



MANAGEMENT'S DISCUSSION AND ANALYSIS

INTERNAL
REVENUE
SERVICE

FISCAL YEAR
2020

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A Message from Chuck Rettig

IRS Commissioner

The IRS remains dedicated to improving service to taxpayers, enforcing the tax laws, modernizing its systems, and maintaining the integrity of the tax system. Each year, the IRS collects more than \$3 trillion in taxes and the vast majority of the funding that supports the Federal Government's operations. The IRS serves and interacts with more Americans than any other public or private organization.

In Fiscal Year (FY) 2020, the IRS found itself in uncharted waters, as did the entire nation. The COVID-19 pandemic presented some of the greatest challenges to the IRS in its history, both in terms of being able to carry out the mission and in protecting the health and safety of taxpayers and the IRS workforce. IRS employees responded admirably by quickly facilitating financial assistance to Americans, beginning in March when the IRS was charged with implementing the *Coronavirus Aid, Relief, and Economic Security (CARES) Act* and other important tax-relief legislation. This included delivery of Economic Impact Payments to help approximately 160 million Americans receive about \$275 billion. To achieve this, IRS employees worked around the clock to deliver payments in record time. The IRS's top priority during the COVID-19 outbreak has been protecting the health and safety of taxpayers and the IRS workforce. For that reason, the IRS temporarily scaled back operations during the spring and summer, taking such steps as closing Taxpayer Assistance Centers, discontinuing face-to-face, and suspending telephone help lines.

Even with those changes, the IRS remained committed to delivering the filing season. As events unfolded in the spring of 2020, the IRS continued to process electronic tax returns, issue direct deposit refunds, and accept electronic payments. This all occurred while successfully moving the nation's tax deadline to July 15, the latest on record.

Along with delivering the filing season, the IRS maintained its focus on its core mission by striving to serve taxpayers in a manner that supports voluntary compliance. Alongside efforts to improve service to all taxpayers and assist during COVID-19, the IRS is also committed to having a strong, visible, robust tax enforcement presence. During FY 2020, the IRS continued working toward the goal of having a presence on each type of tax issue and at every level of income, to ensure fairness for all taxpayers.

In addition to day-to-day operations, the IRS has been working to deliver on the promise of a new IRS. A critical piece of this involves our efforts to implement the *Taxpayer First Act of 2019*, which gives us an incredible opportunity to make significant improvements across our operations by developing innovative approaches to the future of tax administration. This will be a focal point for the IRS in FY 2021.

In FY 2020, the IRS continued to deliver for the nation during a very challenging time. Even with all that we accomplished, the entire IRS workforce wants to do more, in every area. I remain confident that we will continue improving as we move the agency into the future. In FY 2020, the IRS continued to deliver for the nation during a very challenging time.

“The IRS plays a unique role in the nation. The people of our agency are committed to helping taxpayers, enforcing the laws fairly and serving our great nation. Tax collection plays a critical role funding the country, supporting everything from schools and roads to our military. IRS employees are proud of their public service in support of the nation, and they are committed to making continued improvements to assist taxpayers.”

– IRS Commissioner Charles Rettig

ABOUT THE IRS

History

The IRS is one of the oldest bureaus in the United States 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 (IRS). Visit the IRS History Timeline at www.irs.gov/irs-history-timeline.



Internal Revenue Service Building, Washington D.C.

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.

Vision

The IRS will uphold the integrity of the nation’s tax system and preserve the public trust through the IRS’s talented workforce, innovative technology, and collaborative partnerships.

Values

- Honesty and Integrity
- Respect
- Continuous Improvement
- Inclusion
- Openness and Collaboration
- Personal Accountability

