# Internal Revenue Service Inflation Reduction Act Strategic Operating Plan

## FY2023 - 2031

Volume 5 of 5

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Initiative 5.8

# Build a culture of service and continuous improvement

**The IRS will build a customer-centric culture by empowering employees and leaders to put the customer first and rewarding outstanding service**

## Where we are heading

IRS employees work diligently to meet customer needs and care deeply about customer service, but they do not always have the right tools, support, authority or incentives to deliver what customers need. In addition to providing the necessary tools, we will instill a culture of customer-centricity where employees can meet taxpayers’ needs, often in a single interaction.

We will foster a culture that values the role of each employee through inclusion and empowerment. We will help employees see their roles in the transformation effort and the IRS mission and vision, and we will engage them in taking ownership of those roles. Our culture shift will start with creating space and support for change with thoughtful change-management strategies and the adoption of new governance models and organizational structures. We will delegate more decisions downstream and encourage collaboration that transcends organizational boundaries and barriers to provide excellent customer service.

We will drive change with performance management practices that give leaders new incentives and hold them accountable for supporting our culture shift. Leaders will explicitly acknowledge the state of the organization— including its challenges—and communicate a compelling vision for employees. Promoting diversity in our workforce and fostering an inclusive environment for all will remain critical components of this vision. Our tens of thousands of employees who provide service, compliance, business support and leadership will both drive and benefit from our culture-shifting efforts. They will share in the benefits of increased competitiveness in the labor market, stronger customer satisfaction and better business performance.

## What success would look like

Success for this initiative would include adopting and implementing the right customer-service standards, governance, organizational structure, risk policies, decision rights, leadership performance commitments and process- improvement policies to support cultural change. As the culture shifts, trust in leadership will increase, driving a corresponding increase in employee satisfaction and feelings of empowerment. Taxpayer satisfaction regarding issue resolution would increase. Data gathered over time as cultural baselines are set and monitored will show shifts in culture toward IRS goals. Processes throughout the IRS will improve, reducing taxpayers’ and employees’ burdens and yielding gains in efficiency and effectiveness.

## Key projects

1. **Assess and continuously monitor culture, and act on employees’ feedback.** Benchmark IRS culture against public- and private-sector standards, and use pulse and entrance and exit survey responses, FEVS results, and insights from NTEU and employee resource groups to evaluate the ongoing health of the organization. Design specific, focused interventions to proactively address challenges and influence cultural norms.
2. **Support leaders and hold leaders accountable for modeling a new culture.** Coach leaders to demonstrate

preferred behaviors and communication, encourage behavior shifts through performance evaluation, and hold leaders accountable through performance commitments focused on team- building, leveraging diversity, developing others, and conflict management. Model inclusion within the organization with leaders by amplifying and taking the lead on EDIA initiatives.

3. **Hold the organization accountable for creating the customer-centric, people-first culture to which it aspires.** Select culture "champions" throughout IRS leadership to steer the organization to an enterprise-wide culture designed to put customers first, communicate a compelling change story and monitor measures of culture and leadership.

4. **Adopt agency-wide customer service standards to help employees**

**work together toward excellent service.** Incorporate customer-service standards to become a simpler, real-time, accessible, personalized and trusted service. Incorporate these standards across the IRS in organizational performance metrics, employee performance goals, decision-making processes, business processes, policy design, governance and other areas.

5. **Develop new policies and procedures that allow employees to improve processes to support empowerment and better ways of working.** Evaluate processes and delegations of authority, encourage employees to ask questions, challenge existing processes, and suggest, test, and enact process changes that improve the way we work to support our culture of service.

6. **Evaluate and communicate appropriate risk tolerances and risk appetites to support cultural change.** Empowering the workforce to serve customers, make decisions at lower levels and change processes to facilitate better ways of working must be enabled by appropriate risk tolerances and risk appetites. The IRS will adopt and enhance policies that tolerate appropriate risks to support culture change. This may mean, for example, focusing more on consistency of outcome rather than consistency of process, or shifting from minimizing agency risk to minimizing taxpayer risk.

## Milestones

1

### FY 2023

Cultural baseline assessment completed and focused interventions planned

2

**FY 2023**

Change management practices built into all initiatives and project plans and incorporated into measures of success as appropriate

3

**FY 2023**

Initial IRS policies revised and communicated to employees regarding risk tolerances and risk appetites for practices and behaviors that enable and support cultural change

4

**FY 2023**

Culture champions appointed to lead ongoing projects throughout the IRS to achieve, communicate and monitor the IRS's cultural aims as part of the Transformation and Strategy Office

5

**FY 2024**

Leadership commitments developed to incentivize and hold leaders accountable for their roles in driving cultural change

6

**FY 2024**

Customer service standards created, implemented and measured IRS-wide

7

**FY 2024**

Programs and policies developed and implemented to support and monitor cultural health and the shift toward a culture of service

8

**FY 2024–2027**

Ongoing monitoring of cultural shift

## Key dependencies

### 5.8 depends on projects in initiatives:

1.1-1.3, 1.11, 1.12, 4.6, 4.7, 5.2, 5.5

### Initiatives dependent on projects in 5.8:

1.9, 3.1-3.7, 5.3, 5.7

# Initiative and dependencies spread

| | Initiative | Initiative depends on projects in initiatives: | Initiatives dependent on projects in this initiative: |
|---|---|---|---|
| 1.1 | Improve availability and accessibility of customer service | 1.3, 1.4, 1.12, 4.6, 4.7, 5.5-5.7 | 1.9, 2.6, 2.7, 5.8 |
| 1.2 | Expand digital services and digitalization | 4.1, 4.3-4.5, 5.5 | 1.4, 1.9, 1.11, 2.2, 2.7 4.1, 4.5, 5.3, 5.8 |
| 1.3 | Ensure employees have the right tools | 4.4-4.7, 5.5, 5.7, 5.8 | 1.1, 1.4-1.6, 1.8, 1.10-1.12, 2.1-2.4, 2.7, 3.1-3.6, 5.3, 5.8 |
| 1.4 | Improve self-service options | 1.2, 1.3, 1.12, 4.1, 4.4-4.6, 5.5 | 1.1, 1.6, 1.8, 1.10-1.12, 2.3, 2.7 |
| 1.5 | Explore direct file | 1.3, 4.4, 4.5, 4.7, 5.7 | None |
| 1.6 | Enable taxpayers to access their data | 1.3, 1.4, 4.1, 4.4-4.6 | 2.6 |
| 1.7 | Provide earlier legal certainty | None | None |
| 1.8 | Deliver proactive alerts | 1.3, 1.4, 4.1, 4.4-4.6 | 1.9 |
| 1.9 | Help taxpayers understand and claim appropriate credits and deductions | 1.1, 1.2, 1.8, 2.1, 2.6, 4.5-4.8, 5.1, 5.6-5.8 | None |
| 1.10 | Make payments easy | 1.3, 1.4, 4.4-4.6 | 1.11, 2.7 |
| 1.11 | Build status tracking tools for taxpayers | 1.2-1.4, 1.10, 4.1, 4.2, 4.4-4.7 | 2.6, 5.8 |
| 1.12 | Streamline multichannel customer assistance | 1.3, 1.4, 4.4-4.6, 5.5 | 1.1, 1.4, 2.7, 5.6, 5.8 |
| 2.1 | Identify issues during filing | 1.3, 4.1, 4.4-4.6, 5.7 | 1.9, 2.5, 2.6 |
| 2.2 | Deliver early and appropriate treatments for issues | 1.2, 1.3, 2.5, 3.1, 4.5-4.7, 5.5-5.7 | None |
| 2.3 | Develop taxpayer-centric notices | 1.3, 1.4, 4.2, 4.4-4.6 | 2.5, 2.6 |
| 2.4 | Expand tax certainty and issue resolution programs | 1.3, 4.5, 5.1, 5.4, 5.6, 5.7 | None |
| 2.5 | Offer proactive debt resolutions | 2.1, 2.3, 2.7, 3.1, 4.6 | 2.2, 2.7 |
| 2.6 | Expand engagement with delinquent non-filers | 1.1, 1.6, 1.11, 2.1, 2.3, 4.5, 4.6 | 1.9 |
| 2.7 | Use improved data and analytics to tailor timely collections contacts | 1.1-1.4, 1.10, 1.12, 2.5, 3.1, 4.5-4.7, 5.1, 5.5 | 2.5 |
| 3.1 | Employ centralized, analytics-driven, risk-based methods to aid in the selection of compliance cases | 1.3, 3.1, 3.7, 4.5-4.7, 5.1, 5.4-5.8 | None |
| 3.2 | Expand enforcement for large corporations | 1.3, 3.1, 3.7, 4.5-4.7, 5.1, 5.4-5.8 | None |
| 3.3 | Expand enforcement for large partnerships | 1.3, 3.1, 3.7, 4.5-4.7, 5.1, 5.4-5.8 | None |

