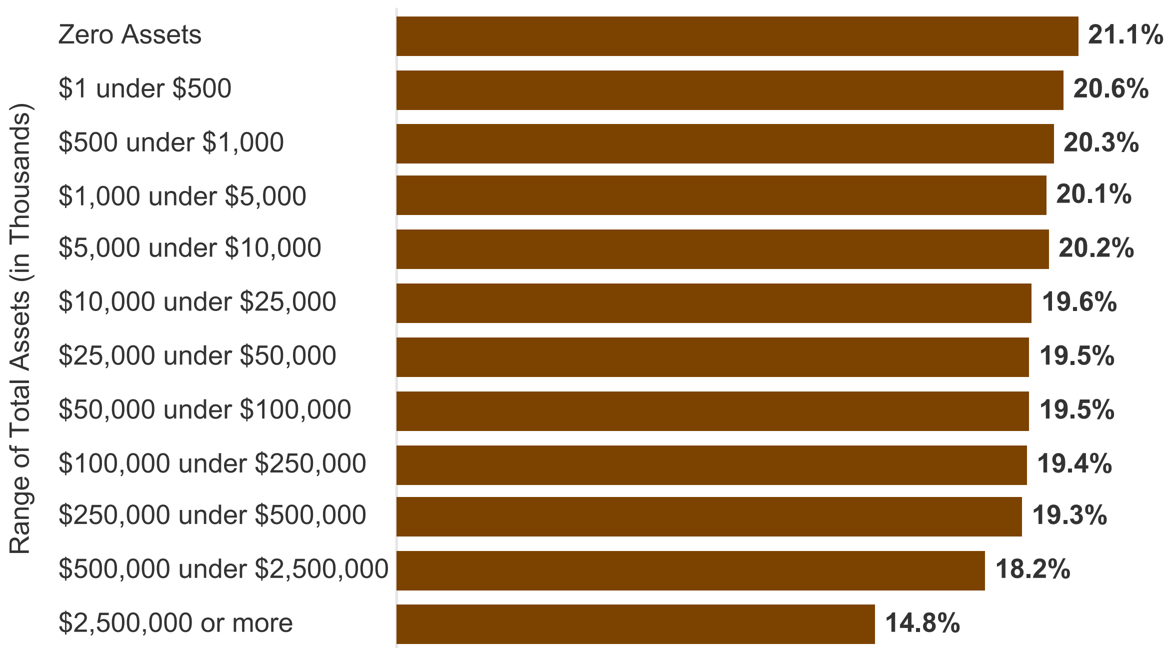

Individual Income Tax Liability as a Percentage of AGI for Tax Year 2021
0.3%
2.0%
4.5%
7.5%
11.1%
14.9%
23.2%
Under $15,000
$15,000 under $30,000
$30,000 under $50,000
$50,000 under $100,000
$100,000 under $200,000
$200,000 under $500,000
$500,000 or more
Range of AGI (in Whole Dollars)

The table below presents corporation income tax liability by total assets. All figures below are estimates and based on sampling provided by the IRS Statistics of Income Office.

Corporation Income Tax Liability Tax Year 2020

Total Assets (In Thousands)	Income Subject To Tax (In Millions)	Total Income Tax After Credits (In Millions)	Percentage of Income Tax After Credits To Taxable Income
Zero Assets	$ 21,064	$ 4,439	21.1%
$1 under $500	6,908	1,426	20.6%
$500 under $1,000	4,364	886	20.3%
$1,000 under $5,000	21,444	4,312	20.1%
$5,000 under $10,000	13,079	2,640	20.2%
$10,000 under $25,000	19,851	3,900	19.6%
$25,000 under $50,000	17,342	3,389	19.5%
$50,000 under $100,000	19,750	3,854	19.5%
$100,000 under $250,000	33,865	6,584	19.4%
$250,000 under $500,000	32,033	6,189	19.3%
$500,000 under $2,500,000	117,758	21,388	18.2%
$2,500,000 or more	1,472,847	217,604	14.8%
Totals	**$ 1,780,305**	**$ 276,611**	

Corporation Tax Liability as a Percentage of Taxable Income for Tax Year 2020



Tax Gap

The gross tax gap is the amount of true tax liability for a given tax year not paid voluntarily and/or timely. The IRS released new tax gap projections for Tax Years 2020 and 2021 showing the projected gross tax gap increased to $688 billion in Tax Year 2021 which reflects a rise of more than $192 billion from the prior estimates for Tax Years 2014–2016. This marks the first year tax gap projections have been provided for single tax years and marks the beginning of tax gap updates on an annual basis. The IRS develops tax gap estimates on a periodic basis. A particular challenge for tax gap estimation is the time it takes to collect certain compliance data, especially data on underreporting that come from completed audits. This results in a timing difference between when the compliance behavior occurred and the development of tax gap estimates.

The IRS produces annual tax gap projections to provide more current tax gap information. The most recent tax gap estimates cover Tax Years 2014-2016 and were published in October 2022. In October 2023, the IRS issued tax gap projections for Tax Years 2020 and 2021. The tax gap projections for tax years 2020 and 2021 assume compliance behavior has not changed since the 2014-2016 tax gap estimates. Reports on the tax gap (www.irs.gov/statistics/irs-the-tax-gap) are published on the IRS website by the Research, Applied Analytics and Statistics Division.

There are three primary sources of noncompliance:

1. Nonfiling tax gap (the tax not paid on time by those who do not file required returns on time).
2. Underreporting tax gap (the net understatement of tax on timely filed returns).
3. Underpayment tax gap (the amount of tax reported on timely filed returns not paid on time).

The projected gross tax gap of each of these components is $77 billion for nonfiling, $542 billion for underreporting, and $68 billion for underpayments (detail may not add to the total due to rounding). The gross tax gap can be grouped by type of tax, as follows:

- $520 billion for individual income tax.
- $45 billion for corporation income tax.
- $118 billion for employment tax.
- $4 billion for estate tax.

The net tax gap is the gross tax gap less tax subsequently paid either voluntarily paid late or collected through IRS administrative and enforcement activities. As a result, the net tax gap is the portion of the gross tax gap that will not be paid. The portion of gross tax gap that is projected to be eventually collected is $63 billion, resulting in a net tax gap of $625 billion. The projected net tax gap by type of tax is:

- $475 billion for individual income tax.
- $37 billion for corporation income tax.
- $112 billion for employment tax.
- $1 billion for estate tax.

Tax Expenditures

The Congressional Budget and Impoundment Control Act of 1974 (Public Law 93-344) defines tax expenditures as "revenue losses attributable to provisions of the federal tax laws which allow a special exclusion, exemption or deduction from gross income or which provide a special credit, a preferential rate of tax or a deferral of tax liability." Tax expenditures are the foregone federal revenue resulting from deductions and credits provided in the Internal Revenue Code. Since tax expenditures directly affect funds available for government operations, decisions to forego federal revenue are as important as decisions to spend federal revenue.

While the term "revenue losses" is used in the statutory definition, tax expenditures have traditionally been measured as reductions in federal tax revenues relative to normal baseline provisions of an individual and corporate income tax system, which were properly approved and authorized by Congress to accomplish identified policy objectives, recognizing that federal tax revenues would be reduced.

In accordance with Statement of Federal Financial Accounting Standards 52, Tax Expenditures, narrative disclosures and information regarding tax expenditures are reported in the Consolidated Financial Report of the U.S. Government. Such disclosures do not apply to the financial statements of component reporting entities such as the IRS. Tax expenditures also do not affect the reporting in the Budget of the U.S. Government or any other special purpose report.

SECTION C: MANAGEMENT AND PERFORMANCE CHALLENGES

TIGTA Identified Management and Performance Challenges Facing the IRS for FY 2024

This section contains management and performance challenges identified by TIGTA, as required by the Reports Consolidation Act of 2000, and the IRS's response.

TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION

U.S. DEPARTMENT OF THE TREASURY

WASHINGTON, D.C.

October 11, 2023

MEMORANDUM FOR SECRETARY YELLEN

FROM: Heather M. Hill
Acting Inspector General

SUBJECT: Management and Performance Challenges Facing the Internal Revenue Service for Fiscal Year 2024

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).[1]

Each year, TIGTA evaluates IRS programs, operations, and management functions to identify the most vulnerable areas in the Nation's tax system. The passage of the Inflation Reduction Act of 2022 (IRA)[2] on August 16, 2022, 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) on April 6, 2023, that outlines its vision for the future of tax administration. Achieving the five objectives reflected in the SOP, through a series of initiatives and projects, will be the central challenge confronting the IRS for the foreseeable future. These transformation efforts are a significant undertaking that impact all the management challenges discussed in this memorandum.

[1] 31 U.S.C. § 3516(d) (2006).

[2] Public Law No. 117-169, 136 Stat. 1818.

For Fiscal Year (FY) 2024, we have identified the IRS's top management and performance challenges as:

- Managing IRA Transformation Efforts;
- Tax Law Changes;
- Taxpayer Service;
- Human Capital;
- Information Technology Modernization;
- Protection of Taxpayer Data and IRS Resources;
- 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

The IRA legislation appropriated almost $80 billion to the IRS through September 30, 2031, to improve taxpayer service, update its computer systems, and increase compliance and enforcement actions against high-income taxpayers and large corporations. After the passage of the IRA, the IRS was required to develop a SOP detailing how resources will be spent over the next decade. When it was released on April 6, 2023, the SOP indicated that the IRA created a historic opportunity for the IRS to transform the administration of the tax system. The SOP outlines the IRS's transformation mission 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.*

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

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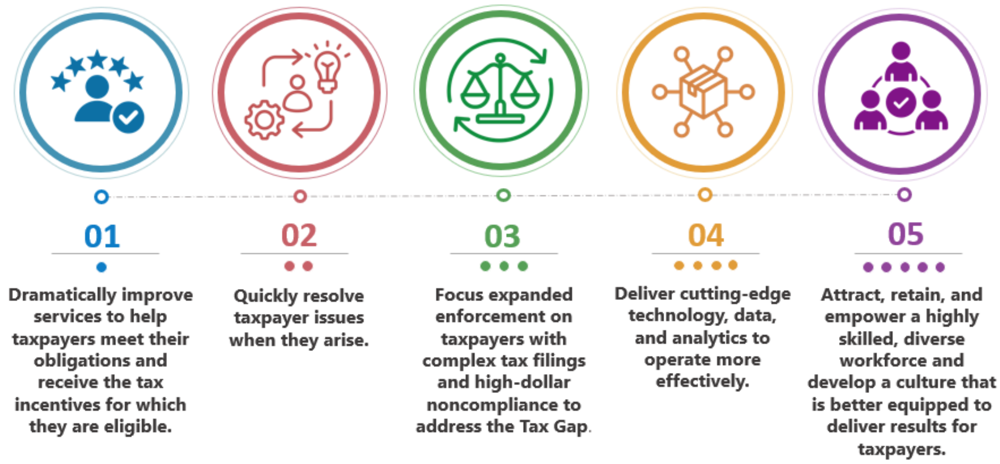
Figure 1: IRS Objectives of its IRA Strategic Operating Plan



Source: TIGTA graphic based on review of the IRS's IRA SOP.

Managing the transformation efforts will be a significant challenge for the IRS because the SOP was predicated on the provision of sufficient annual funding. In addition, TIGTA has previously raised concerns about the many challenges the IRS has faced when implementing large-scale transformation projects. The Commissioner of Internal Revenue stated that "the IRS's plan for IRA implementation assumed the IRA funds will support the transformation efforts, while day-to-day operations would continue to be supported by annual appropriations." However, within months of laying out its transformation vision, the IRS has already seen cuts to its funding.

With the passage of the Fiscal Responsibility Act of 2023,[3] which increased the Federal debt limit, approximately $1.4 billion of the IRA funding available for enforcement was rescinded. In addition to this rescission, an agreement was reached to potentially reduce the IRS's annual appropriations in FYs 2024 and 2025 by $10 billion each year. This change would represent a 79 percent reduction relative to the Congressional Budget Office's projection of the IRS's discretionary budget authority over those two fiscal years. The reduction in funding, which appears possible based on an agreement reached with passage of the Fiscal Responsibility Act, will impact the IRS's ability to use IRA funds as intended and instead force the IRS to shift these funds to maintain current operations.

If the IRS continues to receive reductions to its funding over the next decade, it will have to make difficult decisions on what to prioritize when making improvements to its operations and the way in which it serves taxpayers. The IRS has historically struggled to fulfill long-term plans to transform the organization. While some of this can be attributed to the continually changing budget environment, the IRS has also not effectively managed the process. For instance, in 2015, the IRS laid out its vision for the Future State of the IRS, with six stated themes to achieve

[3] Public Law No. 118-5 137 Stat. 10.

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its goals before merging the Future State into the IRS's strategic plan in 2018. At the request of Congress, the Government Accountability Office reviewed the Future State and found that it was unclear how implementation of the Future State via the IRS Strategic Plan would occur or when it would be completed.

The IRS has also had difficulty implementing large scale projects within the Information Technology function, leading to cost overruns, late deliverables, and inefficient use of funds. For example, the IRS's Customer Account Data Engine 2 (CADE 2) program involves major changes to core IRS tax processing systems. The IRS began developing CADE 2 in 2009; however, the Government Accountability Office reported that the IRS's CADE 2 development has taken much longer and cost significantly more than originally planned.[4]

The implementation of the IRA will challenge the IRS to ensure the proper balance of improving services to taxpayers, expanding enforcement, and modernizing its information technology. In addition, the IRS will need to ensure that it uses this increased funding in the most effective manner. TIGTA will continue to provide oversight work that addresses all five of the previously mentioned IRA SOP objectives. 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.

TAX LAW CHANGES

The annual filing season is a critical time for the IRS because it is when most individuals file their income tax returns and contact the IRS if they have questions about specific tax laws or filing procedures. Errors in the IRS's tax return processing systems may delay tax refunds, affect the accuracy of taxpayer accounts, or result in incorrect taxpayer notices. One of the continuing challenges that the IRS faces each year in processing tax returns is the implementation of new tax law changes as well as changes resulting from expired tax provisions. Legislative actions generating the changes often occur late in the year, shortly before the filing season begins.