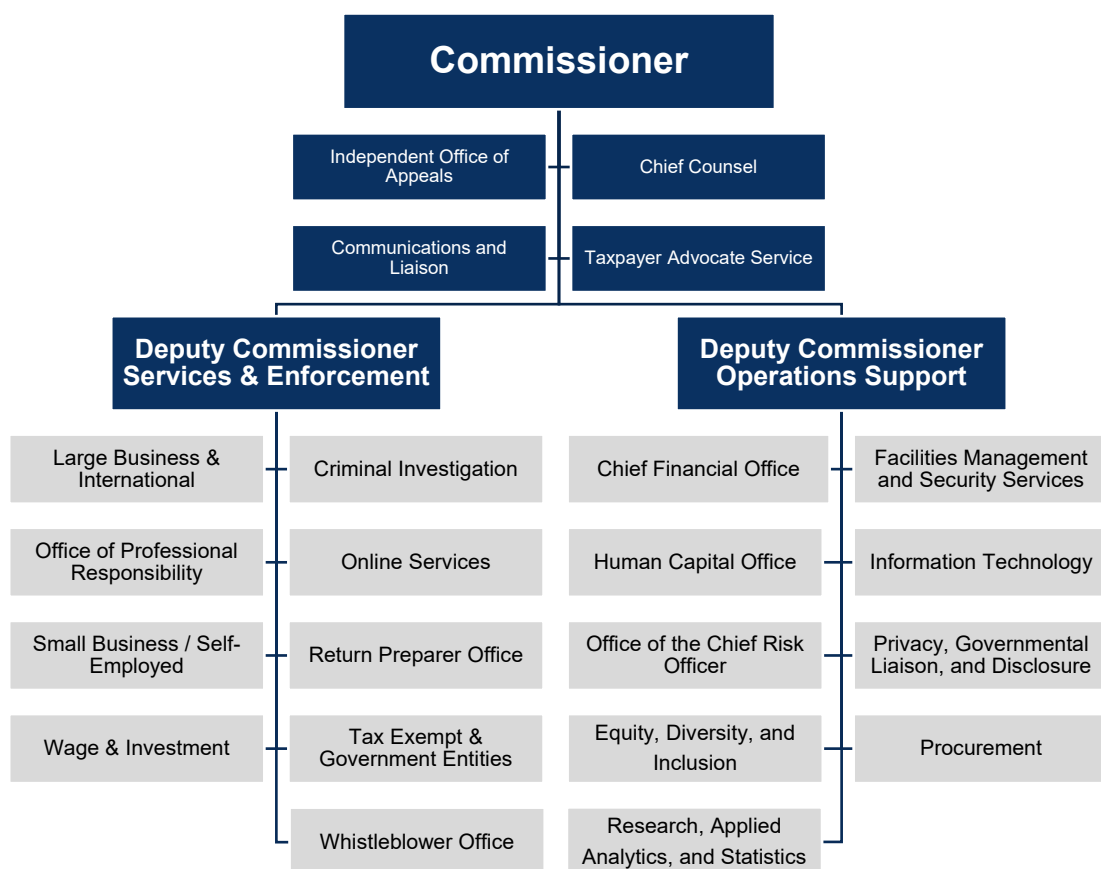
Organization

The IRS’s core operations include the collection of individual and corporate taxes, processing tax returns, taxpayer assistance, enforcement of the tax laws through examination and collection, as well as criminal investigation of tax crimes. The wide IRS portfolio also includes

tax-exempt organizations, tax-exempt bonds, multiple refundable tax credits, and other specialized programs. Four business units, focused on unique groups of taxpayers, support IRS operations.

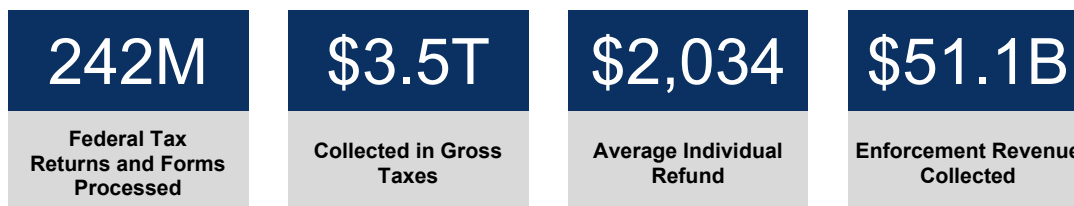
Business Unit Summary

- Wage and Investment (W&I) administers tax laws governing individual wage earners. W&I annually processes more than 155 million individual tax returns and 50 million business returns, including nearly 138 million electronically filed returns. W&I processes 112 million individual refunds totaling more than \$320.8 billion annually and answers more than 50 million phone calls.
- Small Business and Self-Employed (SB/SE) serves small businesses and self-employed individuals operating as sole proprietorships, small corporations, or flow-through entities. The division is also responsible for estate, gift, fiduciary, excise, most employment tax returns, as well as the collection of all unpaid federal tax accounts. SB/SE processes about 27.6 million employment tax returns, 874,000 excise tax return filers, 250,000 gift tax filers, and 36,000 estate return filers.
- Large Business and International (LB&I) serves corporations, subchapter S corporations, and partnerships with assets greater than \$10 million. LB&I also serves U.S. citizens and residents with offshore activities and nonresidents with U.S. activities.
- Tax Exempt and Government Entities (TE/GE) serves customers across three distinct taxpayer segments - Employee Plans, Exempt Organizations, and Government Entities.

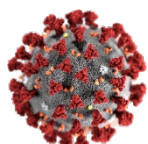


HOW THE IRS SERVES THE COUNTRY

The IRS and its employees take pride in collecting more than 96% of the revenue that funds key operations in the United States. The IRS is one of the world's most efficient tax administrators. Some key performance achievements in FY 2020:



COVID-19 PANDEMIC RESPONSE



On March 13, 2020, the United States declared the COVID-19 pandemic a national emergency. The pandemic presented our nation with unprecedented challenges, and the IRS responded admirably by quickly facilitating financial assistance to millions of deserving and needy Americans.