| | Initiative | Initiative depends on projects in initiatives: | Initiatives dependent on projects in this initiative: |
|---|---|---|---|
| 3.4 | Expand enforcement for high-income and high-wealth individuals | 1.3, 3.1, 3.7, 4.5-4.7, 5.1, 5.4-5.8 | None |
| 3.5 | Expand enforcement in areas where audit coverage has declined to levels that erode voluntary compliance | 1.3, 3.1, 3.7, 4.5-4.7, 5.1, 5.4-5.8 | None |
| 3.6 | Pursue appropriate enforcement for complex, high-risk, and emerging issues | 1.3, 3.1, 3.7, 4.5-4.7, 5.1, 5.4-5.8 | None |
| 3.7 | Promote fairness in enforcement activities | 3.1, 4.5-4.7, 5.4-5.8 | 3.1-3.6 |
| 4.1 | Transform core account data and processing | 1.2, 4.3 | 1.2, 1.4, 1.6, 1.8, 1.11, 2.1, 4.5-4.7 |
| 4.2 | Accelerate technology delivery | None | 1.11, 2.3, 4.6, 4.7, 5.1 |
| 4.3 | Improve technology operations | None | 1.2, 4.1, 4.4-4.6, 5.1, 5.4, 5.6 |
| 4.4 | Continue to ensure data security | 4.3 | 1.2-1.6, 1.8, 1.10-1.12, 2.1, 2.3, 4.5 |
| 4.5 | Maximize data utility | 1.2, 4.1, 4.3, 4.4 | 1.1-1.6, 1.8-1.12, 2.1-2.4, 2.6, 2.7, 3.1-3.7, 4.6-4.8, 5.6 |
| 4.6 | Apply enhanced analytics capabilities to improve tax administration | 4.1-4.3, 4.5 | 1.1, 1.3, 1.4, 1.6, 1.8, 1.9-1.12, 2.1-2.3, 2.5-2.7, 3.1-3.7, 5.8 |
| 4.7 | Strategically use data to improve tax administration | 4.1, 4.2, 4.5 | 1.1, 1.3, 1.5, 1.9, 1.11, 2.2, 2.7, 3.1-3.7, 5.6, 5.8 |
| 4.8 | Partner to expand insights | 4.5 | 1.9 |
| 5.1 | Redesign hiring and onboarding | 4.2, 4.3 | 1.9, 2.4, 2.7, 3.2-3.6, 5.2, 5.4 |
| 5.2 | Attract a talented and diverse workforce | 5.1, 5.3, 5.4, 5.6, 5.7 | 5.8 |
| 5.3 | Improve the employee experience | 1.2, 1.3, 5.7, 5.8 | 5.2, 5.4 |
| 5.4 | Help employees grow and develop | 4.3, 5.1, 5.3, 5.5 | 2.4, 3.2-3.7, 5.2, 5.5 |
| 5.5 | Develop a data-savvy workforce | 5.4 | 1.1, 1.3, 1.4, 1.12, 2.2, 2.7, 3.1-3.7, 5.4, 5.6-5.8 |
| 5.6 | Elevate workforce planning strategy | 1.12, 4.3, 4.5, 4.7, 5.5 | 1.1, 1.9, 2.2, 2.4, 3.2-3.7, 5.2 |
| 5.7 | Improve organizational structures and governance | 1.3, 5.5, 5.8 | 1.1, 1.3, 1.5, 1.9, 2.1, 2.2, 2.4, 3.1-3.7, 5.2, 5.3 |
| 5.8 | Build a culture of service and continuous improvement | 1.1-1.3, 1.11, 1.12, 4.6, 4.7, 5.2, 5.5 | 1.9, 3.1-3.7, 5.3, 5.7 |

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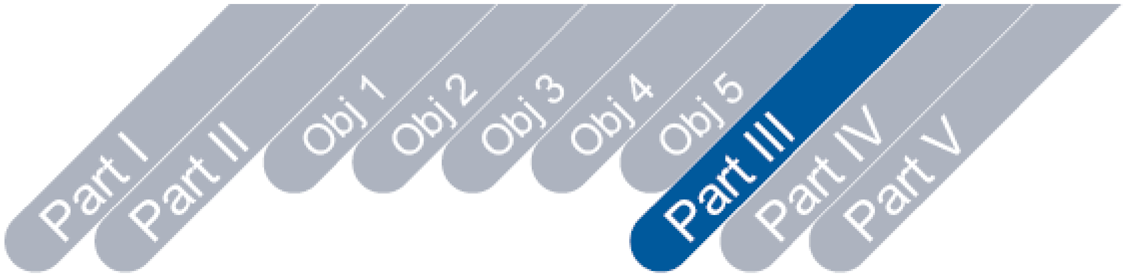


# Part III: Managing the transformation

## Implementation and accountability

The IRS will make this vision a reality and deliver on the commitments in this Strategic Operating Plan by collaborating across the organization and engaging in disciplined and transparent accountability processes. Implementation will be coordinated by a newly formed Transformation and Strategy Office that will support IRS leadership by:

- Providing and maintaining a clear and efficient governance and accountability structure

- Facilitating real-time, transparent enterprise prioritization, performance monitoring and risk management
- Leading organization-wide capability-building and change management
- Supporting detailed execution-planning and project management
- Enhancing the IRS's culture and operations by implementing initiatives 5.7 and 5.8

## How we will implement and track progress

The Transformation and Strategy Office will be led by a Chief Transformation and Strategy Officer (CTSO) who will report directly to the IRS Commissioner. The CTSO will coordinate an advisory committee to facilitate informed decision-making by the Commissioner on issues related to strategic alignment and problem-solving.

The office will be responsible for monitoring and reporting progress, identifying and solving implementation challenges, enabling well- informed and fact-based decision-making, and managing enterprise-wide change efforts.

The CTSO, in consultation with the Commissioner and advisory committee, will identify and empower owners for each initiative. Initiative owners will identify and empower project managers within their initiatives to deliver on executable projects. The Transformation and Strategy Office will provide support to initiative and project owners on project management, planning, implementation, integration with other related initiatives and change management.

## How we will manage performance and risk

The Transformation and Strategy Office will be accountable for coordinating efforts and driving progress across all initiatives, setting key performance indicators and facilitating problem-solving, including risk identification and response. The governance process established and managed by the office will be the main conduit for disseminating, discussing and making decisions based on performance and risk information.

The Transformation and Strategy Office will coordinate an update of this plan annually based on lessons learned, progress made and a changing environment. This will, in turn, provide renewed and current guidance on strategic priorities to IRS leaders and employees. Progress updates will be provided at least annually to external stakeholders—including the Office of Management and Budget, Congress and the public—through existing reporting and review processes like the Annual Performance Plan and Report. The IRS welcomes the opportunity to discuss progress more regularly with Congress and other stakeholders.

## How change management and stakeholder engagement will be delivered

We acknowledge that the IRS will require significant cultural change to execute this Strategic Operating Plan and successfully implement the initiatives and projects to create a more customer- centric organization. The Transformation and Strategy Office will design processes and structures to drive and reinforce the behaviors and mindsets needed to support this culture change. The Transformation and Strategy Office will also help IRS leaders throughout the organization become more active and visible change champions as they communicate a compelling vision and help colleagues understand and support transformational change.

Initiative leaders will incorporate change management practices to drive change within their portfolio of projects and ensure that projects are implemented in a way consistent with the culture we want to create.

To begin this work, we will first identify the cultural shifts we want to make and establish a baseline of our current culture and the organization’s readiness for change. We will then monitor changes to gauge progress as we execute change management strategies. We will communicate with employees and gather feedback regularly as we seek to empower all leaders and employees to contribute to achieving our vision and reaching the desired future state.

We recognize that implementation of many improvements contemplated in this Plan will require formal negotiation with NTEU. The Transformation and Strategy Office will engage with and gather input and feedback on its transformation efforts from NTEU as a representative of employees, and from internal and external stakeholders on issues related to our transformation plans and progress. We intend to involve employees and external stakeholders in all stages of this work.

# High-level roadmap

Achieving our transformation vision, objectives, and outcomes will require sustained efforts. The following highlights initial target milestones over the next five years. Additional milestones for each initiative are included in Part II. This roadmap does not reflect all we will accomplish but highlights some of our major goals. As our detailed planning and initial implementation proceeds, we will adjust the timing and sequencing of these milestones as well as identify additional milestones.