For example, the IRA contains 36 tax provisions that affect individual and business taxpayers. Twenty of these tax provisions required the IRS to implement changes related to tax return processing for Processing Year 2023. This required the IRS to create or revise tax forms, instructions, and publications; update computer programming to process tax returns affected by the provisions; and communicate and provide guidance to taxpayers and tax professionals on the tax law changes.[5]

The IRS used several established processes to immediately begin the task of tracking and implementing the 36 tax provisions. This included creating an implementation oversight office to work across the IRS overseeing the implementation efforts. Additionally, the IRS created the IRA 2022 Tax Provision Implementation Office, which is primarily responsible for overseeing the

[4] TIGTA, Report No. 2023-20-006, *Annual Assessment of the IRS's Information Technology Program for Fiscal Year 2022* (Apr. 2023).

[5] TIGTA, Report No. 2024-408-004, *Inflation Reduction Act: Assessment of Implementation of Processing Year 2023 Tax Provisions* (Oct. 2023).

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implementation of the tax provisions. As of May 2023, the IRS created or revised 71 tax products impacting Processing Year 2023.

Most IRA tax provisions affect future tax years. However, a small number of provisions affected individual tax filers for Tax Year (TY) 2022. Figure 2 identifies the three provisions most relevant to the 2023 Filing Season and provides the estimated tax impact for each provision for Calendar Years 2023 through 2026.[6]

Figure 2: Summary of IRA Provisions Affecting the 2023 Filing Season

Provision	Overview of Related Provisions	Tax Impact Calendar Years 2023 2026
Energy Efficient Home Improvement Credit (13301)	Renamed and replaced the existing Nonbusiness Energy Property Credit and extended the credit through December 31, 2032.	$5.9 billion
Residential Clean Energy Credit (13302)	Renamed and replaced the existing Residential Energy Efficient Property Credit and increased the credit rate to 30 percent for property placed into service beginning in TY 2022.	$6.9 billion
Clean Vehicle Credit (13401)	Renamed and replaced the existing Qualified Plug-In Electric Drive Motor Vehicle Credit. For TY 2022, transition rules for the requirement that qualifying vehicles must undergo final assembly in North America apply for vehicles placed into service on or after August 16, 2022.	$1.8 billion

Source: The IRA and the Joint Committee on Taxation JCX-18-22.

Actions are underway to implement the 16 tax provisions of the IRA that become effective during Processing Years 2024 through 2028. As of June 2023, the IRS had identified 68 tax products affected for future processing years related to these provisions, including 25 tax forms, 41 instructions, and two publications. The actions include efforts to implement processing controls for the clean vehicle credits and elective payments for energy property and electricity produced from certain renewable resources. TIGTA plans to continue to monitor the implementation during Processing Year 2024.

The 2023 Filing Season was also impacted by several tax provisions in the Consolidated Appropriations Act, 2021 and the American Rescue Plan Act of 2021 (ARPA) that expired at the end of Calendar Year 2022.[7] The ARPA modified several credits, including the Child and Dependent Care Credit (CDCC) and Child Tax Credit (CTC). The ARPA expanded the CTC to provide taxpayers the ability to receive up to one half of the estimated TY 2021 CTC in advance payments between July and December 2021.

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[6] TIGTA, Report No. 2023-40-029, *Interim Results of the 2023 Filing Season* (May 2023).

[7] Pub. L. No 116-260, 132 Stat. 1182, and Pub. L. No. 117-2, 135 Stat. 4 (codified in scattered sections of 7, 12, 15, 19, 20, 26, 29, 42, and 45 U.S.C.), respectively.

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TIGTA reported that the IRS created an automated process to recalculate the CTC, including the amount of advance payments posted to a taxpayer's tax account.[8] This process identified 3.8 million tax returns that contained a discrepancy between the IRS calculated CTC amount and the amount claimed by the taxpayer that required resolution. Further, the IRS developed a process in response to TIGTA's concerns to identify undeliverable advance payments that occurred after taxpayers filed their TY 2021 tax return. As of October 2022, the IRS reissued payments to 7,877 taxpayers totaling $5.4 million.

The ARPA also temporarily expanded the CDCC, making it fully refundable for taxpayers whose main home was in the United States for more than one-half of the year. The legislation also temporarily expanded the eligibility rules and the amount of Earned Income Tax Credit (EITC) for taxpayers with no qualifying children. In 2022, TIGTA reported on a number of weaknesses in the controls over the processing of CDCC claims.[9] In a follow-up audit, TIGTA determined that IRS management needs to take additional actions to address prior agreed to recommendations.[10] As a result, TIGTA made additional recommendations for the IRS to improve its processing of the CDCC and EITC.

The Coronavirus Aid, Relief, and Economic Security (CARES) Act[11] contains numerous tax-related provisions impacting individuals and businesses and appropriates approximately $750 million in additional funding to the IRS to administer and oversee these provisions. The CARES Act allows employers, including self-employed taxpayers, to defer deposits of the employer's share of Social Security tax. Employers can defer the full amount of the employer's share of the Social Security tax while self-employed taxpayers can defer 50 percent of the total Social Security tax. TIGTA determined that the IRS developed processes to systemically identify tax accounts with an unpaid December 2021 Social Security tax deferral and manually adjust the tax accounts.[12] However, due to limited resources, the IRS was unable to develop programming to adjust accounts systemically that did not timely pay the Social Security tax deferral. As a result, TIGTA estimates $108 million in potential penalties and interest were not assessed on approximately 67,000 tax accounts.

The implementation of significant legislative mandates will continue to be a challenge for the IRS to address when preparing for the processing of tax returns during future filing seasons.

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[8] TIGTA, Report No. 2023-47-035, *American Rescue Plan Act: Review of the Reconciliation of the Child Tax Credit* (June 2023).

[9] TIGTA, Report No. 2022-47-023, *American Rescue Plan Act: Assessment of Processes to Identify and Address Improper Child and Dependent Care Credit Claims* (Mar. 2022).

[10] TIGTA, Report No. 2023-47-037, *American Rescue Plan Act: Assessment of the Expanded Child and Dependent Care and Earned Income Tax Credits* (June 2023).

[11] Pub. L. No. 116-136, 134 Stat. 281 (codified as amended in scattered sections of 2, 5, 12, 15, 20, 21, 29, 42, and 45 U.S.C.).

[12] TIGTA, Report No. 2023-46-030, *Recurring Identification Is Needed to Ensure That Employers Full Pay the Deferred Social Security Tax* (May 2023).

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TAXPAYER SERVICE

Voluntary tax compliance is closely linked to the customers' experience and the services provided, and survey results reported in Calendar Year 2019 showed that the IRS's customer service lags behind service provided by other Government agencies and the private sector.[13] The Taxpayer First Act (TFA), signed into law on July 1, 2019, required the IRS to submit a written comprehensive customer service strategy to Congress.[14] In January 2021, the IRS submitted its Taxpayer Experience Strategy (TXS) and its plans for the creation of the Taxpayer Experience Office (TXO).

TIGTA reported that the IRS developed plans to implement the TXS but can more effectively monitor its progress in its implementation.[15] IRS management indicated its ability to hire staff for the new office was materially limited until the FY 2022 Federal budget was passed in March 2022. As of February 2023, the TXO was not fully staffed, and it had not tracked and monitored the implementation of TXS capabilities; developed a detailed implementation plan for the top prioritized TXS capabilities; updated the *TXS Roadmap.*; or developed performance measures.

The IRS business units continue to implement many initiatives that make up the TXS capabilities, but the TXO has not overseen the organization's progress. According to TXO management, their goal was to be fully staffed by March 2023, at which time they planned to establish details of the day-to-day operations and the oversight of the implementation of the TXS. However, TXO management stated that the TXO's future direction could change based on the IRS's implementation of the IRA, and that it may take until the end of Calendar Year 2023 to be fully staffed.

The IRS has long recognized that improving customer service to taxpayers in underserved communities is a key component of a voluntary tax system and began taking steps to make improvements as an organizational priority before the enactment of the TFA. Some of these efforts were designed to assist taxpayers in specific underserved communities, while other efforts are more broadly focused on larger segments of the taxpayer population, which often include taxpayers in underserved communities. Figure 3 lists the underserved communities identified in the TXS.

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[13] American Customer Satisfaction Index, *ACSI Federal Government Report 2018* (2019), and Forrester Research, Inc., *The US Federal Customer Experience Index* (June 11, 2019).

[14] Pub L. No. 116-25, 133 Stat. 981 (codified in scattered sections of 26 U.S.C.).

[15] TIGTA, Report No. 2023-15-028, *Plans Were Made to Implement the Taxpayer Experience Strategy, but Progress Is Not Monitored* (May 2023).

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Figure 3: TXS Underserved Communities

TXS identifies the following as underserved communities:	
Taxpayers with disabilities[16]	Taxpayers with limited English proficiency
Elderly taxpayers[17]	Native American communities
Low-income taxpayers[18]	Members of the armed forces
Taxpayers living in rural communities[19]	International taxpayers

Source: TFA Report to Congress.

TIGTA reported that the TXS included details about how the IRS would implement service improvements for two of the eight underserved communities, but the IRS has not yet developed detailed plans to address the other six communities, nor has it created a comprehensive agencywide strategy to implement and monitor service improvements.[20] The TXS included service improvement strategies for taxpayers with limited English proficiency and international taxpayers. However, the TXS strategies for the remaining six communities were all similarly generically worded to conduct focused research to learn more about the communities and to work with partners.

There is a risk that the IRS will not use resources optimally when assisting underserved communities because the IRS could duplicate its efforts if it does not determine how communities overlap. Additionally, initiatives focused solely on specific underserved communities may not be as effective in increasing voluntary compliance or reducing taxpayer burden because they may address only one issue for taxpayers that have multiple common issues.

In December 2022, we reported that the IRS inventories of unprocessed tax returns would not return to pre-Coronavirus Disease 2019 (COVID-19) pandemic levels by the end of Calendar Year 2022 and subsequently reported that backlogs of tax returns and account work remained for the 2023 Filing Season.[21]

[16] The taxpayers with disabilities community includes taxpaying populations needing special assistance due to sight, hearing, dexterity, limited mobility, and cognitive challenges.
[17] The IRS defines elderly taxpayers as those who are age 60 or older.
[18] Low-income taxpayers generally make $60,000 or less per year.
[19] Rural communities are populations of 500 or less persons per square mile.
[20] TIGTA, Report No. 2023-15-027, *Services to Underserved Communities Have Been Ongoing; However, an Agencywide Strategy Has Not Been Developed* (May 2023).
[21] TIGTA, Report No. 2023-46-007, *Backlogs of Tax Returns and Other Account Work Will Continue Into the 2023 Filing Season* (Dec. 2022); TIGTA, Report No. 2023-46-026, *Additional Actions Are Needed to Reduce Accounts Management Function Inventories to Below Pre-Pandemic Levels* (May 2023).

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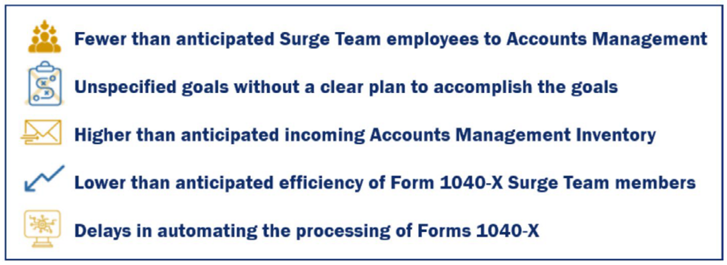
Further, in May 2023, TIGTA identified the following contributing factors to the remaining backlogs in the Accounts Management function, which is responsible for assisting individual and business taxpayers with tax law and tax account inquiries, including making adjustments to taxpayer accounts when necessary.

Figure 4: Factors Contributing to Remaining Inventory Backlogs



Source: TIGTA graphic based on findings identified during our review.

While the employees assigned to the Accounts Management function Surge Team contributed to the additional closures of its inventory, there were fewer employees available than anticipated. In addition, the loss of employees from other IRS functions resulted in an estimated $2.6 billion in potential lost or delayed revenue, due to fewer examination and collection cases being worked.

Further, the Form 1040-X, *Amended U.S. Individual Tax Return*, Surge Team's closure rates were less than one-half of the normal employees' closure rates. Automating the processing of these amended returns would reduce the burden on taxpayers waiting for their amended returns to be processed, and the benefits far outweigh the associated costs. For example, TIGTA estimated that the IRS would potentially save more than $322 million in yearly processing costs by automating the processing of Forms 1040-X. This is in addition to any interest saved.

During the 2023 Filing Season, the IRS made significant progress to reduce tax return inventories closer to pre-pandemic levels. For example, more than 2 million individual tax returns and transactions remained in inventory as of the end of Calendar Year 2022, compared to more than 8.4 million as of the end of Calendar Year 2021. IRS management stated that for the first time since the pandemic began, individual tax return processing and related activities were returning to normal timeliness goals. The IRS cleared the carryover inventory of unprocessed individual tax returns received during Calendar Year 2022 by February 2023.[22] However, as of July 2023, the IRS had more than 1.3 million individual and business paper returns received in Calendar Year 2023 waiting to be processed.

[22] TIGTA, Report No. 2023-40-029, *Interim Results of the 2023 Filing Season* (May 2023).

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Figure 5: Status of Paper Returns Waiting to Be Processed as of July 2023

Category	Returns			
	Individual	Business	Unspecified	Total
Received in Calendar Year 2023	548,251	760,405	16,217	1,324,873

Source: IRS Submission Processing Weekly Inventory Report, as of July 21, 2023.

The IRS assists millions of taxpayers via its website (IRS.gov), telephone, and social media platforms as well as face-to-face assistance at its Taxpayer Assistance Centers (TAC), Volunteer Income Tax Assistance sites, and Tax Counseling for the Elderly sites. During the 2023 Filing Season, the IRS saw improvement in its Level of Service (*i.e.*, how many of those who call are able to speak to a Customer Service Representative) and wait times for its toll-free telephone lines when compared to the 2022 Filing Season. Figure 6 shows a comparison for Calendar Years 2022 and 2023.