Implementing the CARES Act

Beginning in mid-March, IRS employees worked around the clock to implement major provisions of the *Coronavirus Aid, Relief, and Economic Security (CARES) Act*. Within 10 days of enactment, the IRS in coordination with the Bureau of the Fiscal Service (BFS) issued about 81 million Economic Impact Payments (EIP) totaling almost \$147 billion. This response was unprecedented compared to the almost two months needed for the first stimulus payments issued in 2008. By late September, more than 160 million Americans received EIPs totaling almost \$275 billion, of which 121 million of these payments were sent by direct deposit, 35 million by check, and 4 million via a pre-paid debit card.



The IRS calculated EIPs and coordinated with BFS to swiftly send them to those eligible. This included many people who may not normally file a tax return, such as senior citizens and others receiving Social Security retirement, survivor or disability benefits, and railroad retirees. It also included those whose only income is from Supplemental Security Income payments and people receiving certain Department of Veterans Affairs (VA) benefits. The IRS worked cooperatively with the Social Security Administration

(SSA), VA, and other government agencies to retrieve information needed to send EIP payments to these groups of people without requiring them to file a return or take any other action.

The IRS balanced the statutory requirement to provide the payments as “rapidly as possible” with the need for accuracy and concern about potential fraud. The Treasury Inspector General for Tax Administration noted in a June report that the IRS correctly computed the payment amount for nearly 98% of the EIPs issued as of May 21, 2020.

To deliver EIPs quickly, the IRS designed and built two special online tools (available in both English and Spanish) on IRS.gov:

- **Non-Filer Tool** - launched on April 10 to allow people who normally do not have a filing obligation to enter basic information so that they could receive their payment.
- **Get My Payment (GMP) Tool** - launched on April 15 to allow most taxpayers to check the status of their payment, and in some instances, enter their bank account information to receive their payment electronically.

In addition, the IRS developed and launched several websites and pages to assist and inform taxpayers and small businesses about issues related to the COVID-19 pandemic and the CARES Act, including:

- [IRS Operations during COVID-19](#) keeps taxpayers and other stakeholders informed about the status of mission-critical programs and services.
- [Coronavirus Tax Relief](#) consolidates news releases, statements, FAQs, guidance, partner materials, tax help, social media, and other resources.
- [Economic Impact Payment Information Center](#) provides information on status of payments and other information.
- [New Employer Tax Credits](#) provides a breakdown of which employers qualify for the new credits.

IRS Conducts Sweeping Public Awareness Campaign to Help Taxpayers

The IRS responded to the CARES Act with unprecedented outreach and education efforts starting in March and continuing through the fall. This work led to sharing information in new and different ways not achieved during previous stimulus efforts.

The IRS worked extensively with external stakeholders to communicate COVID-19 pandemic issues, EIP, and CARES Act information. It coordinated with dozens of federal agencies, state and local governments, and more than 2,000 partners across the nation to share EIP messaging with their constituents and customers. The IRS also delivered hundreds of printed products on the COVID-19 pandemic, more than 1,300 social media postings, and more than 500 informational postings on IRS.gov. Working with partners in the tax professional community, the IRS translated key EIP information into 35 different languages.

IRS social media channels saw an increase of nearly a half-million new followers during the height of the pandemic. Social media quickly became a major source for delivering messages, with innovative graphics and materials shared and used by groups across the nation. The IRS also worked to share information with Facebook on its COVID-19 Information Center and with Google to prioritize top searches to direct users to IRS.gov. After completing the principal delivery of EIPs, the IRS continued its efforts to ensure every eligible American received their payment.

Implementing Business Tax Relief

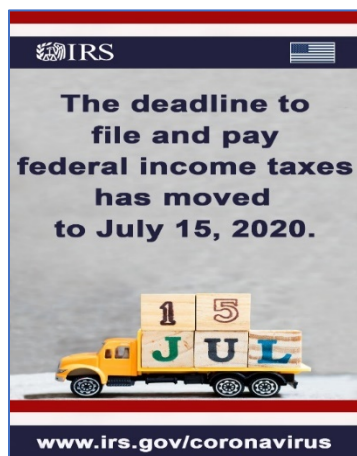
Along with EIPs for individuals, the IRS informed businesses about available tax relief. The relief measures included both the Credit for Sick and Family Leave, the Employee Retention Credit, and the Carryback for Net Operating Losses.

Implementing these and other business relief provisions required extensive work. For example, the IRS created new Form 7200, *Advance Payment of Employer Credits due to COVID-19*, within two weeks of the CARES Act enactment. The IRS redeployed employees to review and approve payments and revised and reprogrammed Form 941, *Employer's Quarterly Federal Tax Return*. The IRS developed and published Publication 5419, *New Employer Tax Credits*, to help employers understand the new employer tax credits.