## FY 2023-FY 2024

**X.X**: Initiative number

**CE**: Climate and Energy

**IA**: Immediate Actions

1.1 Expanded hours available at the TACs for appointments and on-demand service with staffing to meet expected demand

1.2 Certain documents, paper correspondence and non-tax forms digitalized and enhanced scanning of key tax forms

1.4 Enhancements to individual and online Tax Pro Accounts implemented and Business Online Accounts launched

1.6 Business transcripts available online and in easy-to-read format through Business Online Account

1.6 Current transcripts updated to be user-friendly and available in Spanish and other languages

**1.11** Improved taxpayer tracking tools in online accounts for filing season 2024

**CE** Information page about clean vehicle credits launched and detailed FAQs for tax credits for residential clean energy and energy efficiency improvements made available

**CE** Tax credit transfer process to reduce price of clean vehicle at a dealership established

**CE** Digital intake processes to facilitate claiming tax credits by state and local governments, tribal governments, and nonprofit organizations developed

**2.1** Taxpayers and preparers notified for mismatches against simple types of income (W2s and 1099 NECs) and processing errors

**2.4** Outreach and campaigns expanded to increase awareness of tax certainty programs and their benefits to taxpayers with complex issues Pilot program for new non-filer interventions launched

**IA** 5,000 additional customer service representatives onboarded and callback options expanded

**3.1** Centralized compliance planning function established to identify potential high-risk compliance cases

**3.1** Data and research approach implemented to inform and continuously refine compliance coverage levels needed to promote voluntary compliance

**3.2-3.5** First wave of specialists hired and onboarded to work toward increasing compliance coverage rates

**4.1** Modernized Information Returns intake platform deployed to provide a free online portal for businesses to file Form 1099-series information returns

**4.1** IRS systems improved to streamline access to individual taxpayer data for service and compliance purposes via secure, standardized application programing interfaces (APIs)

**4.2** Integrated business and IT product-and-platform operating model implemented to accelerate technology delivery

**4.7** New methodologies formulated to enhance and expand the estimation of tax gaps

**5.1** Hiring processes redesigned to improve applicant experience and talent matching implemented

**5.2** Unified, enterprise-wide recruiting strategy developed

**5.2** Revamped IRS career page goes live online

**5.2** Pilot of “Lifting Communities Up” talent hub successfully launched

**5.4** IRS University launched enterprise-wide

**5.4** IRS-wide leadership, mentorship and coaching programs established

**5.8** Customer service standards created, implemented and measured IRS-wide

## FY 2025-FY 2028

**1.2** High-priority forms, returns and certifications available for electronic filing and digitalization

**1.2** High-priority end-to-end digital processes implemented

**1.2** Additional forms, returns and certifications available for electronic filing and digitalization based on prioritization plan

**1.6** Online accounts upgraded to incorporate user-friendly views of account and return information (e.g., notices, letters, account history, payment history, balances due, etc.)

**1.9** New contacts launched for lawful non-filers who may be eligible for a credit or deduction to ensure they are aware of their eligibility and have the tools and assistance necessary to claim appropriate credits or deductions

**1.10** Integrated payment capability by card and digital wallet available

**1.11** Real-time processing estimates launched with data analytics to provide more accurate status messaging

**1.11** Audit status and other process-tracking launched and enhanced based on prioritization plan

**2.1** Taxpayers and preparers notified of potential filing issues including incentives related to children and other dependents and other issues to be determined

**2.3** Capabilities launched for taxpayers and tax professionals to receive and respond to additional notices electronically

**2.6** Capability launched for taxpayer access to a broader range of self-service debt repayment tools through online accounts

**3.1** Taxpayer compliance cases selected by centralized compliance planning function using new analytics systems and refined risk-based case selection and routing

**3.2-3.6** Workforce hired and onboarded to achieve compliance coverage rates

**4.1** Business master file retired with systems and data migrated to modern solution

**4.1** Individual master file retired with systems and data migrated to modern solution

**4.5** Near-real-time taxpayer service data made available to IRS data scientists and analysts via modern analytical tools

**4.6** Data delivered to support a "Taxpayer 360°" holistic view based on business need and the prioritization established during the development of taxpayer service tools

**5.1** Hiring status tracker developed to increase transparency in recruiting

**5.2** "Lifting Communities Up" talent hubs established in additional disadvantaged communities

**5.6** Legacy systems for strategic workforce planning joined into one technology platform for streamlined management of employee data and use of advanced workforce analytics

**5.7** Priority redesigned organizational structures established

# Estimated allocation of funds

The IRA provided the IRS with $79.4 billion in funding spread across four appropriations accounts. The following table compares the expected allocation of this funding to the transformation objectives included in our Plan. We expect that over time the mix of staffing and our business processes will change as we reap the benefits of our transformative technology investments. For this reason and several others, we note that allocations of funding against transformation objectives are preliminary; we will monitor and report specific IRA costs at the appropriation and program-activity levels in accordance with our current financial-reporting practices. As the transformation objectives are accomplished and efficiencies are gained from existing operations, actual costs will be reported in our annual budget submission and in an annual IRA update. See below for more detail.

With the IRA vision, objectives, and initiatives as context, we conducted cost analyses to understand—based on today's best estimates— whether the long-term funding provided under the IRA would be sufficient to achieve the transformation required to deliver the drastically improved tax administration described in this plan. We expect that these estimates will need to be adjusted significantly over the next decade. In conducting the financial analysis to support this plan, we recognized that planning over a ten-year horizon involves considerable uncertainty stemming from a rapidly changing labor market, impact of productivity gains from overdue technological investments, and business process improvements. The ultimate cost of the initiatives outlined in this plan will be refined, and the specific estimates of the funding required to achieve our vision may change over time.

Despite this uncertainty over the exact impact of future productivity enhancements on the workforce or modernized operations, we have included our full aspirations in this plan. To the extent possible, we will work over the coming months and years to prioritize the funding available to achieve the objectives articulated in this plan. We will refine assumptions to update cost and the associated delivery schedule over time as efficiencies are realized and new information becomes available, including:

- The scope, scale and pace of delivery of new capabilities across hundreds of projects associated with each transformation objective
- Synergies across related transformation initiatives
- Demands on steady-state operations
- Enacted discretionary budget allocations

We may need to adjust timelines and/or the breadth and depth of delivery for specific transformational initiatives—most notably in the areas of taxpayer service and technology, which, as described below, will require additional discretionary appropriations beyond what the IRA provided—as we learn more, but we will remain committed to the vision and outcomes articulated in this plan. The following table displays funds that we plan to spend by transformation objective and by appropriation, limited to what we have been appropriated—not what we estimate could be needed to fully transform the IRS as described in this plan based on today's estimates.

The strategic operating plan for the IRA was built under the assumption that IRA funds will support transformation efforts but would not have to be used to support current "steady-state" IRS operations. To cover our steady state, annual discretionary appropriations must be fully maintained at the FY 2022 level and include growth for inflation. Any reduction in annual discretionary funds—including not providing for inflationary increases to maintain current levels—will require the use of IRA funding to cover steady-state operations, jeopardizing the service, technological and compliance initiatives in this plan. Diverting IRA funding to cover base discretionary enforcement needs would reduce revenue collection and significantly decrease the net deficit impact of the IRA.

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**IRA allocations financial summary – FY 2022-FY 2031 ($ billion)**

| | Appropriations account ($ billion), rounded | | | | | |
|---|---|---|---|---|---|---|
| **Transformation objective** | **Taxpayer services** | **Enforcement** | **Operations support** | **Business systems modernization** | **Clean energy** | **Total proposed investment** |
| **1.** Dramatically improve services to help taxpayers meet their obligations and receive the tax incentives for which they are eligible | 1.5 | 0.1 | 2.1 | 0.7 | 0.0 | **4.3** |
| **2.** Quickly resolve taxpayer issues when they arise | 0.1 | 1.8 | 0.7 | 0.6 | 0.0 | **3.2** |
| **3.** Focus expanded enforcement on taxpayers with complex tax filings and high-dollar noncompliance to address the tax gap | 0.2 | 41.7 | 5.5 | 0.0 | 0.0 | **47.4** |
| **4.** Deliver cutting-edge technology, data, and analytics to operate more effectively | 0.0 | 0.1 | 9.2 | 3.1 | 0.0 | **12.4** |
| **5.** Attract, retain, and empower a highly skilled, diverse workforce and develop a culture that is better equipped to deliver results for taxpayers | 0.2 | 0.7 | 6.9 | 0.4 | 0.0 | **8.2** |
| Energy security | 1.2 | 1.3 | 0.9 | 0.0 | 0.5 | **3.9** |
| **Total IRA allocations** | **3.2** | **45.6** | **25.3** | **4.8** | **0.5** | **79.4** |

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Based on what we know today, we believe that we will need an ongoing investment on top of the allocated IRA funding to deliver all of the transformation objectives outlined in this Plan in taxpayer service improvements and information technology modernization. We will have a more significant shortfall in our ability to deliver transformational change if annually appropriated levels are limited to the enacted discretionary IRS budget of FY 2022 and not adjusted for inflation.

In the Taxpayer Service account, the IRS need for resources to address taxpayer inquiries has grown steadily for the last decade. Several factors drove these increases including legislative expansions of IRS authority and new tax law provisions. Our estimates suggest that if the appropriated funding levels for FY 2023 are maintained (including future year inflationary adjustments), and our FY 2024 Program Increase is not funded, we will need to use

100 percent of IRA Taxpayer Service funds to provide acceptable levels of walk-in and phone assistance, and these funds would be fully exhausted in less than four years, with limited ability to deliver on other transformation projects that also require Taxpayer Service funding. This estimate is based on the investment required to restore the staffing of customer service representatives to acceptable levels, along with the new investments needed to maximize the impact of the energy security provisions included in the IRA (which was not fully funded separately in the legislation).