Figure 6: Toll-Free Telephone Performance Statistics for Calendar Years 2022 and 2023

Statistics	Filing Season	
	2022	2023
Assistor Calls Answered	5,429,000	8,951,000
Level of Service	15.5%	82.8%
Average Speed of Answer (Minutes)	28	4
Level of Access[23]	29.4%	51.9%

Source: IRS management information reports (as of May 14, 2022, for Calendar Year 2022 and as of May 13, 2023, for Calendar Year 2023) and TIGTA analysis of the reports.

In addition to providing service to taxpayers over the telephone, the IRS also plans to assist approximately 2.7 million taxpayers at its TACs in FY 2023. This is an increase of 97 percent from the number of taxpayers the IRS assisted during FY 2022.[24] Figure 7 shows the number of contacts by product line at the TACs for FYs 2022 and 2023.

[23] The Level of Access is computed by taking the sum of Assistor Calls Answered and Automated Calls Answered divided by the Total Dialed Number Attempts Open Hours. TIGTA developed this metric; it is not an official IRS statistic. As noted in TIGTA, Report No. 2019-40-041, *Telephone Performance Measures Do Not Provide an Accurate Assessment of Service to Taxpayers* (June 2019), the IRS's Level of Service measure does not reflect overall call demand for telephone assistance. We also reported that the IRS's measure was not consistent with access measures reported by other types of organizations that operate toll-free help lines, such as the Social Security Administration and tax agencies in the States of California, Georgia, and New York.

[24] TIGTA, Report No. 2023-40-029, *Interim Results of the 2023 Filing Season* (May 2023).

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Figure 7: TAC Contacts for FYs 2022 and 2023

Contacts/Product Lines	Fiscal Year 2022 Actual	Fiscal Year 2023 Projections
Tax Account Contacts	745,000	1,801,000
Form Contacts	52,000	61,000
Other Contacts	552,000	790,000
Tax Law Contacts	8,000	18,000
Totals	**1,357,000**	**2,670,000**

Source: IRS management information reports. Numbers shown are rounded.

However, insufficient staffing continues to result in the TACs not being open to provide taxpayer assistance. As of May 2023, the IRS reported that 22 of the 363 TACs were closed due to a lack of staffing. IRS management cautioned that the operating status of the TACs can vary day-to-day due to illness, staff leaving, or staff taking other positions within the IRS. For example, as of May 2023, 157 of the 363 TACs the IRS operated were staffed with one or two IRS employees. Similar to prior filing seasons, the IRS continues to use its appointment service for all TACs. However, in February 2023, in an effort to further assist taxpayers, the IRS announced special Saturday hours at more than 40 locations for face-to-face help between February and May with no appointments required.

In addition, digital communications have the potential to allow the IRS to more efficiently and effectively communicate with taxpayers. The Taxpayer Digital Communication (TDC) program is intended to enable taxpayers and tax professionals to interact with the IRS electronically. It is designed to facilitate quick and secure sharing of files and documents online by IRS employees and taxpayers, instead of waiting for physical mail, traveling to pick up documents, or requiring in-person interactions. Accordingly, the use of digital communications should allow IRS employees to resolve taxpayer issues more efficiently.

However, the IRS could do more to plan and implement a TDC program that meets taxpayers' needs. For example, the IRS did not proactively identify IRS functions or operations for which digital communication may have provided sizable benefits for both taxpayers and IRS employees. Rather, any IRS program, function, or business unit wishing to explore a digital communication installation was allowed to express interest. TIGTA also reported that there is a need for the IRS to establish an office that can more readily provide oversight and coordination

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between the business units involved in the implementation and operation of the TDC installations and the Information Technology organization.[25]

As the IRS implements initiatives related to the IRA, it must continue to focus its efforts on improving service to taxpayers, including innovative ways to simplify or eliminate processes that unnecessarily burden taxpayers.

HUMAN CAPITAL

Human capital remains a serious, underlying issue with wide-ranging implications for both the IRS and taxpayers. From FYs 2010 to 2020, the number of IRS employees decreased significantly. During this period, the IRS's budget decreased approximately $1 billion, or 8 percent, from $12.5 billion in FY 2010 to $11.5 billion in FY 2020, affecting its ability to hire employees to replace those who left. The IRS ended FY 2020 with slightly more than 80,000 employees, a 15 percent decline from just over the 94,000 employees in FY 2010. At a time when the IRS is taking on the enormous challenge of implementing the IRA, the recruitment of new employees and retention of existing employees are critical to ensuring a quality workforce capable of meeting the needs of the American public. As stated in its IRA SOP, IRS employees in the future will require a broader foundation of core competencies. The IRS envisions a greater number of data scientists as it becomes a data-centric organization. To address increasingly complex tax filings, the IRS indicated in the future its compliance functions will rely on specialized teams who respond to increasingly complex filings.

According to its IRA SOP, the IRS plans to hire approximately 29,500 employees in FYs 2023 and 2024 due to funding provided by the IRA. In its FY 2024 budget request, the IRS indicated it has experienced significant staff attrition over the past 10 years, with a loss of over 10,000 positions since 2012, predominantly within the compliance function. According to data provided by the IRS, approximately 15,000 employees had retired or separated during FY 2022. In addition, the IRS's budget request stated that an estimated 63 percent of the IRS's employees will be eligible for retirement in the next five years, and its current attrition rate is nearly 26 percent higher than the average for Federal agencies. The IRS indicated that approximately 21,000 employees will be eligible to retire by the end of FY 2023. These employees will take with them valuable knowledge of IRS systems, procedures, and information on day-to-day operations. The IRS will be challenged to recruit, quickly hire, onboard, and train the large number of individuals with the appropriate core competencies to replace both its planned staff attrition and increased staffing levels provided by the IRA.

Federal agencies can use special payment incentives to recruit and retain employees, and to fill mission-critical skill gaps. However, TIGTA reported that the IRS has used these incentives on only a limited basis.[26] Between FYs 2019 and 2022, the IRS issued recruitment, retention, or

[25] TIGTA, Report. No. 2023-30-003, *More Should Be Done to Expand and Increase Use and Availability of the IRS's Taxpayer Digital Communication Tools* (Nov. 2022).

[26] TIGTA, Report No. 2023-10-043, *Expanded Use of Special Payment Incentives Could Help Improve Recruitment and Retention Efforts* (Aug. 2023).

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relocation incentive payments to 1,466 employees from various non-IT organization business units, totaling just over $1.5 million. However, the vast majority of these payments, approximately $900,000, were retention incentives issued in FY 2020 to 1,435 employees returning to work during the start of the COVID-19 pandemic. As part of its expanded hiring efforts, the use of special payment incentives could assist the IRS to fill mission-critical positions and reduce the challenges of hiring and retaining employees.

In addition, the IRS piloted the use of Critical Position Pay Authority in response to prior TIGTA recommendations. Specifically, in March and June 2019, the IRS submitted six requests (through the Department of the Treasury) to the Office of Personnel Management to hire or retain Senior Executive Service positions designated as mission critical. It took almost three years from the initial drafting of the business case to receive approval for all six hiring requests. As a result, the IRS does not have plans to continue the use of Critical Position Pay Authority.

TIGTA also reported that the IRS can improve its process to help prevent the loss of mission-critical skills and knowledge due to attrition, reorganization, or promotional moves for experienced employees to share knowledge and experience with newer employees.[27] In FY 2017, the IRS implemented the enterprise-wide Knowledge Management program to capture, share, and apply employee knowledge to enhance learning, performance, collaboration, and decision-making. TIGTA surveyed nearly 6,300 IRS employees to gauge the effectiveness of the enterprise-wide Knowledge Management program. Some of those surveyed expressed concerns about locating pertinent information on the program website. Also, some of the employees who located the site found the information hard to use and lacking in relevant information. Additionally, employees designated as subject matter experts were sometimes unhelpful due to their limited experience level. A successful Knowledge Management program allows experienced employees to share knowledge and experience with newer employees in a format that is effective and efficient. This will be an important tool for the IRS as it continues to onboard new employees.

The IRS will continue to be challenged to have the right people in the right place at the right time. Budget constraints, legislative changes, and economic shifts can create unforeseen challenges for the IRS in addressing its long-term human capital issues.

INFORMATION TECHNOLOGY MODERNIZATION

Successful modernization of systems and the development and implementation of new information technology applications are critical to meeting the IRS's evolving business needs and enhancing services provided to taxpayers. Modernization is necessary to deliver efficient taxpayer services and enforcement with enhanced user experiences.[28] The IRS uses different legacy case management systems that vary widely in complexity, size, and customization to support tax administration. According to the IRS's IRA SOP, it uses some of the oldest

[27] TIGTA, Report No. 2023-30-024, *The Knowledge Management Program Will Benefit From Addressing User Concerns and Improving Performance Measures and Controls Over Employee Costs* (May 2023).

[28] TIGTA, Report No. 2023-20-006, *Annual Assessment of the IRS's Information Technology Program for Fiscal Year 2022* (Apr. 2023).

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information systems in the Federal Government. The IRS indicated that it uses more than 600 applications, many of them more than 20 years old.[29] The IRS's goal is to retire the Business and Individual Master Files by FYs 2027 and 2028, respectively.

Modernizing the IRS's computer systems has been a persistent challenge for many years and will likely remain a challenge for the foreseeable future. The IRA SOP calls for a modern data architecture with a common platform to be more technologically efficient and improve the IRS's ability to resolve taxpayer issues. This is a significant challenge and requires updating programming and the replacing legacy systems. According to the IRS's plan, the Enterprise Case Management (ECM) platform will be modernized by FY 2025 to allow for the decommissioning of many legacy applications. In its summary of the IRS's IRA SOP, the Congressional Research Service stated that the IRS's use of the $4.8 billion provided by the IRA for modernization is arguably central to the entire IRS strategic vision and serves as the foundation for planned improvements in taxpayer service and enforcement.[30] In its IRA SOP, the IRS indicates that 35 of its 42 initiatives are dependent on its objective to deliver cutting-edge technology, data, and analytics.

While modernizing its systems to enhance the user experience, the IRS must incorporate operational security measures. Recent cybersecurity incidents underscore the importance of increased visibility before, during, and after an incident. Information from audit logs on Federal information systems is invaluable in the detection, investigation, and remediation of cyber threats. Failure to capture and review audit trails for all systems with access to sensitive data prevents the IRS from assuring it can safeguard taxpayer data. In addition, without fully operational audit trails, unauthorized accesses, misuse, and theft of taxpayer data and Personally Identifiable Information could be occurring in IRS applications without detection.

The IRS's ability to provide high-quality taxpayer service and maintain the integrity of the tax system requires modern, secure, and nimble operations as well as a sustained and talented workforce. Many emerging trends offer challenges and opportunities for the IRS, including changes in the taxpaying public and its expectations, technological disruptions, shifts in the workforce, and an increasingly globalized and interconnected world. Successful modernization of systems and the development and implementation of new information technology applications will continue to be a critical challenge for the IRS to meet its evolving business needs and enhance services provided to taxpayers.

PROTECTION OF TAXPAYER DATA AND IRS RESOURCES

The IRS relies extensively on computerized systems to support its financial and mission-related operations. Without effective security controls, computer systems are vulnerable to human errors or actions committed with malicious intent. People acting with malicious intent can use their access to obtain sensitive information, commit fraud and identity theft, disrupt operations,

[29] Publication 3744, *Internal Revenue Service Inflation Reduction Act Strategic Operating Plan FY 2023-2031*, (Rev. 4-2023).

[30] Congressional Research Service, *The Internal Revenue Service's Strategic Operating Plan to Spend $79 Billion in Inflation Reduction Act Funding* (May 2, 2023).

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or launch attacks against other computer systems and networks. These threats to computer systems and related critical infrastructure can come from sources that are internal or external to an organization. Internal threats include equipment failures, human errors, and fraudulent or malicious acts by employees or contractors. External threats include the ever-growing number of cyberattacks that can come from a variety of sources, such as individuals, groups, and countries that wish to do harm to an organization's systems or steal an organization's data. The IRS indicated that it observes and mitigates more than 1.4 billion cyberattacks annually, including denial-of-service attacks, intrusion attempts, probes or scans, and other unauthorized connectivity attempts.[31]

According to the IRS, its future vision is to provide taxpayers and tax professionals access to information online to view their account; make changes; interact with the IRS; and manage preferences for payments, refunds, and communications.[32] This future vision will challenge the IRS to ensure taxpayer privacy and security are safeguarded. Identity and access management is a fundamental and critical information technology capability ensuring that the right people have the right access to the right resources at the right time. If an unauthorized access occurs, it could result in substantial harm to systems and a loss of public confidence in the IRS.

In June 2021, for the first time ever, the IRS began outsourcing digital identity assurance by contracting with a private company under the Secure Access Digital Identity program. Since that time, the IRS has faced increased pressure to use a Government solution, specifically Login.gov, even though its service is not consistent with Digital Identity Guidelines provided under the National Institute of Standards and Technology. Accepting a reduction of standards for the sake of using a Government solution that does not currently provide the same level of effectiveness as a private contractor could have significant, negative impacts in the public's trust in the security of their data with the IRS.

The IRS established a Continuous Diagnostics and Mitigation Program, which includes managing "who is on the network" through identity and access management and privileged account management tools. TIGTA identified areas of improvement related to the access management system.[33] Specifically, TIGTA reviewed vulnerability scans for both on-premise and off-premise cloud-based servers and determined that the off-premise server vulnerability scans had limited risk severity (*e.g.*, critical, high, medium, low) and no historical aging information, such as first seen and last seen dates. In December 2022, TIGTA verified the cloud service provider upgraded its server vulnerability reporting to include aging and risk severity level information.

TIGTA also found that the remediation of on-premise server vulnerabilities is not consistently or accurately tracked with plans of action and milestones or risk-based decisions as required. The IRS created two plans of action and milestones eight and 21 months after the vulnerabilities

[31] Publication 3744, *Strategic Plan FY 2022-2026*, (Rev.7-2022).