Taxpayers with tip agreements sought a modification to their agreements to reflect the lower sales and corresponding tips due to the COVID-19 pandemic, and the IRS swiftly evaluated the economic effect to businesses and their employees in tipped positions. The IRS moved quickly to prepare tip agreement addendums that include an economic rate reduction providing immediate relief to affected employers and their workers through an adjustment equal to 60% for participating employees, for eight months. The IRS will continue to monitor and revisit tip rates to determine the need for additional actions.

Providing Administrative Relief to Help Taxpayers

The IRS eased the burden on people facing tax issues during the COVID-19 pandemic. That relief included an automatic extension of the deadline for individuals to file and pay federal income tax from April 15, 2020 to July 15, 2020. To ease burden, the IRS did not require taxpayers to file any additional forms or contact the IRS to qualify for this automatic federal tax filing extension and payment relief.



The IRS also launched the *People First Initiative* on March 25, 2020. This initiative called for a sweeping series of immediate changes to ease the burden on people with tax uncertainties as much as possible allowing them to focus on the well-being of themselves and others. The IRS quickly implemented system programming changes to provide relief on numerous issues ranging from easing payment guidelines to postponing compliance actions. The IRS also suspended most collection enforcement activities, such as new notices of lien or levy from April 15 to July 15, in most cases. The IRS also discontinued field visits and in-person meetings to protect the safety and health of its employees and taxpayers.

Modifying IRS Operations to Ensure Safety

Unlike any other filing season, the IRS had to modify key operations in response to the COVID-19 pandemic, such as closing taxpayer assistance centers, tax processing centers, and offices nationwide. Nonetheless, core IRS functions continued, and the IRS continued to deliver the filing season.

Throughout the COVID-19 pandemic, technology was the cornerstone of the IRS's ability to continue mission-critical work to support the American taxpayer. The IRS ensured continuity of services and support to taxpayers utilizing technology by:

- Accelerating an initiative to enable customer service representatives (CSRs) and tax examiners (TE) to telework. By June 2020, the IRS had supplied telework equipment for more than 11,300 CSRs and TEs, representing about 81% of this workforce.
- Establishing the Crisis Relief Hotline, a voice mailbox for the IRS Chief Counsel to address taxpayer concerns related to COVID-19 relief.
- Standing up a new phone line to answer the most common questions about EIPs.
- Supplying about 20,000 laptops to newly teleworking employees, enabling continuity of critical services.
- Delivering an IRS-wide solution to enable secure email with attachments. This enables taxpayers and the IRS to communicate electronically and exchange information securely.
- Expanding enterprise electronic fax capabilities to support existing programs, such as income verification express service and setting up new fax numbers to support advanced refundable credits, Small Business Administration disaster claims, and other tax forms as part of the CARES Act. These actions positioned the IRS to support up to 90,000 faxes a day.

The IRS ramped up operations significantly to accommodate a remote workforce environment as operations shifted online by doubling its network capacity within one week and increasing network bandwidth to support maximum telework. By early June, the IRS hit a new peak of more than 56,000 remote employees working online simultaneously, which more than doubled the previous peak of about 25,000.

STRATEGIC PLAN OVERVIEW

The IRS FY 2018-2022 Strategic Plan articulates the IRS's vision of becoming a more taxpayer-centric and modern agency. It serves as a roadmap to guide resource decisions, programs, and operations to meet the changing needs and expectations of taxpayers and other stakeholders.

The core of the IRS vision for the future is to enhance the taxpayer experience through each taxpayer's preferred service channel. The IRS also aims to reduce taxpayer burden and preempt noncompliance issues, focusing enforcement efforts on more complex cases and intentional abuses of tax law.

The IRS's ability to supply high-quality taxpayer service and support the integrity of the tax system requires modern, secure, and nimble operations, as well as a sustained and talented workforce. The IRS embraces and integrates data to implement changes in tax laws. Using analytics, the IRS continuously improves all facets of its operations — taxpayer service, enforcement efforts, and a range of internal operations. Greater collaboration with a variety of partners, such as government agencies, international tax administrations, software providers, and industry groups, will enable the IRS to deliver on its mission more effectively and efficiently.



The following six strategic goals reflect the IRS's priorities:



Empower and enable all taxpayers to meet their tax obligations

We will empower taxpayers by making it easier for them to understand and meet their filing, reporting, and payment obligations. We continue to add and enhance tools and support to improve taxpayers' and tax professionals' interactions with the IRS on whichever channel they prefer.



Protect the integrity of the tax system by encouraging compliance through administering and enforcing the tax code

The American tax system is based on voluntary compliance and supported by proper enforcement. As part of the IRS's efforts to close the tax gap, we will pursue innovative approaches to understand, detect, and resolve potential noncompliance. We will use behavioral insights on how people process and react to information. This will inform how we design programs to encourage voluntary compliance.