## Funding for the IRA Strategic Operating Plan

### IRA appropriations to fund

**Delivery of IRA transformation objectives**

Examples (non-exhaustive):

- Accelerated and expanded technology modernization
- Payroll expenses associated with above-base hires

### Discretionary budgets to fund

**Maintenance of current IRA capabilities**

Examples (non-exhaustive):

- Operations and maintenance for existing technology platforms
- Payroll expenses associated with base staffing levels
- Pre-IRA pace of technology modernization

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A second issue exists in the funding for information technology in both the Operations Support account and the Business Systems Modernization (BSM) account. The zeroing out of BSM in the FY 2023 Consolidated Appropriations Act, 2023, creates an additional significant challenge in that we will not be able to meet the IT modernization projects described in the Plan without restoration of that funding as requested in the FY 2024 President’s Budget. The funding included in the Consolidated Appropriations Act, 2023 for operations support is insufficient to cover normal operations costs, which will require us to supplement our current funding needs with IRA funding.

Funding in the enforcement account will be used consistent with the Treasury directive that IRA resources are not used to increase the share of small businesses or households earning $400,000 or less that are audited relative to historic levels. Any growth in staffing above historic levels will be limited to focusing on high dollar noncompliance such as large corporations, large partnerships and high-income individuals where current coverage does not promote taxpayer compliance.

The IRA Allocations Financial Summary table also illustrates how we will need approximately $3.9 billion in funding, well above the specific $500 million appropriation, for energy security to support the implementation of the energy tax incentives outlined in the IRA. These initial estimates were developed in close consultation with the U.S. Department of Energy based on their past experiences in supporting the Treasury Department and the IRS in the implementation of energy tax credits and will be refined as part of future planning processes. These estimates include costs for necessary IT modernization efforts and for hiring staff to support the development of implementation guidelines, associated compliance efforts and anticipated customer-service needs. Successful implementation of these provisions is necessary to effect the energy security and clean energy policy goals included in the legislation.

As noted, we will monitor and report specific IRA costs quarterly at the appropriation and program- activity levels in accordance with our current financial-reporting practices. Actual costs will be reported in our annual budget submission and in an annual update to this Plan. The following includes our estimated spending through FY 2024.

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**Inflation Reduction Act Implementation,** ($ thousand, FTE)

| | FY 2022 | | FY 2022 | | FY 2023 | | FY 2024 |
|---|---|---|---|---|---|---|---|
| **Budgetary resources** | **Enacted** | | **Actual obligations** | | **Estimated obligations** | | **Estimated obligations** |
| | Amount | FTE | Amount | FTE | Amount | FTE | Amount |
| Taxpayer Services | $3,181,500 | | $1,073 | 7,394 | $837,735 | 6,489 | $815,966 |
| Enforcement | $45,637,400 | | | 1,543 | $371,767 | 7,239 | $1,408,470 |
| Operations Support | $25,326,400 | | $60,965 | 727 | $1,017,758 | 3,810 | $2,380,097 |
| Business Systems Modernization | $4,750,700 | | $43,924 | 357 | $580,000 | 197 | $1,034,000 |
| Direct eFile | $15,000 | | | | $15,000 | | |
| Energy Security | $500,000 | | | | | 1,810 | $180,000 |
| **Total budgetary resources** | **$79,411,000** | | **$105,962** | **10,021** | **$2,822,260** | **19,545** | **$5,818,533** |

**Note:** Estimated obligations for a year represent estimated planned spending and associated full time equivalents, but do not translate into total hiring figures. Through the end of FY 2024, we estimate total growth of approximately 20,000 employees funded by the Inflation Reduction Act. Please refer to the President's Budget FY 2024 for further information on discretionary funding.

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# Stakeholders impacted by the Strategic Operating Plan

The IRS cannot achieve effective tax administration alone; we must include a broad ecosystem of stakeholders. This Strategic Operating Plan has been developed with our stakeholders’ needs and partnership in mind. Successfully implementing the strategy outlined in this Plan will rely on partnership with and continuous feedback from all those impacted. Some of these stakeholder groups are described below.

## Taxpayers and tax professionals

This Plan outlines how the IRS will transform to significantly improve service for the entire base of American taxpayers. Within this Plan, taxpayers are referred to broadly and include all people and groups whom we serve, including:

- Individuals and families

- Businesses large and small
- Charities and other tax-exempt organizations
- International taxpayers
- Federal, state, and local governments
- Tribal nations
- Tax professionals and others who assist and serve taxpayers

Within these groups, the IRS also recognizes that many populations have unique needs. We are committed to strengthening our relationships with those we serve to better understand and respond to their needs. The new services, resources and other initiatives outlined in this Plan will be implemented with accessibility for all, including taxpayers with disabilities, those with limited English proficiency, and any other historically underserved and underrepresented communities.

## The tax community

Continued IRS partnership with tax professionals and others in the tax community is critical to the success of this Plan. The IRS partners with state tax administrations and with the tax industry— including software makers, payroll providers and others—to address issues and optimize progress. The IRS has a history of successful partnerships leveraging the knowledge and insight of the tax community. The IRS also works closely with groups formed by the Federal Advisory Committee Act, the Internal Revenue Service Advisory Council (IRSAC), the Treasury Tribal Advisory Committee (TTAC), and the Electronic Tax Administration Advisory Committee (ETAAC). The IRS will continue its strong relationship with the tax community in these ways and will seek to enhance services and experiences with the IRS to better support taxpayers, tax professionals and the overall tax community.

## Current and future IRS employees

This Plan outlines how IRS employees and leaders should guide and prioritize their work based on the organization's vision, and how we plan to get there. This Plan also describes the transformational objectives that affect the work environment, skills and capabilities, and pace of change needed to transform the IRS workforce. For the National Treasury Employee Union (NTEU), it outlines the IRS's vision for the future workforce and opportunities for partnership to ensure that the IRS is an employer of choice.

All IRS employees and business units will be involved in and impacted by this Plan, and all business units and employees stand to benefit from improvements to systems, processes, technology, data, governance, human capital management, organizational structure and culture.

For example:

- Wage and Investment (WI), Small Business/Self-Employed (SB/SE), Large Business and International (LBI), Tax Exempt and Government Entities (TEGE), Criminal Investigation (CI), the Independent Office of Appeals, the Taxpayer Advocate Service (TAS), the Return Preparer Office (RPO), the Taxpayer Experience Office (TXO), the Office of Professional Responsibility (OPR) and the Whistleblower Office will lead, support and benefit from initiatives to improve the ways in which we serve customers, interact with those who prepare returns, select cases that need compliance work, improve work processes and enforce the tax laws.

- Information Technology (IT), Research, Applied Analytics and Statistics (RAAS), Online Services (OLS), Enterprise Digitalization, and Enterprise Case

Management (ECM) will lead and support the design and development of cutting-edge data, analytics, systems and technology to enable transformation

- The Human Capital Office (HCO), Equity, Diversity, and Inclusion (EDI), and Facilities, Management, and Security Services (FMSS) will lead and support improvements to make the IRS a nimbler and more efficient organization that attracts, develops and supports an accessible, diverse and inclusive workforce
- The Office of Procurement and the Chief Financial Officer (CFO) will lead and support efforts to ensure the IRS appropriately plans and documents the allocation of resources to support the transformation.
- Privacy, Government Liaison, and Disclosure (PGLD), the Office of the Chief Risk Officer (OCRO), Communications and Liaison (C&L), Change Management

practitioners and the Office of Chief Counsel will lead and support efforts to ensure that our transformation process engages and includes stakeholders in transformation efforts, follows laws and regulations meant to protect those stakeholders and thoughtfully incorporates risk analysis and risk mitigation.

## Government leaders and other oversight bodies

This Plan describes what the IRS aims to accomplish for the American people with the additional funding provided. It can be used to hold the IRS accountable on delivering the progress we promise.

## National, state, local, and other organizations

There is a wide variety of groups beyond the immediate tax community who have an interest in the IRS's transformation effort. These include charitable groups; small business organizations; community- and faith-based organizations; labor unions; climate, environmental, and other advocacy organizations; academic institutions and researchers; tribal organizations; and many other key partners. This Plan can be used as a benchmark for success as well as a basis to provide ongoing feedback on areas for growth.

# Part IV: Case study

## Energy security and clean energy provisions of the IRA

Concurrently with our transformation efforts, we are working to implement the energy security and clean energy provisions included in the IRA. As we pursue the overall improvements outlined in this Plan, we are incorporating them in our current work. Our implementation efforts to date, and those planned in the future, illustrate the benefit to taxpayers in a more effective IRS.

In enacting these incentives, Congress gave the IRS new responsibilities for administering energy tax credits for consumers, small businesses, communities and industries. While we have experience with longstanding tax incentives in areas such as clean electricity production and investment, carbon sequestration, clean vehicles, and energy efficiency, the IRA energy security and clean energy provisions represent a significant expansion of the IRS's responsibilities in this space.

The five transformational objectives described in this document will each help better position us to administer the law effectively to further the goals of the legislation. The IRS will require significant investments, including the overall investments in modernization described in this Plan, as well as investments specific to implementing new tax provisions. The IRA includes approximately 20 new or revised energy security and clean energy-related tax incentives, along with several new cross-cutting provisions that impact the administration of multiple incentives.