[32] Publication 3744, *Internal Revenue Service Inflation Reduction Act Strategic Operating Plan FY 2023-2031*, (Rev. 4-2023).

[33] TIGTA, Report No. 2023-20-013, *The IRS Implemented the Business Entitlement Access Request System; However, Improvements Are Needed* (Mar. 2023).

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were identified, instead of within 60 days from identification, as required. Errors in reporting and tracking vulnerability remediation may further expose systems and data by allowing internal and external actors more time to exploit known vulnerabilities.

The IRS's ECM system is designed to modernize and consolidate legacy case management systems across the IRS. The ECM system processes and stores sensitive information within the IRS, providing restricted access to IRS employees via the Internet. The ECM system is a hybrid cloud system, with components residing on IRS premises and in the cloud hosted by an outside service provider.

However, TIGTA determined that the ECM system did not consistently meet cloud security requirements. Specifically, the IRS did not timely prepare or fully prepare action plans to address identified security risks.[34] In addition, ECM system production servers residing in the cloud lacked required malicious code protection. Further, the IRS did not timely remediate 24 high- and two medium-risk vulnerabilities for the ECM system. Control weaknesses within the ECM system can pose a substantial risk to taxpayer records currently residing in the system. The potential harm includes breach, unauthorized access, and disclosure of taxpayer information.

Vulnerabilities that have been previously used to exploit public and private organizations are a frequent attack vector for malicious cyber actors of all types. The Department of Homeland Security issued a directive that focuses on vulnerabilities that are active threats and should be Federal agencies' top priority. However, TIGTA reported that from September through December 2022, there were between 494 and 5,976 assets with known exploited vulnerabilities past the remediation period.[35] TIGTA was unable to determine the status of each asset with a vulnerability because information in the IRS's system is not reliable. In addition, the IRS is not following established guidance on isolating or removing all vulnerable assets from its network. Ineffective tracking and untimely remediation of known exploited vulnerabilities increases the risk to the overall security of IRS assets and allows affected assets to become targets of external exploitation with the intent to steal taxpayer data. In addition, failure to isolate or remove vulnerable assets from the network increases the risk of malicious attacks.

The IRS is required to create and store backups of both business and individual tax records to ensure that these records are available to conduct business, document IRS activities adequately, and protect the interests of the Federal Government and the American taxpayers. However, TIGTA reported significant deficiencies in the IRS's handling of microfilm backup cartridges containing sensitive taxpayer data.[36] Specifically, TIGTA reported that annual inventories have not been performed to account for microfilm cartridges. As a result of the lack of adequate

[34] TIGTA, Report No. 2023-20-018, *The Enterprise Case Management System Did Not Consistently Meet Cloud Security Requirements* (Mar. 2023).
[35] TIGTA, Report No. 2023-20-048, *Known Exploited Vulnerabilities That Remain Unremediated Could Put the IRS Network at Risk* (Aug. 2023).
[36] TIGTA, Report No. 2023-IE-R008, *Sensitive Business and Individual Tax Account Information Stored on Microfilm Cannot Be Located* (Aug. 2023).

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inventory controls, the IRS cannot account for thousands of microfilm cartridges containing millions of sensitive business and individual tax account records. The personal taxpayer and tax information included on these backup cartridges is key information that can be used to commit tax refund fraud identity theft. In addition, these cartridges are not adequately safeguarded to limit access to this information.

In addition to safeguarding taxpayer data, the IRS also faces the daunting task of protecting its employees and facilities. Threats and assaults directed at IRS employees, facilities, and infrastructure impede the effective and safe administration of the Federal tax system and the IRS's ability to collect tax revenue. TIGTA reviewed the IRS's process for implementing security countermeasures for identified vulnerabilities and found that it did not ensure that minimum physical security countermeasures were tracked and considered.[37] The IRS does not consistently use a centralized system to track physical security countermeasure recommendations, approvals, implementation actions, and associated costs. As a result, TIGTA was unable to determine the status of all current recommended physical security countermeasures in some of the IRS facilities reviewed.

Although threats over the past year have been at or below five-year averages, many of the provisions of the IRA that could generate additional threats, such as attempts to collect tax liabilities and additional enforcement contacts with taxpayers, have not yet been instituted by the IRS. After passage of the IRA, threats directed at the IRS and its employees received additional media attention. As a result, the Commissioner of Internal Revenue announced efforts to perform a comprehensive review of existing IRS safety and security measures. In July 2023, the Commissioner announced a policy change that ended most unannounced visits to taxpayers by IRS personnel, in part to enhance the overall safety for IRS employees. Threats and assaults directed at IRS employees, facilities, and infrastructure impede the effective and safe administration of the Federal tax system and the IRS's ability to collect tax revenue.

Funding provided to the IRS by the IRA is expected to significantly increase IRS staffing levels over the course of the next 10 years. As a result, the IRS should anticipate the potential for increased employee misconduct allegations. The IRA also includes funding for the IRS to study the cost and feasibility of creating a free direct e-file program, which would expand the overall scope and control of the current IRS Free File Program. The implementation of such a system will create additional avenues for malicious actors looking to exploit the IRS network and its online portals.

TAX COMPLIANCE AND ENFORCEMENT

One of the IRS's key responsibilities is to ensure that taxpayers comply with the tax law. Sustaining and improving taxpayer compliance is important because small declines in compliance cost the Nation 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

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[37] TIGTA, Report No. 2022-10-046, *The Process for Tracking Physical Security Weaknesses Identified in IRS Facilities Does Not Ensure That Vulnerabilities Are Properly Addressed* (Sept. 2022).

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difference between the estimated amount of tax legally owed by a taxpayer and the amount they voluntarily and timely pay for a tax year is known as the Tax Gap, which gives a broad view of the Nation's compliance with Federal tax laws. The IRS estimated that the gross annual Tax Gap for TYs 2014 to 2016 was $496 billion per year, and projects that for TYs 2017 to 2019, it will increase to $540 billion per year.[38] The IRS's Tax Gap estimate for TYs 2014 through 2016 indicates that approximately 80 percent of the gross Tax Gap results from the underreporting of tax liabilities on filed returns, representing the highest potential for noncompliance.[39] New and evolving issues, such as virtual currencies and abusive tax schemes, will also contribute to the Tax Gap.

However, the IRS does not use Tax Gap estimates to determine where its Examination functions should allocate resources in its work planning.[40] IRS management informed TIGTA that ongoing research on complex areas of noncompliance and planned future changes to the Tax Gap methodology should make the Tax Gap more useful for informing resource allocation decisions through enterprise examination planning.

Further, TIGTA reported that the IRS could take actions to improve Tax Gap estimates.[41] For example, the IRS has not developed estimates for certain aspects of the Tax Gap, and some sources of noncompliance may not be reflected in the Tax Gap estimates. In addition, although the Tax Gap identifies certain known limitations, it does not identify what actions, if any, are being taken to address other excluded areas of noncompliance such as those associated with foreign activities and digital assets. The IRS also does not have formalized processes for internal or external review of its Tax Gap estimates. Internal reviews are performed at various points in the estimation process. However, these reviews are not documented and do not allow for any oversight. The absence of formal guidance for the internal and external review processes creates the potential for unidentified errors that could affect the quality of the estimates. Additionally, the lag time between the tax years used for the estimates and the year the estimates are published limits their usefulness.

Reductions to IRS enforcement function staffing levels over the last decade have also affected the total enforcement revenue collected. A reduction in the number of enforcement function employees may affect the IRS's ability to maintain sufficient audit coverage of entities and individuals contributing the most to the Tax Gap and limit its efforts to collect the taxes taxpayers acknowledge they owe but have not paid.[42]

[38] TIGTA, Report No. 2023-10-025, *Planning Efforts to Hire Employees Who Conduct Audits of High Earners and Large Businesses Could Be Improved* (June 2023).
[39] Publication 5365, *Tax Gap Estimates for Tax Years 2014-2016* (Rev. 10-2022).
[40] TIGTA, Report No. 2023-30-008, *Opportunities Exist for the IRS to Develop a More Coordinated Approach to Examination Workplan Development and Resource Allocation* (Feb. 2023).
[41] TIGTA, Report No. 2023-10-016, *Actions Are Needed to Improve the Completeness, Development, and Review of IRS Tax Gap Estimates* (Mar. 2023).
[42] TIGTA, Report No. 2023-10-025, *Planning Efforts to Hire Employees Who Conduct Audits of High Earners and Large Businesses Could Be Improved* (June 2023).

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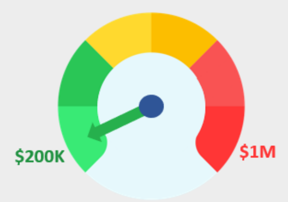
The IRS estimates that, with existing hiring actions and expected attrition, the Large Business and International (LB&I) Division could hire approximately 450 positions and the Small Business/Self Employed (SB/SE) Division could hire approximately 2,300 positions without exceeding their authorized staffing levels. However, the hiring surge of 10,000 employees to assist in reducing the tax return filing backlog for the Wage and Investment Division's Submission Processing and Accounts Management functions has prevented the LB&I and SB/SE Divisions from hiring more employees to increase audits of high earners. Further, the LB&I and SB/SE Divisions have not maintained their ideal staffing levels with normal attrition and the hiring of new employees to replace those who have left the business units. The IRS's IRA SOP estimates that, through the end of FY 2024, approximately 8,700 of the approximately 29,500 employees funded by the IRA are planned for enforcement business units.

In addition, the SB/SE Division's Fiscal Year 2023 Examination Plan showed no significant increase in the number of high-income individual audits. Additionally, the LB&I Division's resource allocation plan is not detailed enough for TIGTA to assess the IRS's intended efforts to examine high-income individuals with the increased enforcement funding.

Further, the IRS does not have a unified or updated definition for individual high-income taxpayers. The definition varies according to context as different programs are designed to address compliance coverage across different parts of the filing population.

The IRS's current examination activity code uses $200,000 as the main threshold to measure high-income returns. Consequently, the IRS needs an updated high-income taxpayer definition and examination code to better identify and track examination results and manage examination priorities.



The Tax Reform Act of 1976 used a $200,000 threshold to measure high-income returns. This amount is equivalent to more than $1 million in 2023. The IRS still uses $200,000 as the default high-income threshold.

Research shows that audits have a strong, positive impact on reporting compliance.[43] However, TIGTA reported that the IRS does not have a multiyear Examination Strategic Plan for allocating resources. The IRS has a general five-year strategic plan with broad goals for the agency; however, the strategic plan does not contain the detail needed for the compliance functions, such as Examination, to most effectively allocate resources. Creating a multiyear, comprehensive Examination Strategic Plan would provide IRS management with clear direction on how to allocate Examination resources.[44]

Notably, the Secretary of the Treasury directed the Commissioner of Internal Revenue to ensure that small businesses and households earning $400,000 or less will not see audit rates increase relative to historical levels due to IRA funding. Instead, the IRS plans

[43] *The Impact of the IRS on Voluntary Tax Compliance: Preliminary Empirical Results*, by Alan H. Plumley, Technical Advisor, IRS National Headquarters Office of Research, National Tax Association 95th Annual Conference on Taxation, Orlando, Florida, November 14 - 16, 2002.

[44] TIGTA, Report No. 2023-30-008, *Opportunities Exist for the IRS to Develop a More Coordinated Approach to Examination Workplan Development and Resource Allocation* (Feb. 2023).

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to use IRA funding to focus on high-dollar noncompliance. However, TIGTA reported that the IRS's efforts for training new hires do not appear to be fully leveraging this expertise.[45] The IRS treats this training as specialized and only offers it when necessary for employees auditing in this specialized area. Commensurate with the new funding, the IRS needs to change its training paradigm and expose new hires to the types of issues associated with high-income taxpayer returns. For example, the IRS indicated that the IRA funding will allow it to hire and train more specialists such as accountants, attorneys, engineers, economists and data specialists. According to the IRS, these resources will enhance its enforcement activities for emerging issues such as digital assets and international issues.

Increasing voluntary taxpayer compliance and reducing the Tax Gap will remain a persistent challenge facing the IRS. As such, the IRS will need to stay committed to a strong, visible, and robust tax enforcement presence to support voluntary compliance and protect the integrity of the tax system.

TAX FRAUD AND IMPROPER PAYMENTS

The IRS continues to work diligently to combat various scams designed to steal taxpayers' money or personal information. Compiled annually, the IRS's "Dirty Dozen" lists a variety of common scams that taxpayers may encounter. These scams involve the theft of a person's money and identity with bogus e-mails, social media posts, and unexpected telephone calls, among other things. The scams can take a variety of forms, including using unemployment information and fake job offers to steal money and information from people. All of these efforts can lead to sensitive personal information being stolen, with scammers using it to try filing a fraudulent tax return as well as harming victims in other ways.

Identity theft tax refund fraud involves the use of another person's name and Taxpayer Identification Number[46] to file a fraudulent tax return reporting false income and withholding to receive a fraudulent tax refund. The IRS continues to increase the number of fraudulent tax returns detected and stopped from entering the tax processing system (*i.e.*, rejecting e-filed tax returns and preventing paper tax returns from posting).[47] For the 2023 Filing Season, the IRS used 260 filters to identify potential identity theft tax returns and prevent the issuance of fraudulent refunds. In comparison, the IRS used 168 filters for the 2022 Filing Season. These filters incorporate criteria based on characteristics of confirmed identity theft tax returns, including amounts claimed for income and withholding, filing requirements, prisoner status, taxpayer age, and filing history. Tax returns identified by these filters are held during processing until the IRS can verify the taxpayer's identity. As of May 2023, the IRS reported that it identified nearly 2.4 million tax returns with refunds totaling approximately $13.8 billion for additional

[45] TIGTA, Report No. 2023-30-054, *The IRS Needs to Leverage the Most Effective Training for Revenue Agents Examining High-Income Taxpayers* (Aug. 2023).