Collaborate with external partners proactively to improve tax administration

Partnerships with IRS stakeholders enrich service to taxpayers. Collaboration will yield innovative solutions to pressing problems, improving the taxpayer experience. We will engage partners to improve service and outreach to taxpayers, enhance global collaboration and share leading practices.



Cultivate a well-equipped, diverse, flexible and engaged workforce

IRS employees are committed to serving the American taxpayer. We strive for a culture that values innovation, welcomes multiple perspectives and celebrates diversity. The IRS's approach to development will be complemented by a forward-looking talent management strategy that considers future business and stakeholder needs.



Advance data access, usability and analytics to inform decision-making and improve operational outcomes

We will continue to use data to drive decisions and make the most effective use of resources. Advancements across the full data lifecycle — from collection to storage to access to analysis — will allow the IRS to better deploy data and implement insights. Improving data and analytics provides repeatable processes for selecting and assigning work.



Drive increased agility, efficiency, effectiveness and security in IRS operations

We will focus on streamlining and simplifying IRS business processes to serve taxpayers better and improve IRS stewardship of taxpayer resources. Efficient operations and modern infrastructure are the foundation of a stable, reliable organization and are essential elements of sustaining excellent service and enforcement capabilities. Strong data systems are critical to safeguarding taxpayer and employee data from threats.

Measuring Progress – The Strategic Plan Annual Review

In FY 2020, the IRS began a new Strategic Plan Annual Review process to measure progress towards its FY 2018-2022 Strategic Plan goals and objectives. IRS leadership identified three focus areas (Putting Taxpayers First, Improving Compliance, and Modernizing the IRS) and 27 projects for the IRS to report on throughout FY 2020. The FY 2020 focus areas align with the IRS strategic goals, Treasury's Strategic Plan goals, and government-wide priorities from the President's Management Agenda (PMA) in areas of customer experience, data analytics, and modernization of both information technology and the federal workforce as shown below.

Focus Area	Strategic Goals					
	Empower and enable all taxpayers	Protect the integrity of the tax system	Collaborate with external partners	Cultivate a well-equipped, diverse flexible and engaged	Advance data access, usability and analytics	Drive increased agility, efficiency, effectiveness and security
Putting Taxpayers First	x	x	x	x		x
Improving Compliance		x			x	x
Modernizing the IRS	x	x		x	x	x

Putting Taxpayers First

The *Putting Taxpayers First* focus area includes 12 projects for FY 2020 and supports the IRS's Service, Enforcement, Partnerships, Workforce, and Operations strategic goals. Several of the projects focused on implementing key provisions of the TFA and enhancing IRS communications and outreach efforts. Another project involved closing the Cincinnati Submission Processing Service Center in February 2020, which released 410,000 square feet of space to save an estimated \$46.3 million over five years. The effects of COVID-19 delayed another project to expand outreach to underserved taxpayers by developing temporary Taxpayer Assistance Centers in areas where one does not exist. The IRS will continue this project when it is safe to do so.

Improving Compliance

The *Improving Compliance* focus area includes seven projects that support the Enforcement, Data Analytics, and Operations strategic goals. These projects focused on boosting compliance through innovation, partnerships, service, and enforcement efforts. In FY 2020, the IRS created an Innovation Lab that uses data analytics and other techniques to identify and address compliance risks and improve case selection and assignment processes. In April 2020, the IRS developed its inaugural Learning Agenda and data science position description to further the integration of data analysis into daily operations. Activities to improve identity proofing and protecting taxpayer data ensured compliance with National Institute of Standards and Technology (NIST) guidance. In addition, the IRS developed strategies for large partnership and flow-through entity examinations, expanded partnership campaigns, produced a fraud awareness video, and developed a communication plan to publicize the IRS's successful criminal prosecutions.

Modernizing the IRS

The *Modernizing the IRS* focus area includes eight projects that support the Service, Workforce, Data Analytics, and Operations strategic goals. Three of these projects support phase one efforts outlined in the IRS Integrated Modernization Business Plan to replace inefficient manual processes with digital streamlined systems and technologies. One key area is for the IRS to continue its efforts to develop an Enterprise Case Management (ECM) System to connect taxpayer information across the agency and improve taxpayer services. The IRS also is developing and piloting new automation tools using artificial intelligence and robotics technologies that will save significant staff time and reduce the risk of human error. Two projects focus on advancing data analytics and rely on collaboration across the IRS to review and update current methodologies and models for efficient and effective use of IRS data sources. Finally, three projects focus on optimizing the IRS workforce to support the implementation of TFA provisions and the PMA cross-agency priority goals. These projects made progress in bolstering internal support systems for current employees and updating marketing techniques to attract a diverse workforce. Overall, the eight projects updated practices to support a modern IRS.