One key area of focus is developing and communicating clear rules for the energy security and clean energy incentives, especially given changes in the IRA that allow the value of incentives to vary based on new factors. For example, depending on the specific energy security and clean energy incentive, the amounts available to taxpayers can vary based on whether the taxpayer adheres to certain labor standards, locates activity in certain geographic areas, uses certain domestically produced content and/or meets certain greenhouse gas emissions thresholds in the production process. We are focused on developing clear, predictable and transparent approaches to administering these provisions so that taxpayers have the certainty they need to invest in energy security and clean energy projects.

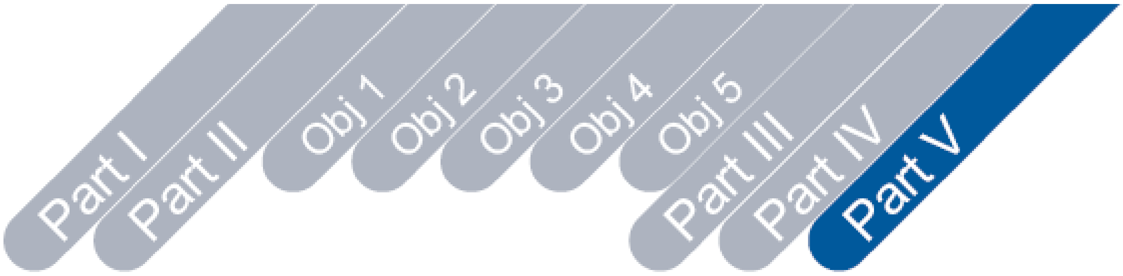
The new mechanisms for taxpayers and other entities to monetize energy security and clean energy incentives are another important focus area for IRA implementation. One IRA provision enables tax-exempt organizations and government entities (including state, local and tribal governments) to receive energy security and clean energy tax credits in the form of elective payments from the IRS. Another provision allows certain entities to transfer energy security and clean energy credits they earn through their activity to other parties that may be better positioned to benefit from the incentives. These new incentive monetization mechanisms will significantly expand the range of actors undertaking energy security and clean energy investments and receiving associated benefits through the tax code.

In the months since the IRA was signed into law, we have already made considerable progress, beginning to draw on the implementation funding that Congress provided. To implement the IRA energy security and clean energy provisions, we stood up a dedicated office to devote the necessary resources and expertise. We have entered into partnerships with the U.S. Department of Energy to establish programs for competitive allocation of certain energy security and clean energy credits, including to spur energy security and clean energy investment in low-income communities and coal communities. We have made significant progress developing processes to facilitate upcoming access to tax incentives by state, local, and tribal governments, as well as non-profit organizations. We have also focused on outreach and engagement, so that taxpayers understand the changes and are aware of the new benefits available under the IRA. Notably, we launched a clean vehicle consumer website and educational campaign to inform consumers, manufacturers and sellers about available credits for new, used and commercial clean vehicles.

Using IRA funding, the IRS will administer these energy security and clean energy incentives by leveraging new technology to make the process for claiming credits as seamless as possible while addressing the risk of potential fraud. As we continue to make progress on this Plan, notably in the areas of technology and data, taxpayers will see improvements in how we implement tax law changes, including the IRA's changes relating to energy security and clean energy tax incentives.

Our work to deliver service improvements to taxpayers will also translate into more effective implementation and administration of the IRA energy security and clean energy provisions. We will ensure that households, businesses, and other entities including governments and tax-exempt entities have the tools, data, and information they need to be aware of and claim energy security and clean energy credits and deductions. We are working to create a filer experience that is user- friendly, secure, seamless and efficient, with modern processes that allow users to correct errors and receive timely status information. We will address noncompliance, fraud and improper payments in manners that ensure energy security and clean energy incentives are properly claimed by eligible taxpayers.

The initiatives in this Plan will help to realize the goals of the IRA energy security and clean energy provisions, benefitting taxpayers and furthering the goals of policymakers.




# Part V: Context and background

## Alignment with the U.S. Treasury Strategic Plan

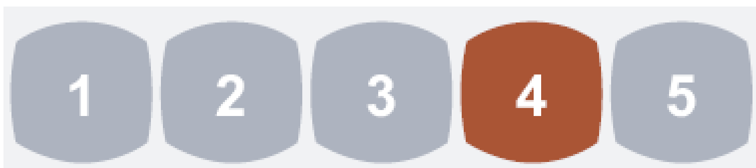
## Goals of the U.S. Treasury Strategic Plan

### Goal 1: Promote equitable economic growth recovery

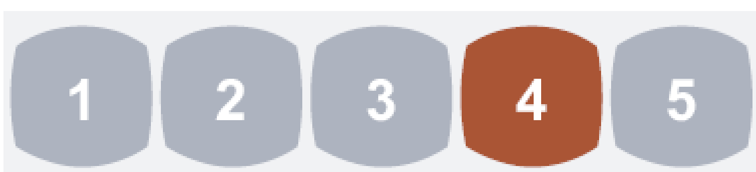
**1.1** Tax administration and policy: Enhance tax compliance and service; improve tax policy design

## Goal 2: Enhance national security

**1.1** Cyber resiliency of financial systems and institutions: Harden assets and systems of Treasury and the broader financial system to promote financial system resiliency

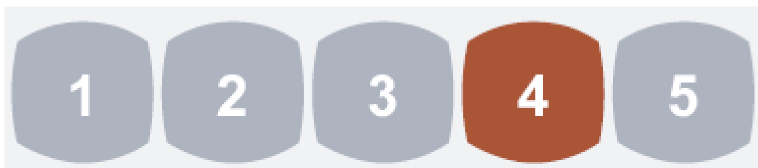



**1.4** Transparency in the financial system: Increase transparency in the domestic and international financial system



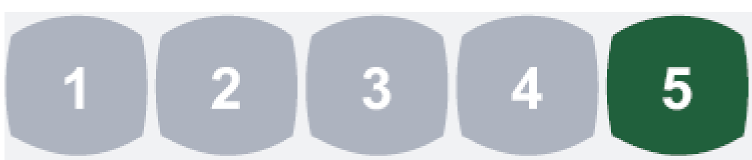
## Goal 3: Protect financial stability and resiliency

**1.3** Financial innovation: Encourage responsible financial sector innovation



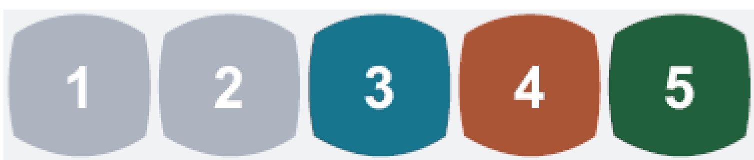

## Goal 5: Modernize Treasury operations

**1.1** Recruit and retain a diverse and inclusive workforce: Recruit and retain a diverse workforce that represents communities that Treasury serves

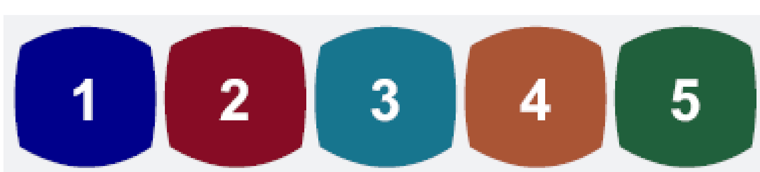


**1.2** Future work routines: Transform the department's work routines to support changing mission and workforce needs


**1.3** Better use of data: Increase timely access to and use of quality data and other types of evidence to inform decision-making




**1.4** Customer experience practices: Mature and embed strong customer experience practices across the department, establishing Treasury's reputation for consistently positive experiences



# IRA transformation objectives

## Objective 1

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

## Objective 2

Quickly resolve taxpayer issues when they arise

## Objective 3

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

## Objective 4

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

## Objective 5

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

# Context and trends that shaped the development of this plan

Analysis of the current state of the IRS and external trends led to the development of the five transformation objectives and their respective initiatives outlined in Part II. The following sections provide background on why each of these objectives is important