[46] A nine-digit number assigned to taxpayers for identification purposes. Depending upon the nature of the taxpayer, it can be an Employer Identification Number, a Social Security Number, or an Individual Taxpayer Identification Number.

[47] TIGTA, Report No. 2023-40-029, *Interim Results of the 2023 Filing Season* (May 2023).

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review as a result of the identity theft filters. As of that same date, the IRS had confirmed 87,591 tax returns as fraudulent and prevented the issuance of $1.2 billion in fraudulent refunds.

Improper payments (*i.e.*, payments that should not have been made, were made in an incorrect amount, or were made to an ineligible recipient) continue to be a challenge facing the IRS. TIGTA found that for FY 2022, the IRS was largely compliant with the reporting requirements contained in the Payment Integrity Information Act of 2019.[48] While largely compliant, the IRS has not met the Act's goal of reducing overall improper payment rates to less than 10 percent.[49] The IRS estimates it issued approximately $26 billion in potentially improper payments in FY 2022. As shown in Figure 8, this represents a significant loss to the Federal Government.

Figure 8: IRS Estimated FY 2022 Improper Payments and Rates[50]

Program	Estimated Improper Payment Rate	Total Payments	Estimated Improper Payments
Earned Income Tax Credit (EITC)	32%	$57.5 billion	$18.2 billion
Additional Child Tax Credit (ACTC)	16%	$32.8 billion	$5.2 billion
American Opportunity Tax Credit (AOTC)	36%	$5.6 billion	$2.0 billion
Net Premium Tax Credit (Net PTC)[51]	27%	$2.1 billion	$0.6 billion

Source: FY 2022 Department of the Treasury Agency Financial Report.

The IRS has implemented a number of initiatives to help reduce refundable tax credit improper payment rates, yet rates remain persistently high. For example, estimates of improper payment rates have risen since FY 2020. Figure 9 shows the improper payment rates for EITC, ACTC, and AOTC for the last three fiscal years.

[48] Pub. L. No. 116-117, 134 Stat. 113.

[49] TIGTA, Report No. 2023-40-032, *Fiscal Year 2022 Improper Payment Reporting Requirements Were Largely Met; However, Improper Payment Estimates Are Less Precise* (May 2023).

[50] For presentation purposes, the improper payment rates, total payments, and estimated improper payments as presented may be impacted by rounding. Further detail is available within the datasets found on www.paymentaccuracy.gov.

[51] The Net PTC is the amount of Premium Tax Credit minus the amount of Advance Premium Tax Credit. This is the first year the IRS has reported an improper payment rate for the Net PTC.

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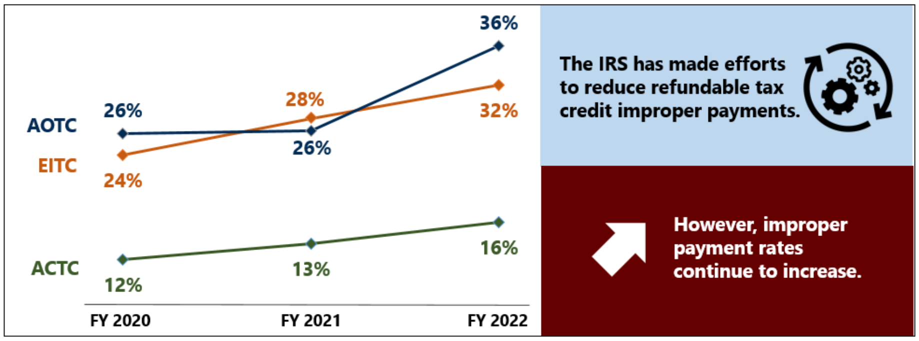
Figure 9: FYs 2020 – 2022 Improper Payment Rates



Source: FYs 2020 - 2022 Department of the Treasury Agency Financial Reports.

However, refundable credit improper payments are not primarily the result of internal control weaknesses that the IRS can address. In addition to the lack of reliable, relevant, and timely third-party data, the Department of the Treasury Agency Financial Report indicates that eligibility rules differ for each credit and are often complex because they address complicated family relationships and residency arrangements to determine eligibility.

Other refundable credits, such as the Employee Retention Credit, present a unique risk to tax administration because taxpayers not only can have their tax reduced to zero but also receive a "refund" of excess credit. The unintended consequences of refundable credits are that they can result in the issuance of improper payments and can be the target of unscrupulous individuals. As such, they pose a significant risk as an avenue for those seeking to defraud the Government. Although the IRS continues to improve and expand its fraud detection and prevention processes, it must remain diligent as new schemes emerge each year.

TAXPAYER RIGHTS

As the IRS seeks to transform its operations and the way in which it interacts with taxpayers, it will need to continue to work to ensure that all taxpayers are treated equitably. Concerns were previously raised about the equitable treatment of taxpayers, especially as it pertains to audit selection. In September 2023, the Commissioner of Internal Revenue acknowledged the disparity in a letter to the Chairman of the Senate Finance Committee, stating that the Treasury Department and IRS have validated recent research using race information, which demonstrates Black taxpayers are audited at three to five times the rate of non-Black taxpayers. The Commissioner in his letter further stated "we are making broad efforts to overhaul compliance efforts in a manner that robustly advances our commitment to fair, equitable, and effective tax administration." The Commissioner also laid out specific actions that the IRS will take this filing season to address the equitable treatment of taxpayers, noting a commitment to publicly report on the IRS's efforts.

Improper administration of the Internal Revenue Code can also result in increased taxpayer burden, especially for vulnerable taxpayers. For example, on December 4, 2015, the Fixing

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America's Surface Transportation (FAST) Act was signed into law.[52] The Act includes a provision that requires the IRS to use private collection agencies (PCA) to collect taxes on cases involving inactive tax receivables. On July 1, 2019, the TFA was signed into law, which amended some of the FAST Act requirements for the private debt collection program. The TFA contains adjustments to PCA case inventory intended to protect certain low-income taxpayers from being subject to PCA collections. However, TIGTA identified 14,141 taxpayers whose incomes fell beneath the threshold for PCA assignment after the law was put in place but whose accounts were not properly recalled. If the IRS does not recall the 14,141 low-income taxpayers from PCA inventory, it is potentially burdening these taxpayers by PCA attempts to collect on debts that are not legally collectible by the PCAs under the Internal Revenue Code.

The IRS must balance tax compliance activities to enforce the tax code while at the same time upholding taxpayer rights. The IRS continues to dedicate significant resources and attention to complying with the taxpayer rights provisions of the IRS Restructuring and Reform Act of 1998,[53] which requires TIGTA to audit certain taxpayer rights provisions and report whether the IRS complied with those provisions. While overall compliance has improved, TIGTA continues to identify areas in which the IRS can improve. For example, TIGTA evaluated whether the IRS complied with the filing of Notice of Federal Tax Liens and a taxpayer's right to elect a Collection Due Process hearing. However, TIGTA found that enforcement actions were not always suspended while taxpayers had the right to request a Collection Due Process hearing or while the taxpayer's appeal was pending.[54] In addition, the IRS did not always send copies of lien notices to the taxpayers' representatives as required.

Additionally, Collection Due Process hearing provisions are designed to give taxpayers an opportunity for an independent review to ensure that the levy action that has been proposed or the Notice of Federal Tax Lien that has been filed is warranted and appropriate. Similar to prior audits, TIGTA identified incorrect Collection Statute Expiration Date posting errors in sampled taxpayer cases. In some cases, the IRS incorrectly extended the time period, allowing the IRS additional time to collect delinquent taxes.[55]

TIGTA also reported that the IRS can better comply with legal guidelines when issuing levies to seize taxpayers' assets.[56] TIGTA reviewed levies issued by the IRS for more than 2 million taxpayers during the period July 1, 2021, through June 30, 2022, and identified approximately

[52] Pub. L. No. 114-94, 129 Stat. 1311.

[53] Pub. L. No. 105-206, 112 Stat. 685 (codified as amended in scattered sections of 2, 5, 16, 19, 22, 23, 26, 31, 38, and 49 U.S.C.).

[54] TIGTA, Report No. 2023-30-057, *Fiscal Year 2023 Statutory Review of Compliance With Notice of Federal Tax Lien Filing Collection Due Process Procedures* (Sept. 2023).

[55] TIGTA, Report No. 2023-10-038, *Review of the IRS Independent Office of Appeals Collection Due Process Program* (July 2023).

[56] TIGTA, Report No. 2023-30-066, *Fiscal Year 2023 Statutory Review of Compliance With Legal Guidelines When Issuing Levies* (Sept. 2023).

11,200 instances of noncompliance resulting in violations of taxpayers' rights and taxpayers being burdened.

When married taxpayers elect to file a joint income tax return, they are held jointly and individually responsible for the tax, interest, or penalties due on the joint return, even if they later separate or divorce (*i.e.*, one spouse can be held responsible for payment of all the tax due). The Internal Revenue Code provides an exception to joint and several liability (often referred to as "innocent spouse" relief). However, TIGTA reported that the IRS did not always protect taxpayer rights when working innocent spouse claims.[57] This included not fully developing the facts and circumstances in innocent spouse claims or providing specific guidance for employees related to equitable relief. In addition, the IRS did not timely close innocent spouse claims. Prior to the COVID-19 pandemic, innocent spouse claims already exceeded the IRS's 240-day closure goal, taking approximately one year to close. However, after the COVID-19 pandemic restrictions, the IRS took an average of 557 days (over 18 months) to close these cases.

With the additional IRA funding available and its plans for increasing its compliance efforts, the IRS must continue to remain vigilant in safeguarding the rights of taxpayers and promoting tax fairness.

CONCLUSION

This memorandum is provided as our annual summary of the most serious major management and performance challenges confronting the IRS in FY 2024. TIGTA's *Fiscal Year 2024 Annual Audit Plan* and *Fiscal Year 2024 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

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

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IRS Response to TIGTA Identified Management and Performance Challenges Facing the IRS for FY 2024

The IRS appreciates TIGTA's management and performance challenges as valuable feedback to improving administrative processes and accomplishing its mission.

After enactment of the Inflation Reduction Act of 2022 (IRA), the IRS developed a detailed Strategic Operating Plan (SOP) that consists of five transformational objectives and 42 initiatives that the IRS will be working on through FY 2031 when the funding is set to expire. In FY 2023, the IRS made progress on many areas highlighted in the SOP, and many more are ongoing as the IRS strives to modernize the way it serves taxpayers through improved technology, better service and fairer enforcement. Substantial work was done to advance the objectives and the performance goals of the SOP, but the IRS has sustained work ahead to build on these improvements.

Managing IRA Transformation Efforts

The IRS is committed to the implementation of the IRA which will ensure the proper balance of improving services to taxpayers, expanding enforcement and modernizing its information technology. The SOP outlines how the IRS will deploy IRA investments to better serve taxpayers, tax professionals and the broader tax ecosystem. Included in the plan is the IRS's IRA transformation vision to make it easier for taxpayers to meet their tax responsibilities and receive tax incentives for which they are eligible. There is a funding risk, as Congress considers cutting IRA funding or reducing the annual appropriations because of the IRA funding. If the IRS does not receive the funding needed to maintain base operations, planned transformation will be in jeopardy. IRA funding will then be needed to support normal operations, or the IRS will not be able to deliver all improved services nor transform its information technology as outlined in the SOP. To make the SOP vision a reality, and to deliver on the commitments in the SOP, the IRS's new Transformation and Strategy Office is coordinating collaboration across the IRS and engaging in disciplined and transparent accountability processes. The Transformation and Strategy Office also supports IRS leadership by providing and maintaining a clear and effective governance and accountability structure; facilitating real-time, transparent enterprise prioritization, performance monitoring and risk management; leading organization-wide capacity building and change management; supporting detailed execution-planning and project management; and enhancing the IRS's culture and operations. These efforts are led by the Chief Transformation and Strategy Officer and coordinated through an advisory committee to facilitate informed decision making by the Commissioner on issues related to strategic alignment and problem-solving. The IRS recognizes that to achieve the agency's strategic objectives, it must complete significant and highly complex technology transformations. The additional multi-year funding provided by the IRA marks a transformational moment for the IRS and an opportunity to impact the future of tax administration. The IRS has struggled for many years without sufficient resources to fulfill its important mission. During the next decade, this funding will help in many areas, including adding important resources for technology.

Tax Law Changes

The IRA was the primary legislation affecting the 2023 filing season. While most IRA tax provisions will become effective during Processing Years 2024-2028, many actions are underway to implement the remaining 16 of the 36 tax provisions. As of July 2023, the IRS has identified 82 tax products affected by these provisions in future processing years, including 42 tax forms, 39 instructions and one publication. The IRS also has efforts underway to implement processing controls for the provisions most relevant to the 2023 filing season, the clean vehicle credits, and elective payments for energy and electricity produced from certain renewable resources.

Significant legislative changes affected the Earned Income Tax Credit and Child and Dependent Care Tax Credits for Tax Year 2021, making them two of the largest refundable tax credits available to individuals. Of the nearly 12.7 million Tax Year 2021 returns that claimed self-only Earned Income Tax Credit, 99.94% were processed correctly (not potentially fraudulent or erroneous). Of the 5.5 million returns claiming the Child and Dependent Care Tax Credit, 99.99% were processed correctly.

The IRS improved the ability to administer the Child and Dependent Care tax credit by revising internal guidance, creating compliance filters, issuing Servicewide Electronic Research Program Alerts, revising Form 2441, Child and Dependent Care Expenses, elevating a legislative proposal to the Office of Tax Policy, and adding examples to Publication 503, Child and Dependent Care Expenses.

The IRS will also work with the Department of the Treasury to advance legislation to treat a tax return as 'filed' only when it is accepted. This would remove the legal risks associated with rejecting tax returns with conditions that indicate that the taxpayer is ineligible for refundable credits claimed on the return. If legislation is enacted, the IRS will determine the actions to be taken. The IRS will conduct program assessments to ensure rules for selecting returns for review are accurate. The IRS will also examine the sample of returns identified to ensure taxpayers receive the correct Child and Dependent Care Credit and Earned Income Tax Credit.