PERFORMANCE HIGHLIGHTS

Empower and enable all taxpayers to meet their tax obligations

Strategic Plan Goal Level Measure	FY 2020 Target	FY 2020 Results
Enterprise Self-Assistance Participation Rate	82.0%	90.6% ●

● Target Met ○ Target Not Met

Progress toward goal: In FY 2020, the IRS added five new self-assistance tools for taxpayers, which were added to the Enterprise Self-Assistance Participation Rate methodology. These were: ID-Verify, IP PIN, Online Account Sessions, Tax Withholding Estimator, and Employee Services Taxpayer Protection Program Calls. Overall, web services were 35.5% higher than the prior year.

The IRS dedicates itself to improving the taxpayer experience so that taxpayers and their representatives can understand and meet their tax obligations with minimal burden. The IRS's aim is to increase voluntary compliance through simplifying the tax filing, correction, and payment processes. To help achieve this, the IRS focuses on improving education and outreach on taxpayer rights and obligations and enhancing service channels to meet taxpayer needs.

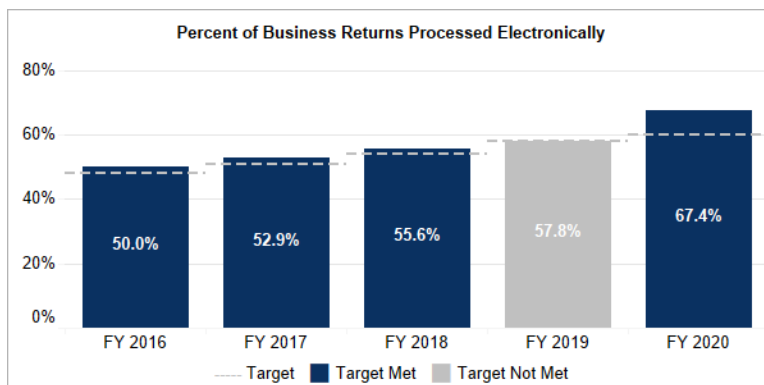
FY 2020 Tax Filing Season – Implementing New Tax Legislation

In preparation for the 2020 filing season, the IRS updated its processes and procedures to address new legislative requirements, such as the *Taxpayer Certainty and Disaster Tax Relief Act of 2019* (Tax Extenders Act), signed into law on December 20, 2019, as part of Public Law 116-94, *Further Consolidated Appropriations Act, 2020*. This legislation extends many previously existing tax provisions through tax year (TY) 2020 or 2021. The 2019 Act retroactively applied some provisions to TY 2018, a year for which most taxpayers already had filed their tax returns. The Act required the IRS to make extensive revisions to Form 1040, U.S. Individual Income Tax Return, and its related schedules and rendered obsolete three of the six Form 1040 schedules that were new for TY 2018. In addition, the IRS developed the Form 1040-SR, *U.S. Tax Return for Seniors*, and updated related tax forms. Public Law 116-94 included more than 70 tax provisions, including extenders, disaster relief, and the *Setting Every Community Up for Retirement Enhancement (SECURE) Act*. The IRS analyzed the law and updated about 160 tax products and information technology systems affected by the legislation.

Delivering the 2020 Tax Filing Season

Ensuring a positive taxpayer experience during the filing process continued to be one of the IRS's primary focus areas during FY 2020. When filing season opened on Monday, January 27, 2020, the IRS handled record volumes of submissions with more than 630 tax return receipts per second at peak volume.

During the extended 2020 tax filing season, the IRS processed more than 145 million individual tax returns and issued more than 100 million refunds totaling more than \$276 billion. The average refund amount was \$2,034. Direct deposit refunds accounted for 83.0% of all refunds. Electronically filed (e-file) returns accounted for 141 million (96.9%) of all returns processed, and paper returns accounted for 4.5 million (3.1%). The IRS processed 45.6 million business returns. Electronically filed business returns trended upward with 30.7 million filed electronically and 14.9 million filed on paper.



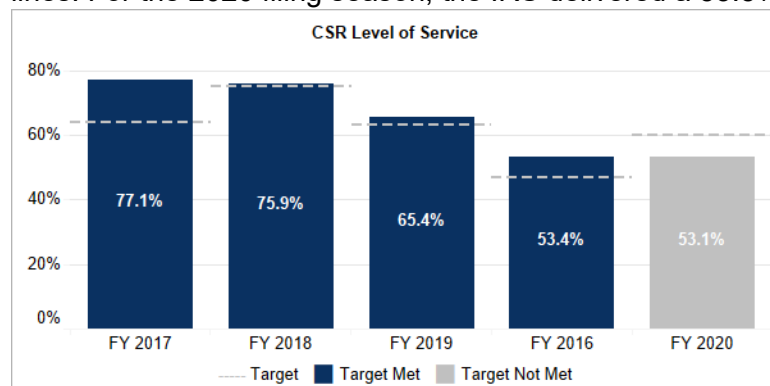
Improving the Taxpayer Experience

The IRS reinstated Form 1099-NEC, *Non-Employee Compensation*, for TY 2020 to separate non-employee compensation from Form 1099-MISC, *Miscellaneous Income*. This eased the filing burden on some taxpayers because the due date for reporting non-employee compensation is January 31, and the due date for other Form 1099-MISC reporting is March 31.