## A historical lack of investment in the IRS has limited its ability to keep pace

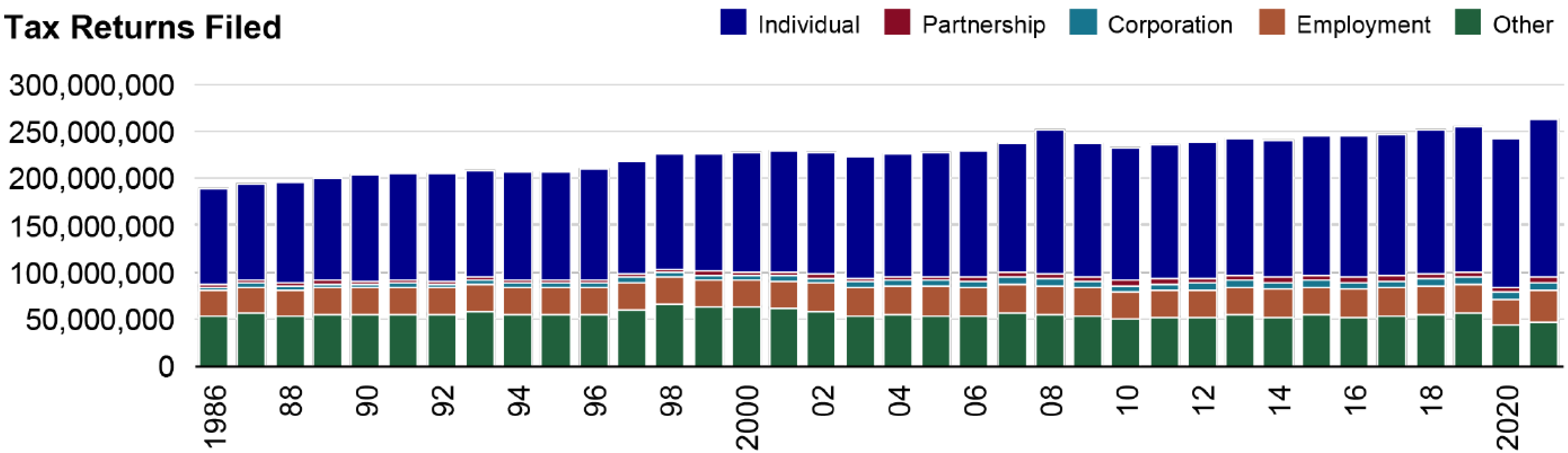
Investment in the IRS has historically lagged growth in demand for its services, making transformation a priority. Between 2010-2021, funding appropriated to the IRS declined by 22% in real terms. Even though filings increased by more than 8% between 2011-2019, the IRS workforce is now the same size as it was in the 1970s—with fewer auditors than at any time since World War II.[9] Facing uncertain appropriations year after year, the IRS, which operates in similar ways to some of the world's largest

financial institutions, has often been forced to freeze external hiring and pause innovation and technology investment, all while the largest financial institutions steadily increased their annual technology spending to approximately 3% of expenses between 2010-2019.10 While the IRS has worked hard to meet the needs of the nation despite limited resources, these resource constraints have eroded the level of service and caused the taxpayer experience to deteriorate.

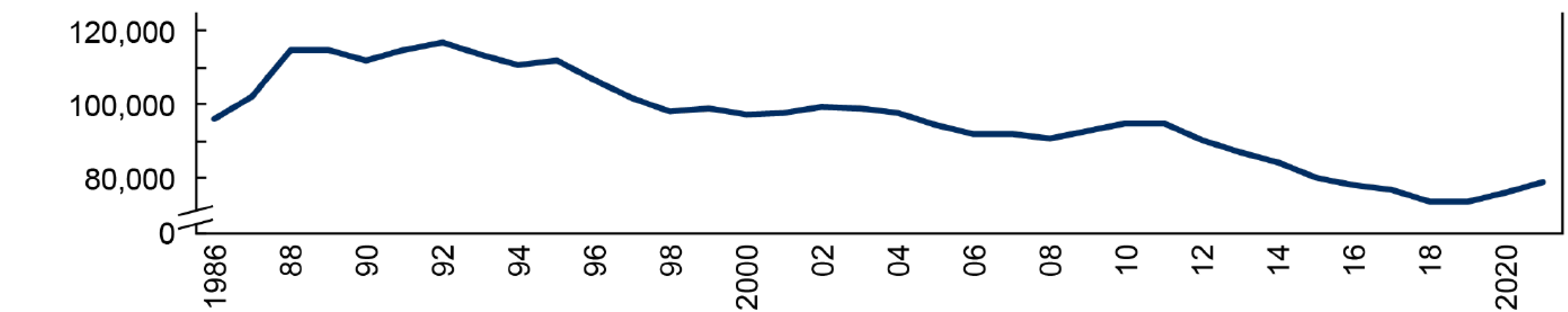
Globally, tax authorities are using innovative ways to help taxpayers and suggest ways in which the IRS can ease the American taxpayer experience. They are utilizing technology to improve taxpayer services and compliance along all phases of the taxpayer journey: pre-filing, filing and post-filing.

Improving the experience and service we provide taxpayers will increase our competitiveness on a global scale and help to address the tax gap.

## Tax Returns Filed




## FTEs Realized



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**Current processes make it difficult for taxpayers to file their taxes independently, and resource constraints limit the IRS's ability to monitor compliance, both of which contribute to the tax gap**

- **Filing taxes is time-consuming and confusing.** The overwhelming majority of American taxpayers want to file their taxes correctly, and every year millions of taxpayers meet their obligations by submitting timely, accurate returns and payments. But for too many, this is not an easy process. Individual and business taxpayers have difficulty navigating complicated laws and filing processes, and they face challenges when interacting with the agency responsible for carrying out a complex tax code and processing 260 million tax returns each year. The average American spends 13 hours to file an individual income tax return, and the average large corporation’s tax return is 6,000 pages.

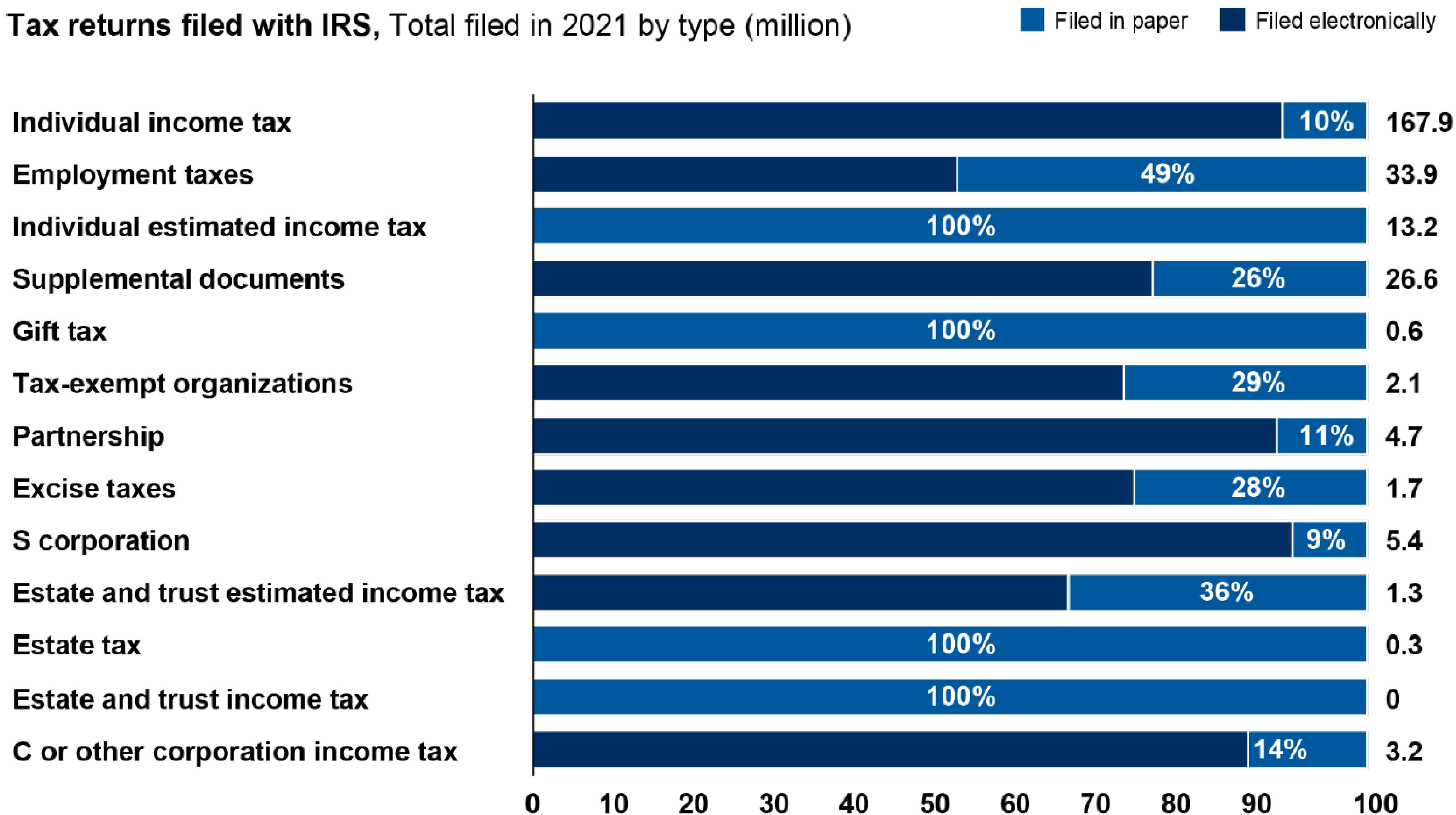
- **The IRS is not always available to help taxpayers.** When taxpayers have questions or concerns, they can find it difficult to reach the IRS. In 2022, the IRS answered fewer than two of every ten calls and had an average wait time of 22 minutes. In the 2021 Taxpayer Experience Survey, only 63% of taxpayers reported being satisfied with the filing process, most often citing concerns with customer service and communications, long waiting times for processing and refunds, and the complexity of forms. Nearly 60% of taxpayers reported that they had an issue they needed the IRS to help with, but they had difficulty reaching the IRS.[11]

- **Meanwhile, customer experience demands have evolved, and taxpayers want a more seamless filing process.** The stakes for delivering a service experience that taxpayers find easy and helpful are high: Americans' service interactions with the IRS strongly influence their level of satisfaction with government. Taxpayers expect the technology they use in their service interactions with tax authorities to be just as seamless and simple as what they encounter in the commercial world. Taxpayers expect the IRS to deliver seamless and simple tax filing, responsive and clear communications and helpful information to prevent or solve problems. In the 2021 Taxpayer Experience Survey, over 70% of taxpayers said they were interested in receiving digital notices from the IRS.12

Digitalization investments, for example, have not kept pace with taxpayer demand. In FY 2021, 57.4 million returns were filed on paper (22% of total) even though 93% of taxpayers surveyed reported wanting e-file options.[13] The IRS is working to make tax submissions more digital; the number of electronic returns filed grew to 78% over the past several years. However, many paper forms remain, including some that require handwritten signatures— a time-consuming process for taxpayers.