The IRS has worked through many unique technical and procedural challenges to implement processes to ensure taxpayers paid their deferred Social Security tax as required by the Coronavirus Aid, Relief, and Economic Security Act. When an employer or taxpayer did not pay or deposit the required deferral amount by the installment due dates, the IRS reversed the false credit on the applicable accounts. In some instances, this process created erroneous, duplicative reversals on some accounts. These accounts were manually reviewed and monitored, and a tool was run to correct each of the 3,231 accounts. The IRS will ensure all applicable modules with unpaid deferred Social Security tax properly show the unpaid balances.

Taxpayer Service

Providing quality Taxpayer Service is essential to the effective administration of a voluntary compliance system of taxation. The Taxpayer Experience Office began standing up its operations in March of 2022 and in its initial months of operation focused primarily on hiring staff and establishing the organization. While the Taxpayer Experience Office was engaging in its stand-up efforts, the IRA was signed into law, which gave the IRS unprecedented levels of funding to transform the IRS.

The SOP supersedes all previous IRS strategic plan documents, including the Taxpayer Experience Strategy and Roadmap, but is based in part on insights from those prior plans. The SOP includes some of the foundations of the Taxpayer Experience Strategy and includes several strategic initiatives to help improve service to underserved communities. As part of the IRS transformation efforts under the SOP, the Chief Taxpayer Experience Officer will:

- Track and regularly report on taxpayer experience improvements resulting from any responsibilities aligned to the Taxpayer Experience Office within the SOP, as well as other reporting requirements for agency Customer Experience offices.
- Work in conjunction with the Chief Transformation and Strategy Officer and other operating divisions throughout the IRS to implement new SOP initiatives to dramatically improve taxpayer services for all taxpayers, including those who are underserved.

In FY 2023, the Taxpayer Experience Office worked with business units across IRS to improve the taxpayer experience. In support of the implementation of the Clean Energy credits, the Taxpayer Experience Office conducted focus groups to bring the voice of the customer to decision makers, so that business operations and decisions can be informed by those they impact. Also, work is underway to deliver guidance in an accessible, timely and digestible manner through the Taxpayer Experience Office's efforts as the lead for SOP initiative 1.7, Provide earlier legal certainty. The Taxpayer Experience Office is also working to ensure that underserved communities benefit from the increase in taxpayer service. To meaningfully improve taxpayer experience, it is essential that service improvements are brought to populations that have limited access to traditional support mechanisms. The Taxpayer Experience Office will lead the multilingual strategic initiative efforts for IRS in FY 2024. Through this initiative, efforts are in progress to expand services and products in additional languages and conduct tailored outreach to segments of the population identified as underserved. The Taxpayer Experience Office's role in ensuring the customer experience principles infused within the SOP initiative efforts will improve compliance through the publication of clearer guidance, reduce the level of interaction required to resolve disputes, allow taxpayers to communicate in methods they prefer and reduce the overall burden on taxpayers as they voluntarily comply.

To ensure uniform processing, the IRS issued alerts to employees reiterating current operating procedures regarding receipt and screening of correspondence. The IRS also developed reports and updated the Internal Revenue Manual to improve efficiency in the process of re-routing correspondence. To help reduce inventory levels, the IRS hired over 200 clerks, and created Surge Teams to focus on Form 1040-X, Amended U.S. Individual Income Tax Return, inventory.

The IRS is developing a plan that balances streamlining the barred statutes paperwork process with accountability responsibilities to reduce the backlog of aged, barred statute cases. The IRS is reviewing the correspondence scanning process to determine if additional high-speed scanners are needed. Funding was also approved to evaluate the requirements to automate processing of Form 1040-X. This feasibility evaluation could take several years due to the complexity associated with Form 1040-X processing and work that must be done across multiple systems.

In addition, the IRS developed programming requirements to resolve the issue of generating transcripts for manual refunds less than $100, as well as programming requirements that will permit the systemic issuance of decedent refunds when the appropriate personal representative information has been updated. Programmers are conducting scope, feasibility and impact studies and cost analysis to create a universal unassigned inventory system that streamlines the work distribution process.

Direct Hire and IRA Hiring Authorities in FY 2023 allowed the IRS to continue filling key positions focusing on customer service and taxpayer experience. Surge efforts saw almost 900 employees return to address the backlog inventory. Unprocessed individual tax returns received in 2022 were cleared by February 2023 and total inventory was reduced 63% from Calendar Year 2022 to Calendar Year 2023 (through September). Remote Call Site employees volunteered to assist in reducing IRS 1040-X inventory.

The Taxpayer Digital Communications program represents a major IRS initiative to improve the IRS's ability to communicate securely, quickly and effectively with taxpayers. The Taxpayer Digital Communications' Secure Messaging installations allow IRS employees and taxpayers to correspond in a secure, authenticated environment that improves the IRS's ability to timely receive documentation and resolve cases. The IRS has achieved success with several Secure Messaging installations in prior fiscal years; however, the program struggled in FY 2022 and had only one new installation and an expansion of an existing installation. The program pace recovered in FY 2023, completing three new deployments. Small Business/Self-Employed Field Collection, Small Business/Self-Employed Examinations, and Wage and Investments Error Resolution System all received new installations, enabling over 8,500 additional IRS employees and 1.75 million additional taxpayers to make use of the tool. The IRS currently has four deployments scheduled for FY 2024, which will add capabilities for over 18,000 IRS employees and up to 4.75 million additional taxpayers. When selecting new installations for prioritization, the IRS looks at a variety of factors, including the potential number of employees and taxpayers who can be served, and the scope and impact of the program requesting the new installation. The IRS seeks to strike a balance between meeting the needs of the broadest swaths of the population and ensuring that underserved taxpayer segments are also given due consideration. The IRS will continue to evaluate and improve the program moving forward through FY 2024, looking for opportunities to further the integration of Taxpayer Digital Communications into other applications – for example, building on the successful addition of Secure Messaging to Online Account in FY 2023 – and improving the capability to assess the impact and effect of Taxpayer Digital Communications on agency operations. Taxpayer Digital Communications will continue to be a high-value program, and the IRS will continue to look for opportunities to make it a more effective and more widespread tool in its customer service repertoire.

At the end of the 2023 filing season the IRS had received 137 million tax returns, of which 132 million (96.3%) were electronically filed. The IRS issued nearly 86 million refunds totaling $236.6 billion. The infusion of IRA funding enabled the IRS to provide taxpayers with a substantially better experience in the 2023 filing season than in previous years. The IRS is in the planning stages to ensure a successful 2024 filing season.

Human Capital

Special payment incentives are just one tool available to the IRS to address the recruitment and retention of employees in mission critical occupations. The IRS is working toward a comprehensive strategy for using financial incentives to recruit and retain mission critical occupations.

The IRS Knowledge Management program serves an integral role for IRS operations through training support and delivery, technical support to employees, collaboration across business units and technical support to the public through items published on IRS.gov. The IRS is committed to continue strengthening the Knowledge Management program and better capture, share, and apply employee knowledge to enhance learning, performance, decision-making and collaboration. The IRS continues efforts to collect and act on employees' feedback and concerns, as well as cost and performance data, to enhance tools such as the Virtual Library and other services offered through the Knowledge Management program.

Information Technology Modernization

Since January 2023, the modernization efforts of e-filing Information Returns have expanded. Businesses are now able to file Form 1099 series income information returns for free, using a new online portal known as the Information Returns Intake System, reducing millions of paper Forms 1099. Also, it is important to note that taxpayers can now electronically file Form 1040-X Amended U.S. Individual Income Tax Return, and for the first time can select direct deposit of any resulting refund.

With the expanded use of the Document Upload Tool many taxpayers can now respond to certain IRS notices online for the first time this year. This new secure step will allow taxpayers or their tax professionals to electronically upload documents rather than mailing them in, helping reduce time and effort with resolving tax issues. This potentially can help more than 500,000 taxpayers each year who receive notices, which include military personnel serving in combat zone areas and recipients of important credits like the Earned Income Tax Credit and Child Tax Credit.

The IRS also expanded the multi-form, multi-solution scanning effort by deploying scanning solutions for Forms 1040 with up to 25 attachments. This is in addition to the Form 940, Employer's Annual Federal Unemployment Tax Return, and Form 941, Employer's Quarterly Federal Tax Return, which are currently being digitally scanned. Since the start of 2023, the IRS has already scanned more than 400,000 paper Forms 940.

In FY 2023, as part of the "Agent Desktop Modernization" effort, the IRS continued to implement a single desktop tool for IRS customer service agents to manage calls and chats. Efforts are underway to provide software/platform upgrades and new features which will enable agents to be notified when contacts transferred to them have been authenticated and allow them to access caller account information without re-authenticating.

As part of the implementation of Taxpayer First Act Sec. 2304, the IRS successfully delivered the automated electronic fingerprint solution (Fieldprint) after a three-year effort. The system communicates with the Federal Bureau of Investigations and allows applicants to schedule fingerprinting appointments, verify their identity, capture electronic fingerprints and manage payment collections.

Taxpayers can now use their Online Account to create a long-term payment plan, which provides them more flexibility to submit payment plans online. In the first month after deployment of this new functionality, nearly 11,000 payment agreements were established.

The IRS completed initial deployments modernizing the IRS network. The IRS needs more network resources to meet the demands of additional people tapping into new, high-bandwidth technologies. In FY 2023, the IRS deployed Enterprise Data Platform Release 2.2 and Release 2.3. Release 2.2 provided infrastructure capabilities for ingesting and processing data with complicated relationships while providing the ability to deliver queries using application programming interfaces and business intelligence tools. Release 2.3 provides current individual taxpayer data, which enables programs to query taxpayer data and includes business intelligence tools on the Enterprise Data Platform for Individual Master File modernization programs.

Protection of Taxpayer Data and IRS Resources

The IRS improved oversight of the Treasury-hosted Business Entitlement Access Request System and the vulnerabilities remediation process. In FY 2023, the IRS Information Technology organization developed a Continuous Monitoring Report, which includes monitoring information technology vulnerabilities per Federal Risk and Management Program) and Internal Revenue Manual 10.8.1 guidance. A monthly summary is submitted to the Authorizing Official that communicates the security posture of the Cloud system. Information Technology continues to review vulnerability scans for the Business Entitlement Access Request System servers monthly, document the scan results, monitor progress toward remediation and create a Plan of Action and Milestones, when finding remediation cannot be completed within the required time frames in accordance with IRS policy. It is important to note that the Business Entitlement Access Request System has not had any additional overdue vulnerabilities or overdue Plan of Action and Milestones.

The IRS is actively working to ensure the Enterprise Case Management consistently meets cloud security requirements. IRS updated Internal Revenue Manual 10.8.1 to align with National Institute of Standards and Technology guidelines for malicious code protection requirements for Linux servers. The Web Integration Services Division identified and implemented malicious code protection on all Enterprise Case Management servers in the cloud to meet malicious code policy requirements. In addition, the IRS will monitor Enterprise Case Management privileged user activity logs and regularly disable inactive privileged accounts in accordance with agency security requirements.

In addition, the IRS will follow the timeframes set forth in Cybersecurity and Infrastructure Security Agency's Known Exploited Vulnerability Catalog to ensure timely remediation of all known exploited vulnerabilities. The IRS will update relevant processes and procedures to reflect the applicable date in the asset and vulnerability repository, inclusive of signature changes and associated dates applicable to the remediation time frame. Finally, the IRS will finalize the standard operating procedures regarding internal vulnerability management and update the Internal Revenue Manual accordingly.

The IRS continues to utilize the Countermeasure Tool as a centralized location to manage and track security-related recommendations, which allows for a better assessment of the IRS's current security posture, and demonstrates compliance with departmental security guidelines. The tool allows the IRS to strategically manage security resources, track decisions, actions taken, implementation costs and the mitigation/acceptance of risks. On a weekly basis, the IRS uploads completed Facility Security Assessments from the Department of Homeland Security Federal Protective Service Modified Infrastructure Survey Tool database into the Countermeasure Tool and tracks recommended countermeasures in the Countermeasure Tool until a new risk assessment is completed. In addition, the IRS ensures Facility Security Compliance Assessments are completed and certified by the Physical Security Specialist and Security Section Chief. Upon completion, the countermeasure recommendations are automatically generated in the Countermeasure Tool.

The IRS is required to create and store backups of both business and individual tax records to ensure that these records are available to conduct business, document IRS activities adequately, and protect the interests of the Federal government and American taxpayers. To account for backup microfilm cartridges, an IRS-wide alert was sent to employees in February 2023, with instructions on how to document reasons when microfilm cannot be located, and procedures were added to the Internal Revenue Manual in June 2023. The vendor contract was modified in April 2023, requiring the IRS to be notified one month before microfilm backup cartridges must be shipped to the Federal Records Center. Additionally, desk procedures were revised to set a notification for eleven months after the last year/data type microfilm shipment has been made to a campus. This reminder will allow one month for IRS to prepare the microfilm for shipment to the Federal Records Center in a timely manner. Further, the IRS will perform quarterly reviews of active microfilm work to ensure shipments are completed in a timely manner.

A detailed inventory is being taken of all microfilm tapes at the Tax Processing Centers. Written annual reconciliation reports will be completed at each location and discrepancies reported to management. Through the inventory process, the IRS will identify microfilm cartridges eligible for destruction and will initiate the process for destruction of these cartridges. The IRS is also completing detailed inventories of the microfilm repositories, including reconciliations of vendor logs and shipments from closed Tax Processing Centers. The IRS will develop a microfilm request log template to be used for consistency and accessible for periodic review. The IRS is contracting with a vendor to review, label, re-box and repackage the microfilm stored at the IRS's Bloomington National Distribution Center. After repackaging to meet Federal Records Center requirements, the cartridges will be shipped for archiving. The IRS will develop and implement a process for conducting periodic reviews of unfilled microfilm requests to identify actions needed to address the reason(s) for the unfulfillment. Accuracy and completeness of microfilm request logs will be reviewed annually.