Meetings with external partners also yielded opportunities to improve the Free File program, which provides eligible taxpayers a dozen options for brand-name software products. The IRS worked to make the Free File program more taxpayer friendly and to protect taxpayers. Following the changes made to Free File for the 2020 filing season, IRS Free File online products saw a 50% increase, with more than 4.1 million taxpayers using one of the free online partner products, compared to 2.7 million in FY 2019.

Toll-Free Help Line

The IRS's toll-free telephone line is one of the world's largest customer service phone operations. In March 2020, the IRS suspended customer service phone operations in response to the COVID-19 pandemic. In May, the IRS gradually began resuming CSR-assisted phone lines. For the 2020 filing season, the IRS delivered a 53.5% Telephone CSR Level of Service



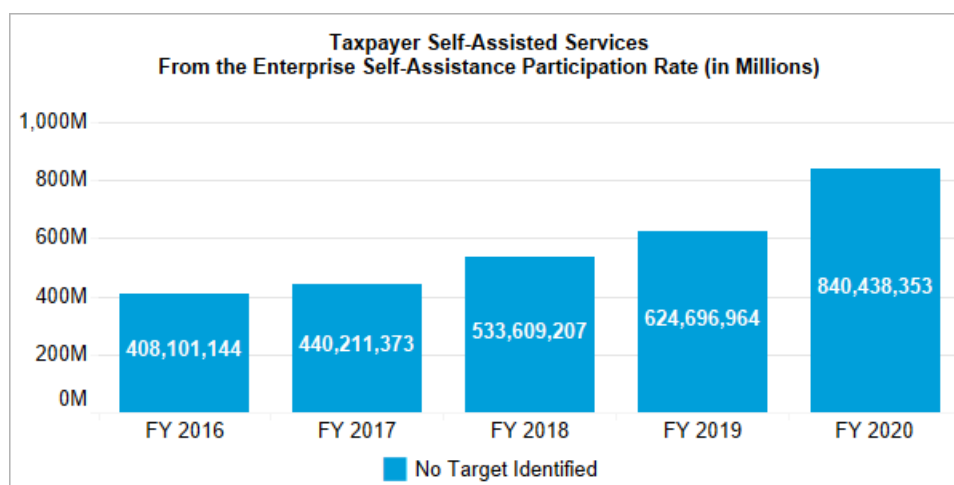
(LOS), which measures the relative success rate of taxpayers who call the toll-free number and connect with an assistor. The average wait time during the filing season was 16 minutes, and the average handle time was 14 minutes. Accuracy for the toll-free tax law and accounts lines remains above 90%, and toll-free customer satisfaction is 80%.

Detecting Potentially Fraudulent Tax Returns

For the 2020 filing season, the IRS used 153 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.

The *Protecting Americans from Tax Hikes Act of 2015* (PATH Act), which requires the IRS to hold refunds on all returns claiming the Earned Income Tax Credit (EITC) and/or the Additional Child Tax Credit (ACTC) until February 15 of each year, dramatically increased the amount of wage and withholding data available to the IRS earlier in the filing season. After a review of the 2018 performance, the IRS adjusted the Return Review Program's systemic verification process to improve the accuracy of the selections, increase the frequency of W-2 data updates, and streamline the selection process. As a result, non-identity theft selections decreased by 53.8% compared to 2018.

Online Services: Supplying More Digital Options



The IRS continues to make significant strides to develop, implement, and improve digital tools to supply more customer service options and allow the IRS to maximize the effectiveness of its resources.