**80%** of consumers of public services use digital channels

**90%** of consumers expect an immediate and seamless response to customer service needs


Tax returns filed with IRS, Total filed in 2021 by type (million)
Filed in paper
Filed electronically
Individual income tax
Employment taxes
Individual estimated income tax
Supplemental documents
Gift tax
Tax-exempt organizations
Partnership
Excise taxes
S corporation
Estate and trust estimated income tax
Estate tax
Estate and trust income tax
C or other corporation income tax
10%
49%
100%
26%
100%
29%
11%
28%
9%
36%
100%
100%
14%
167.9
33.9
13.2
26.6
0.6
2.1
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- **ØGlobal tax authorities are using innovative ways to help taxpayers file correctly the first time.** Many advanced tax authorities share information about a taxpayer with that taxpayer as they start the filing process—and in some cases throughout the year—while protecting that data and the taxpayer's privacy. For example, multiple European tax authorities have rolled out simple and easy-to-use mobile filing opportunities that prompt taxpayers with information already on file.[14] Many countries are also improving the integration of tax payments with the delivery of credits and deductions. For example, in Canada, new parents registering a child's birth at the hospital can have the information shared with the Canada Revenue Agency so that payment of the Canada Child Benefit can be automatically initiated.[15] In Ireland, employers can establish a two-way connection between their payroll systems and the tax authority's system so that employees can claim credits in real time.[16]

## When errors or issues arise in a taxpayer's filing, it can be difficult to identify and resolve them promptly

- **Millions of taxpayers who are trying to file correctly make simple mistakes and errors when completing their tax returns.** The federal tax system is complicated, and mistakes are inevitable. In FY 2021, the IRS sent taxpayers nearly 13 million notices of math errors.17

- **Millions of taxpayers fail to claim tax credits and deductions for which they are eligible.** The IRS estimates that approximately 21% of all eligible taxpayers in Tax Year 2019 did not claim the Earned Income Tax Credit.[18] The failure of eligible taxpayers to claim tax credits and deductions to which they are entitled under the tax law not only harms the taxpayers, but results in those laws failing to achieve the policy goals they were enacted to achieve.

- **Resolving simple mistakes is often a lengthy process.** Current IRS compliance processes are frequently initiated well after the time of filing. Several years may go by after filing before the IRS contacts a taxpayer about an issue. For example, less than 1% of automated under-reporting cases—cases that involve under-reporting income or claiming too many deductions—and less than 40% of correspondence and field audits are started within six months of filing. On average, these cases are not resolved until more than 20 months after filing.19 In some cases, taxpayers may make the same mistake multiple years in a row before the original issue is addressed. This causes challenges, as taxpayers may no longer be able to remember their prior situation or may not have real-time access to the information they need.

- **Global tax authorities are using innovative ways to help taxpayers correct their filings.** In the filing phase, there is a trend toward making it easier to direct-file and nudging taxpayers to self-correct potential issues. Australia's tax authority uses statistical techniques to flag potential risks in returns for filers based on an automated review of a return at the time of filing. The authority gives taxpayers the option to correct their returns before final submission.20

**Because the complexities of the tax-filing process result in errors, enforcement efforts are often spent on unintentional mistakes, rather than intentional noncompliance**

- **Even with improved taxpayer services, some taxpayers will not**

**comply.** While most taxpayers voluntarily comply with the tax laws, even with improved help and service some taxpayers will continue to avoid paying what is due. The decline in IRS resources and staffing to address noncompliance affects taxpayer behavior and their willingness to meet their obligations voluntarily.

- **The rise in the breadth and complexity of tax administration has outpaced the IRS's ability to effectively monitor compliance, given its limited resources.** Over the last decade, the total number of annual tax return filings the IRS received has increased by more than 15 million. Over the same period, the number of revenue agents employed at the IRS has decreased by nearly 35%.21 As a result, the total number of audits has fallen to historical lows. The IRS has struggled to dedicate the resources necessary to proactively monitor compliance. The monitoring shortfall has been particularly pronounced among taxpayer groups with more complex income and returns as the economy has shifted. The IRS has noted significant growth in taxpayer segments more likely to have opaque sources of income or tax situations. For example, while total tax return filings increased by 13% from 2011 to 2021, filings by pass-through entities, including partnerships and S corporations, increased by 26% over the same period.22 However, monitoring the compliance of pass-through entities—particularly large and more complex ones—requires more IRS resources. As a result of funding limitations, the audit coverage rate has fallen. While the IRS audited 4.4% of pass- through entities in 2010, that number fell to 0.1% in 2017 (the most recent tax year with nearly all audits closed), and audits have continued to decrease.23 Additionally, filings by taxpayers who report income higher than $500,000 have grown by over 70% from 2011 to 2019, while the IRS's audit coverage rate for that income group has fallen by 76% over the same period.24

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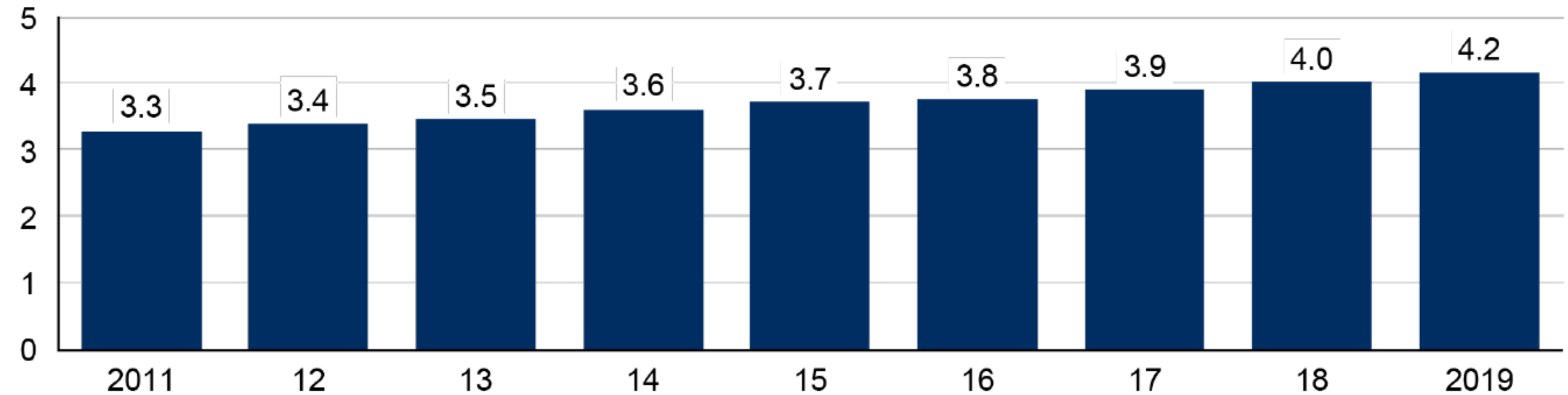
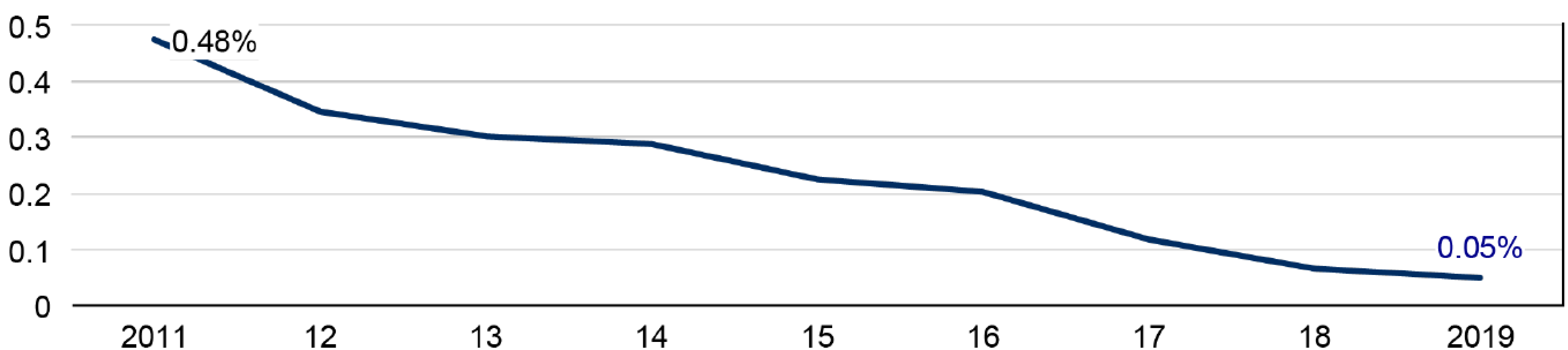
**Number of partnership filings,** (million)




**Examination coverage rate,** (percent)



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- **Monitoring shortfalls limit the IRS's ability to address the gap between taxes owed and collected.** The tax gap is currently estimated to be approximately $496 billion and is expected to increase without significant investment.25 In addition to the tax gap as currently measured, there is likely outstanding tax revenue attributable to higher-risk segments. The IRS has historically lacked the resources to address noncompliance in these segments. Because of limited compliance coverage in areas such as complex partnership structures and certain international tax issues, the IRS has fewer data points to accurately estimate the true size of the tax gap in these segments.