Tax Compliance and Enforcement

Audits of high-income taxpayers and efforts to address abusive syndicated conservation easement transactions are two examples of the IRS's ability to respond flexibly to critical areas in meeting strategic priorities. The IRS has established the Joint Strategic Emerging Issues Team, consisting of representatives from business units, Chief Counsel and other supporting organizations, to address significant compliance risks.

Recruitment and hiring are foundational to the IRS's ability to provide taxpayers with quality service and fair enforcement. With the passage of the IRA, the IRS sees tremendous opportunities to dramatically increase enforcement hiring in the coming years. The SOP includes in its focus a robust suite of hiring initiatives, including hiring within the IRS's compliance functions. The IRS is coordinating yearly hiring planning, improving communication channels across business units and increasing staff and other resources to increase hiring capacity and enable the IRS to process all hiring as and when requested. Effective employee training is also fundamental to the agency's ability to fairly enforce tax laws. The IRS is developing a comprehensive plan to train new hires and existing employees that will examine high-income taxpayers. As the IRS continues to transform its training programs, the agency will ensure that existing knowledge and experience will be considered and incorporated into curriculum design and creation and provided to those revenue agents whose job duties include examining high-income taxpayers.

The IRS is committed to continuously improving the tax gap estimates. The annual tax gap report was released in October 2023, providing projections for tax years 2020 and 2021. The timeliness of the tax gap reports has been addressed by starting a cadence of annual updates of projections (with periodic updates of estimates) as part of the Statistics of Income release schedule. Tax gap projections for Tax Year 2022 will be developed in FY 2024 and included in the Statistics of Income release schedule for Fall 2024. The IRS Office of Research, Applied Analytics, and Statistics will research hard-to-detect areas of noncompliance during FY 2024 with the goal of enhancing future tax gap reporting.

Tax Fraud and Improper Payments

Reducing improper payments (i.e., payments that should not have been made, made in an incorrect amount, or made to an ineligible recipient) continues to be a challenging priority for the IRS. Although the IRS was largely compliant with the reporting requirements contained in the Payment Integrity Information Act of 2019, the IRS still has not satisfied the Act's goal to reduce improper payment rates to less than 10% for the Earned Income Tax Credit, the Additional Child Tax Credit, the American Opportunity Tax Credit and the Net Premium Tax Credit. Reducing improper payment rates to less than 10% would require significant restructuring of the tax credit programs and legislative action.

Further, the American Rescue Plan Act of 2021 temporarily expanded both the Child and Dependent Care Tax Credit and the Child Tax Credit. Under this Act, both tax credits became fully refundable and had their income phase-out limits increased; and the Child Tax Credit saw changes to its eligibility requirements to allow more taxpayers to claim the credit. The unintended consequence of refundable credits is that they can result in the issuance of improper payments and can be the targets of unscrupulous individuals.

Reasons causing the increase in improper payment rates are not the result of internal control weaknesses, but are due to factors outside of the IRS's control, such as the complex eligibility rules, which are different for each tax credit and often involve reconciling complicated family relationships and residency arrangements.

The IRS is realigning resources internally to accelerate progress towards its strategic priorities. In FY 2024, the IRS will be reducing the number of correspondence audits focused specifically on certain refundable tax credits, such as the Earned Income Tax Credit, American Opportunity Tax Credit, Net Premium Tax Credit and Additional Child Tax Credit. Over-reliance on audits to resolve basic errors results in interest costs by delaying the issuance of refunds to taxpayers, and focusing on helping taxpayers submit accurate filings upfront will increase payment accuracy while reducing administrative burdens for the IRS and the taxpayer.

The IRS's strategy with respect to improper payments is to intervene early to ensure compliance with the law. In FY 2023, the IRS addressed improper payments through its compliance programs as well as through expansive outreach and education efforts to taxpayers and preparers. Programs that contribute to the IRS's strategy of identifying and reducing improper refund claims associated with various refundable tax credits include examination, math error notices, document matching, utilizing two- and ten-year bans, identity theft and fraud, criminal investigations and soft notices.

For the 2023 filing season, the IRS completed annual refresh of key identity theft models and modified existing filters to find potential identity theft tax returns and prevent the issuance of fraudulent tax refunds. The IRS holds tax returns identified by these filters during processing until the IRS can verify and confirm the taxpayer's identity to prevent the issuance of a fraudulent refund.

Taxpayer Rights

The IRS collection programs is consistent with the taxpayer's statutory right to collection due process. Treasury Decision 8979 affirms that suspending levy actions is not required after the issuance of a Letter 3172, Notice of Federal Tax Lien and Your Rights to a Hearing Under Internal Revenue Code Section 6320. The IRS Automated Levy Programs continue during the Internal Revenue Code 6320 Collection Due Process appeal period, but other types of levies generally are suspended. When a Collection Due Process hearing is requested and accepted by the IRS, automated levies are suspended during the administrative or judicial appeal. In FY 2023, the IRS implemented automated levy corrective programing to ensure taxpayers receive a new Collection Due Process notice after an additional assessment is made.

In FY 2024, the IRS will:

- Review guidance to address any inconsistencies in providing Collection Due Process lien notices to representatives.
- Conduct a study of Collection Due Process levy hearing requests in both Field and Campus Collection to determine the average time frame from when hearing requests are received and uploaded into the tracking system. The results of the tracking system will assess if time frames are reasonable or need to be adjusted.
- Issue a reminder to Field Collection managers addressing their responsibilities related to violations of taxpayer rights and reporting potential violations.

The IRS has a commitment to taxpayer rights and to reinforce existing policies requiring staff to accurately input and review necessary actions. The IRS will develop a quality review plan for the restart of the Correspondence Production Services pilot program and ensure notices are mailed. The IRS will monitor this action as a part of its internal management system of controls. In FY 2023, the IRS drafted supplemental training for processing staff to be delivered early in FY 2024.

The IRS remains committed to fair, equitable, and effective administration of the innocent spouse provisions. The IRS created the Centralized Innocent Spouse Operation to ensure innocent spouse claims are developed and resolved in a consistent manner. Quality reviews are performed regularly on Centralized Innocent Spouse Operation determinations. The accuracy of Centralized Innocent Spouse Operation determinations is supported by National Quality Review System data reflecting a FY 2022 overall accuracy of 95.83%. Internal Revenue Manual 25.15.3.9, Equitable Relief, provides employees detailed and specific equitable relief guidance and includes references to Internal Revenue Code Section 6015(f) and Revenue Procedure 2013-34. The IRS experienced challenges meeting the 240-day innocent spouse claim cycle time/closure goal. The COVID-19 pandemic and unanticipated attrition contributed to delays resolving innocent spouse inventory. Increasing staffing is a priority and has led to an innocent spouse inventory reduction and a decrease in cycle time. The IRS remains dedicated to meeting the 240-day innocent spouse closure goal.

SECTION D: GRANTS PROGRAMS

The IRS has three grant programs: Volunteer Income Tax Assistance, Low Income Taxpayer Clinics, and Tax Counseling for the Elderly. The summary table below shows the total number and balances of federal grants and cooperative agreement awards for which closeout has not yet occurred and the period of performance has elapsed by more than two years.

CATEGORY	2–3 Years	4–5 Years	More than 5 Years
Number of Grants/ Cooperative Agreements with Zero Dollar Balances	222	2	–
Number of Grants/ Cooperative Agreements with Undisbursed Balances	118	1	–
Total Amount of Undisbursed Balances	$ 2,208,001	$ 2,121	$ –

The IRS continues to make the closeout of awards a priority every fiscal year. The IRS did see an increase in the number of expired grant and cooperative agreements with a period of performance over two years from 243 in FY 2022 to 343 in FY 2023. Grant recipients have not correctly completed and submitted all progress reporting forms and financial forms in the Payment Management System which continues to be a challenge preventing closeout of awards. Other factors include competing priorities, employee turnover and challenges associated with integrating a new grants management system. In addition, the Low Income Taxpayer Clinic grant cap was doubled after awards were granted based on the original amounts. This was a time consuming process of soliciting requests and awarding additional funds. The program offices are reviewing closeout procedures and are dedicated to closing out the remaining accounts in FY 2024.

SECTION E: REFUNDABLE TAX CREDITS AND OTHER OUTLAYS AND SOCIAL SECURITY AND MEDICARE TAXES

Refundable Tax Credits and Other Outlays

To offer tax relief to targeted individuals and businesses, Congress has provided assistance in the form of tax credits. For most tax credits, the economic benefit is limited to the taxpayer's tax liability. Credits limited in this manner are termed non-refundable credits. Refundable credits, in contrast, are fully payable to the taxpayer, even if the credit exceeds the tax liability. These types of credits provide greater economic benefits because the taxpayer realizes the full amount of the credit, regardless of the underlying tax liability.

The following overview summarizes the refundable credits the IRS administers and pays. This overview describes refundable credits in existence for many years and those created more recently by Congress, including those enacted as part of the American Recovery and Reinvestment Act of 2009, Patient Protection and Affordable Care Act, Coronavirus Aid, Relief, and Economic Security Act, Families First Coronavirus Response Act, Coronavirus Response and Relief Supplemental Appropriations Act 2021, and American Rescue Plan Act of 2021.

Premium Tax Credit

Persons who purchase health insurance coverage through the Health Insurance Marketplace may be eligible for the Premium Tax Credit. In general, a person is eligible for the refundable tax credit if they (a) buy health insurance through the Marketplace, (b) are ineligible for coverage through an employer or government plan, (c) are within certain income limits, (d) do not file a Married Filing Separately tax return (unless they meet specific criteria that allow certain victims of domestic abuse to claim the Premium Tax Credit using the Married Filing Separately filing status) and (e) cannot be claimed as a dependent by another person.

Eligible individuals may elect to have some, or all of their estimated credit paid in advance directly to their insurance company to lower the amount they must pay out-of-pocket for their monthly premiums, or they may elect to receive all of the credit when they file their tax return. Each person who receives the benefit of a credit advance or who wishes to claim the credit must file an income tax return.

Earned Income Tax Credit

The Earned Income Tax Credit is a refundable tax credit for low to moderate income working individuals and families. Congress originally approved the tax credit legislation in 1975, in part, to offset the burden of social security taxes and to provide an incentive to work. To qualify, taxpayers must meet certain requirements and file a tax return, even if they did not have sufficient income to meet regular tax return filing requirements.

Sick & Paid Family Leave, Employee Retention Credit, and Consolidated Omnibus Budget Reconciliation Act

Sick and Paid Family Leave Credit was created by the Families First Coronavirus Response Act Section 7001–7004, Coronavirus Response and Relief Supplemental Appropriations Act 2021 and American Rescue Plan Act of 2021. The credit allows employers a payroll credit on the qualified sick leave and family leave wages paid in the calendar quarter, limited to ten sick days and $200 leave wages per day. In addition, the family leave wages paid is limited to $10,000. The credit is available to employers with fewer than 500 employees.

Sick and Paid Family Leave was extended by Coronavirus Response and Relief Supplemental Appropriations Act 2021 until March 31, 2021. The American Rescue Plan Act of 2021 tax credits extended to eligible employers sick and family leave pay from April 1, 2021 through September 30, 2021. The tax credit for paid sick leave wages is equal to the sick leave wages paid for COVID-19 related reasons for up to two weeks (80 hours), limited to $511 per day and $5,110 in the aggregate, at 100% of the employee's regular rate of pay. The tax credit for paid family leave wages is equal to the family leave wages paid for up to 12 weeks, limited to $200 per day and $12,000 in the aggregate, at two thirds of the employee's regular rate of pay.

The Employee Retention Credit was created by Coronavirus Aid, Relief, and Economic Security Act, Section 2301, Coronavirus Response and Relief Supplemental Appropriations Act 2021 and American Rescue Plan. The provision provides a refundable payroll tax credit for 50% of wages (up to $10,000) paid by employers to employees during the COVID-19 pandemic. The credit is available to employers whose (1) operations were fully or partially suspended due to a COVID-19 related shut-down order or (2) gross receipts declined by more than 50% when compared to the same quarter in the prior year. Coronavirus Response and Relief Supplemental Appropriations Act 2021 extended through the first two quarters of 2021 with the credit increased to 70% of wages limited to $10,000 paid in any calendar quarter and a maximum to $7,000 paid per quarter to any employee. Under the American Rescue Plan, it was extended through the fourth quarter of 2021, and the credit continues to be capped at $7,000 per quarter for wages paid. However, the American Rescue Plan adds a separate $50,000 maximum aggregate credit per quarter for Recovery Startup Business.

The American Rescue Plan, Section 9501, requires certain employers to offer free Consolidated Omnibus Budget Reconciliation Act coverage to qualified individuals between April 1, 2021 and September 30, 2021. Also, American Rescue Plan Act of 2021 provides tax credits to employers to offset the cost of the Consolidated Omnibus Budget Reconciliation Act coverage. The right to free Consolidated Omnibus Budget Reconciliation Act coverage extends to some individuals whose right to Consolidated Omnibus Budget Reconciliation Act coverage previously ended. The bill subsidizes 100% of Consolidated Omnibus Budget Reconciliation Act premiums for six months for individuals who lost employment or had reduced hours.

Additional Child Tax Credit

Prior to Tax Year 2021, the Additional Child Tax Credit was a special refundable credit for taxpayers who worked, had earnings below an established ceiling, and had a qualifying child. The Child Tax Credit was limited to the taxpayer's tax liability. Certain individuals who received less than the full amount of the Child Tax Credit may qualify for the Additional Child Tax Credit. Under this credit, subject to additional criteria, the taxpayer may receive the full credit amount even if such amount exceeds the taxpayer's tax liability.

Under the American Rescue Plan, the Child Tax Credit became fully refundable and increased from $2,000 to $3,000 for the 2021 tax year only. In the case of a qualifying child who has not attained the age of six as of the close of the calendar year, the credit increased to $3,600. In addition, the term qualifying child was broadened to include a qualifying child who had not attained the age of 18. The taxpayer has up to three years to claim this credit. In Tax Year 2022, the Additional Child Tax Credit is limited to $1,500 for each qualifying child.

Basic Health Program

Section 1331 of the Patient Protection and Affordable Care Act gives states the option of creating a health benefits coverage program for low-income residents who would otherwise be eligible to purchase coverage through the Health Insurance Marketplace. The Basic Health Program gives states the ability to provide more affordable coverage for these low-income residents and improve continuity of care for people whose income fluctuates above and below Medicaid and Children's Health Insurance Program levels. These subsidies, which are federal government outlays, are not tax credits and are not reported on the recipient's income tax return.

Interest on Tax Refunds

The IRS pays interest on refunds sent later than 45 days from the original filing deadline of the return. Additionally, interest is generally paid on amended returns that result in a refund. Returns that have been examined and show an overpayment also result in the payment of interest. The interest rate on overpayments is adjusted quarterly.

Corporate Alternative Minimum Tax Credit

Internal Revenue Code Section 168(k)(4) allows a taxpayer to elect to claim a refundable credit for certain unused research credits in lieu of the special depreciation allowance for eligible property.

American Opportunity Tax Credit

The American Opportunity Tax Credit replaces the Hope Credit. The credit was made permanent by the Protecting Americans from Tax Hikes Act of 2015. In comparison to the Hope Credit, this tax credit is available to a broader range of taxpayers, including many with higher incomes and those who owe no tax. Additionally, it adds required course materials to the list of qualifying expenses and allows the credit to be claimed for four post-secondary education years instead of two. Many of those eligible will qualify for the maximum annual credit of $2,500 per student.

Build America and Recovery Zone Bonds

Build America Bonds are a financing tool for state and local governments. The bonds, which allow a new direct federal payment subsidy, are taxable bonds issued by state and local governments to give them access to the conventional corporate debt markets. At the election of the state and local governments, Treasury will make a direct payment to the state or local governmental issuer in an amount equal to 35% of the interest payment on the Build America and Recovery Zone Bonds. This federal subsidy payment provides state and local governments lower net borrowing costs and allows them to reach more sources of borrowing than they can with more traditional tax-exempt or tax credit bonds.

Created by the American Recovery and Reinvestment Act of 2009, Recovery Zone Bonds are targeted to areas particularly affected by job losses and help local governments obtain financing for much needed economic development projects, such as public infrastructure development.

Recovery Rebate Credit

Coronavirus Aid, Relief, and Economic Security Act, Coronavirus Response and Relief Supplemental Appropriations Act 2021 and American Rescue Plan included provisions to help stimulate the economy through Recovery Rebate Credits in lieu of receiving Economic Impact Payments.

Pursuant to Coronavirus Aid, Relief, and Economic Security Act and Coronavirus Response and Relief Supplemental Appropriations Act 2021, the IRS used its permanent and indefinite authority to pay recovery rebates for individuals, referred to as Economic Impact Payments. These Acts authorized the IRS to allow for a tax credit (or rebate) to individuals against their 2020 income taxes.

State Innovation Waiver Program

Starting January 1, 2017, the states can apply for a waiver under Section 1332 of the Patient Protection and Affordable Care Act. The waivers will enable the states to implement innovative ways for providing access to quality health care to their residents. The coverage must be at least as comprehensive and affordable as would be provided absent the waiver. In addition, the states must extend coverage to a comparable number of residents as would be provided coverage absent a waiver and must not increase the federal deficit. Pass through funding is the foundation of the waivers, which will grant the states the equivalent of the forgone financial assistance they otherwise would receive absent the waiver, such as the Premium Tax Credit (Internal Revenue Code Section 36B) and the Small Business Health Insurance Tax Credit (Internal Revenue Code Section 45R).

Qualified School Construction Bonds

Congress created Qualified School Construction Bonds to help schools raise funds to renovate and repair buildings, invest in equipment and current technology, develop more challenging curricula and train teachers. Qualified School Construction Bonds proceeds may be used to acquire land provided that the facility to be constructed with the same issue of Qualified School Construction Bonds will be located on the land. The tax credit portion of these bonds depends on the issuance date of the bonds, the number of bonds outstanding and the time remaining until their redemption.

Child and Dependent Care Tax Credit

Child and Dependent Care Tax Credit was created by the American Rescue Plan. The credit, for 2021, expands the child and dependent care credit by making the credit refundable. Additionally, Child and Dependent Care Tax Credit increases the limit on qualifying expenses from $3,000 for one child and $6,000 for two or more children to $8,000 and $16,000, respectively. The Child and Dependent Care Tax Credit increased the maximum credit amount for one qualifying child from $3,000 to $8,000, solely for 2021; maximum credit amount for two or more qualifying dependents is increased from $6,000 to $16,000, solely for 2021. The refundable tax credit increases the amount for employer-provided dependent care assistance which can be excluded from gross income; tax years before and after 2021, $5,000 for all tax filing statuses other than married filing separately, $2,500 for married filing separately; Tax Year 2021, $10,500 for all tax filing statuses other than married filing separately, $5,250 for married filing separately.

Qualified Zone Academy Bonds

Congress created Qualified Zone Academy Bonds to rehabilitate or repair the public school facility in which the academy is established; to provide equipment for use at such academy; to develop course materials for education to be provided at such academy; and, to train teachers and other school personnel in such academy. Qualified Zone Academy Bonds may not be used for new construction. The tax credit portion of these bonds depends on the issuance date of the bonds, the number of bonds outstanding and the time remaining until their redemption.

New Clean Renewable Energy Bonds

New Clean Renewable Energy Bonds may be issued by public power utilities, electric cooperatives, government entities (states, cities, counties, territories, Indian tribal governments) and certain lenders to finance renewable energy projects. New Clean Renewable Energy Bonds were originally structured as tax credit bonds. The Hiring Incentives to Restore Employment Act changed New Clean Renewable Energy Bonds from tax credit bonds to direct subsidy bonds similar to Build America Bonds. The issuer pays the investor a taxable coupon and receives a rebate from Treasury.

Qualified Energy Conservation Bonds

Qualified Energy Conservation Bonds may be issued by state, local and tribal governments to finance qualified energy conservation projects. A minimum of 70% of a state's allocation must be used for governmental purposes and the remainder may be used to finance private activity projects. Qualified Energy Conservation Bonds were originally structured as tax credit bonds. However, the March 2010 Hiring Incentives to Restore Employment Act (House Resolution 2847 (Section 301)) changed Qualified Energy Conservation Bonds from tax credit bonds to direct subsidy bonds similar to Build America Bonds. The Qualified Energy Conservation Bonds issuer pays the investor a taxable coupon and receives a rebate from Treasury.

Health Coverage Tax Credit

The federal Health Coverage Tax Credit was created by the Trade Act of 2002 to help certain displaced workers and certain retirees pay for health insurance. Those eligible to claim the credit fall into one of two categories: 1) trade-impacted workers who have lost their jobs because of increased imports or a shift in production to another country and are classified as Trade Adjustment Assistance or Alternative Trade Adjustment Assistance and 2) individuals whose pensions are being paid by the Pension Benefit Guaranty Corporation, are at least 55 years of age and not entitled to Medicare.

The Health Coverage Tax Credit, authorized in the Trade Adjustment Assistance Reform Act of 2002, first became effective for coverage months beginning after August 6, 2002. The tax credit later expired for coverage months after 2013. The Trade Adjustment Assistance Reauthorization Act of 2015 restored the Health Coverage Tax Credit retroactively for 2014 coverage, erasing the hiatus in its duration and extended it for coverage through the end of 2019. On December 20, 2019, Congress passed House Resolution 1865, Further Consolidated Appropriations Act of 2020, which included an extension of the Health Coverage Tax Credit program through December 31, 2020.

Health Coverage Tax Credit legislation was extended again, through December 31, 2021, under the Taxpayer Certainty and Disaster Tax Relief Act of 2020, Section 134.

Eligible participants were responsible for paying 27.5% of their insurance premium while the IRS was responsible for paying the remaining 72.5%.

The Health Coverage Tax Credit monthly program was only available to individuals who were determined eligible by the Department of Labor or Pension Benefit Guaranty Corporation, enrolled in qualified health coverage and had an approved Health Coverage Tax Credit monthly vendor. These vendors were Health Plan Administrators or Third-Party Administrators who were willing to provide direct deposit information to accept health insurance premiums on their member's behalf.

Cost Sharing Reduction

In addition to the Premium Tax Credit, individuals who purchased a qualified health care plan through the Marketplace could qualify for Cost Sharing Reduction based on their family income. This lowered the amount they had to pay for out-of-pocket costs such as deductibles, coinsurance and copayments. In FY 2018, based upon an attorney general legal opinion, Department of Health and Human Services discontinued the Cost Sharing Reduction Program. The IRS activity only reflects the recovery amounts from insurance companies Centers for Medicare and Medicaid Services has collected.

Payments of refundable tax credits in excess of tax liabilities and other outlays in FY 2023 and FY 2022 are shown below.

(In Millions)		2023		2022
Premium Tax Credit*	$	70,309	$	67,777
Earned Income Tax Credit		55,468		64,282
Sick & Paid Family Leave, Employee Retention Credit, and Consolidated Omnibus Budget Reconciliation Act		51,522		29,470
Additional Child Tax Credit		28,768		131,435
Basic Health Program		10,422		10,154
Interest On Tax Refunds		10,229		3,540
Corporate Alternative Minimum Tax Credit		3,097		2,727
American Opportunity Tax Credit		2,612		3,797
Build America and Recovery Zone Bonds		2,470		2,251
Recovery Rebate Credit		1,965		13,109
State Innovation Waiver Program		1,876		1,582
Qualified School Construction Bonds		533		600
Child and Dependent Care Tax Credit		228		7,430
Qualified Zone Academy Bonds		115		38
New Clean Renewable Energy Bonds		38		40
Qualified Energy Conservation Bonds		30		34
Health Coverage Tax Credit		11		22
Cost Sharing Reduction**		(8)		(48)
Refundable Tax Credits and Other Outlays	**$**	**239,685**	**$**	**338,240**

* Includes advanced amounts for the Premium Tax Credit. Beginning in FY 2015, preliminary outlay amounts are adjusted upward or downward based on information from tax returns. In FY 2023 and FY 2022, total Premium Tax Credit advances disbursed by the Centers for Medicare and Medicaid Services totaled $85,954 and $75,562, respectively. The FY 2023 and FY 2022 advanced amounts were adjusted downward based on tax return information.

** Negative amount represents funds the Centers for Medicare and Medicaid Services recovered from insurance companies.

Social Security and Medicare Taxes

The Federal Insurance Contributions Act provides for a federal system of old-age, survivors, disability and hospital insurance benefits. Payments to trust funds established for these programs are financed by payroll taxes on employee wages and tips, employers' matching payments and a tax on self-employment income.

A portion of Federal Insurance Contributions Act benefits involves old-age, survivors and disability payments. These benefits are funded by the social security tax, which is 12.4% for Calendar Year 2023. Employees currently pay 6.2% on wages and tips up to $160,200 and an employer matching amount of 6.2%. In Calendar Year 2022, the rate was 12.4%, but on wages and tips up to $147,000. These benefits are also funded by a self-employment tax of 12.4% on self-employment income up to $160,200 and $147,000, for Calendar Years 2023 and 2022, respectively. Remaining benefits under Federal Insurance Contributions Act pertain to hospital benefits (referred to as Medicare) and are funded by a separate 1.45% tax on all wages and tips and the employer matching contribution of 1.45%, for a total of 2.9%. Self-employed individuals pay a Medicare tax of 2.9% on all self-employment income. Beginning in 2013, an additional Medicare tax of 0.9% was collected on earned individual income of more than $200,000 and earned income of more than $250,000 for married couples filing jointly. Social security taxes collected by the IRS were approximately $1,201 billion and $1,076 billion in FY 2023 and FY 2022, respectively. Medicare taxes collected by the IRS were approximately $358 billion and $341 billion in FY 2023 and FY 2022, respectively. Social security taxes and Medicare taxes are included in the Individual income, Federal Insurance Contributions Act/Self-Employment Contributions Act and other financial statement line on the Statement of Custodial Activity. Additionally, the Coronavirus Aid, Relief, and Economic Security Act deferred the employer's share of the social security portion of the Federal Insurance Contributions Act (refer to Note 1.E. Federal Taxes Receivable, Net and Note 5. Federal Taxes Receivable, Net).

APPENDICES

APPENDIX A: GLOSSARY OF ACRONYMS

Acronym usage is minimized to the greatest extent possible in this publication. Acronyms are generally not used in financial statements or tables. Commonly understood acronyms and those used to a great extent throughout the document are defined here for the reader's convenience.

AGI	Adjusted Gross Income
CFO	Chief Financial Officer
COVID-19	Coronavirus Disease 19
FY	Fiscal Year
IRA	Inflation Reduction Act of 2022
IRS	Internal Revenue Service
SOP	Internal Revenue Service Inflation Reduction Act Strategic Operating Plan for FY 2023–2031
TIGTA	Treasury Inspector General for Tax Administration
Treasury	Department of the Treasury
U.S.	United States

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APPENDIX C: ACKNOWLEDGEMENTS

The IRS appreciates the contributions of all staff who compiled and produced the FY 2023 Agency Financial Report, which demonstrates the IRS's dedication to delivering on our mission.

This report could not have come together without the work of everyone's contributions. Year-round efforts to compile the IRS's financial statements and accompanying notes, implement and monitor internal controls, address improper payments and manage the financial statement audit demonstrates the IRS as a responsible steward of public funds. The CFO's office partners with representatives in almost every IRS function to develop the Agency Financial Report. The IRS offers special thanks to Media and Publications for their contributions in the design and production of this report.

TAXPAYER BILL OF RIGHTS

***The Right** to Be Informed*

***The Right** to Quality Service*

***The Right** to Pay No More than the Correct Amount of Tax*

***The Right** to Challenge the IRS's Position and Be Heard*

***The Right** to Appeal an IRS Decision in an Independent Forum*

***The Right** to Finality*

***The Right** to Privacy*

***The Right** to Confidentiality*

***The Right** to Retain Representation*

***The Right** to a Fair and Just Tax System*

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