- **Global tax authorities are using innovative ways to focus enforcement on high-priority segments.** Post-filing, tax administrators in G-20 countries are increasingly introducing tailored treatments to address noncompliance, including, for example, predictive analytics to better understand which issues are likely to self-correct versus those that will likely require a more direct treatment to get resolved.26

**The IRS has been forced to operate with limited resources, limiting its ability to operate effectively**

- **The IRS's foundational technology is outdated and limited in its ability to deliver.** Underfunding of the IRS over the last decade has made us unable to introduce contemporary technology tools and applications that would allow us to better serve taxpayers and enhance their experience. The funding available had to be prioritized to address more immediate and urgent projects rather than to enable the transformation that the IRS wanted, and taxpayers deserved.

These complex legacy systems pose challenges to modern technology enablement. Currently, many of these challenges stem from running the IRS with extremely complex legacy technology that is difficult to update, maintain and operate. Modern technologies that the IRS will develop and implement in coming years will address challenges with digital tax filing and information, self-service changes and employee enablement. These changes will impact every interaction a taxpayer has with the IRS. IRS employees and taxpayers currently use over 600 applications to conduct the business of the IRS, many of which are custom-built and run on-premises in IRS data centers. The integrations among these applications—when they exist—usually use custom, single-use code to share data only between two applications, also known as point-to-point integrations. Because many of these applications were developed in different computing eras over the past 20 or so years, they rely upon a specific infrastructure configuration and complex development and deployment processes, which increase cost, risk and staff training time.

The core pipeline of incoming tax returns is designed to manage paper forms coming into regional service centers. Moving forward, the IRS will not only replace information systems that use legacy programming languages but will also change the underlying logic and processing to post transactions to a database— like any modern application— rather than using the sequential file process that happens today. These changes will enable self-service capabilities that will foster transparency for taxpayers (e.g., the ability to update accounts and track refund status).

- **The IRS is not using data as effectively as it can to inform its operations.** The pace of data generation continues to accelerate. Effective use of data and analytics can produce tremendous value for organizations and customers. The IRS captures data through taxpayer filings and many types of third-party information returns, as well as the full range of operational interactions with taxpayers. As greater numbers of returns/forms are filed digitally, we can more fully capture relevant data elements, while scanning and digitalization provide new opportunities to capture data from paper interactions (including forms and other correspondence). Additionally, we can do more to identify appropriate external data sources that may add value by improving the taxpayer experience and informing compliance approaches.

The IRS has put into place organizational structures to promote and enhance the application of data and analytics solutions that will improve IRS operations and mission effectiveness, but these efforts are not fully integrated into all IRS work. Efforts to date include standing up the Data and Analytics Strategic Integration Board (DASIB) and the IRS Data Analytics Advisory Group (DAAG) to prioritize and govern data and analytics strategy and activities. Further, the IRS has established a Chief Data and Analytics Officer role to oversee data, analytics and advanced technology capabilities across the enterprise.

- **Global tax administrations use data and analytics to improve the taxpayer experience, compliance and operations to generate value and reduce burdens on taxpayers and the economy.** For example, Canada's tax authority directly administers CA$24 billion in child benefit payments to 3.3 million eligible families upon receiving birth/custody data from hospitals, birth registration centers and taxpayers.27 Australia’s tax authority uses advanced analytics to improve compliance to compare business expenses to similar taxpayers; upon detecting an anomaly, taxpayers are prompted to self- correct. In 2020, 340,000 taxpayers (7.5% of online filers) were prompted to review their returns, resulting in pre-filing changes with an estimated annual revenue impact of A$37 million.28

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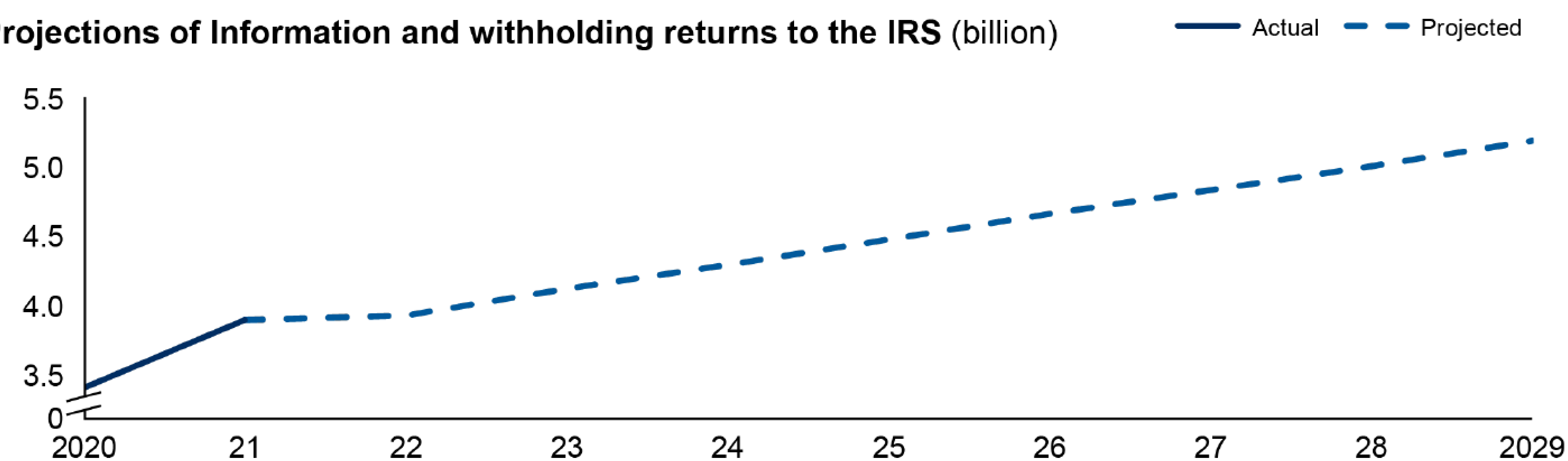
**Projections of Information and withholding returns to the IRS** (billion)



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- **The IRS has not been able to staff its workforce sufficiently to fulfill its mission.** As the IRS seeks to grow, much of today’s talent is on the precipice of leaving. Nearly two-thirds of today’s workforce will be eligible for retirement in the next six years, and a growing number of newer employees are voluntarily resigning.[29] Meanwhile, new talent is scarce. Like many organizations, the IRS faces internal and external human-capital challenges. There are 1.9 times more job openings in the U.S. than people seeking employment, creating intense competition for the right talent, especially in financial services and technology, where the IRS seeks to source talent.30 For example, the number of data scientist jobs in the U.S. is projected to grow by 36% by 2031—much faster than the average occupational growth of 5%.31 Furthermore, complex hiring processes slow the pace of hiring. Limited investment over time in hiring functions like personnel security and IT has increasingly extended the time-to-hire—to an average of 145 days using the traditional hiring process—and made hiring less efficient. Expanding the workforce amidst these challenging circumstances will require more efficient operational foundations.

- **The current employee experience is limiting success.** Employees are not equipped with the resources they need. They often lack access to the right data at the right time to answer taxpayers' questions or to resolve taxpayer issues. Often, employees must access a variety of legacy systems to address an issue and may need to ask for help from various other IRS employees. Moreover, many employees lack the basic tools and supplies they need. Underinvestment in tools, resources and leadership/professional development has led to a workforce that is less than satisfied. For example, while “career advancement” was among the top five reasons for employees’ interest in working at the IRS from FY 2017 to 2021, less than 41% of employees are satisfied with the career and development opportunities available to them.32

- **The IRS can leverage workforce trends that favor certain aspects of public-sector employment.** Based on research on what attracts and keeps employees at organizations, the IRS has a lot to offer. Eighty-four percent of employees in the public sector cite belief in the mission and purpose as a motivator.33 The IRS can leverage its mission-oriented environment by emphasizing our important role in the American economy, and we can employ individuals who are passionate about helping American taxpayers meet their obligations and get the credits and deductions they deserve. We can use our digital transformation to enable flexibility for all employees. Sixty-eight percent of employees stay at their organizations when they have control over how and where work gets done.34 We can improve our benefits. Employees may trade off direct compensation to gain the IRS’s full suite of health insurance and time-off benefits. Eighty percent of public- sector employees who express a desire to stay in their role cite satisfaction with their benefits as a motivator.35

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