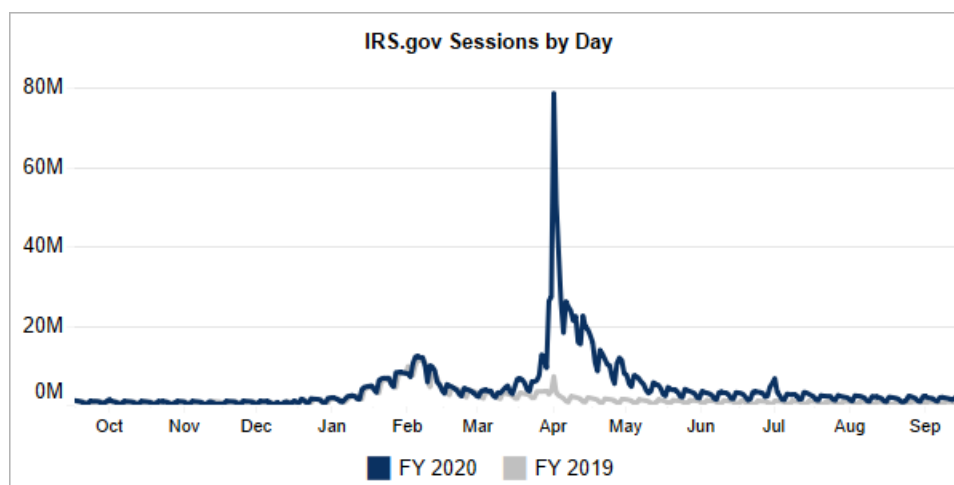
Get My Payment (GMP) Tool – COVID-19 Economic Impact Payments

As noted above, the IRS launched the GMP tool to support the efficient delivery of EIPs to taxpayers. The GMP allows taxpayers to check on the status of their EIP and, if necessary, supply direct deposit information for faster payment. This debut drove a record number of visits to the IRS website. Individuals used this tool more than 223 million times, and more than 14.6 million people successfully supplied their banking information.

FY 2020 was a record traffic year for IRS.gov, driven primarily by response to the COVID-19 pandemic EIPs. IRS.gov had the 22 highest traffic days in history, all in the window of April 13 through May 5. There were 78.8 million sessions on April 15, with 47 million sessions visiting the GMP application. Putting that volume into perspective, traffic to the site on April 15 was more than six times higher than the site's previous single-day traffic record. Usage on the GMP portal continue, with information provided for more than 287 million inquiries.

On-line Usage

In FY 2020 there were 1.60 billion IRS.gov sessions, a 146% increase from FY 2019. As discussed above, the IRS experienced record traffic primarily due to EIPs.



Mobile Device Usage

Visits to the GMP application were primarily mobile, and as a result, the overall percentage of IRS.gov visits from mobile devices was 66% in FY 2020, up from 54% in FY 2019. Additionally, 14.9 million people used the IRS2Go mobile application at least once during the year.

IRS.gov Page Views

FY 2020 also set a record for IRS.gov page views with 9.2 billion, up 175% from FY 2019 and driven by the same factors prompting the increase in sessions.

IRS.gov Page Views	FY 2019 (Oct. 1 – Sep. 30)	FY 2020 (Oct. 1 – Sep. 30)	% Change
Total IRS.gov Visits	651.0M	1.60B	146%
Mobile Visits	350.5M	1.07B	204%
Mobile Visits as % of Total Visits	54%	66%	23%
Total Public User Portal (PUP) Page Views	1.6B	4.2B	161%
IRS2Go Active Users	10.0M	14.9M	50%

Expanding Digital Service Options

In addition to the deployment of the new GMP application, the IRS expanded the availability of taxpayer digital communication alternatives while also making several enhancements to existing digital services. The IRS expanded the SB/SE Correspondence Examination support from two campus locations to five. In FY 2020, Campus Correspondence Examination's performance results were 2,680 taxpayers with an overall 83.2% satisfaction rate.

Other digital service improvements included additions to the taxpayer online account by increasing payment history information from 24 months to 5 years and adding a new feature to

allow taxpayers to determine eligibility for participation in a payment plan and a display of scheduled or pending electronic payments on the payment activity page.

Expanding Multilingual Products and Services

The IRS continues to make progress in expanding communication products and services for multilingual communities. The 2020 Form 1040 is available in Spanish for the first time, and another enhancement to the form gives taxpayers the opportunity to indicate whether contact with them should be in a language other than English. Taxpayers who interact with an IRS representative now have access to over-the-phone interpreter services in more than 350 languages.

The IRS.gov landing page now features a language selection drop-down menu in the main navigation area to allow limited English proficiency taxpayers to find tax information and free products and services in seven languages. A new multilingual page on IRS.gov provides basic tax information, including Publication 1, *Your Rights as a Taxpayer*, in 20 languages.

Providing Outreach and Education to Tax Professionals

To help improve the taxpayer experience, the IRS remains firmly committed to educating tax professionals about their responsibilities and limitations under Treasury Department Circular 230, *Regulations Governing Practice before the Internal Revenue Service* (Circular 230), and their ethical obligations to taxpayers and tax administration.

During FY 2020, the IRS performed its outreach activities through in-person and virtual presentations conducted through on-line webinars, telephonic operations, and electronic media. In FY 2020, the IRS created a new webinar titled, *The Office of Professional Responsibility: Circular 230 and What You Need to Know About Practicing before the IRS*. In FY 2020, about 11,395 tax professionals viewed the webinar. The IRS educated tax professionals about Circular 230 provisions at numerous events, including the IRS Nationwide Tax Forums. In FY 2020, the IRS reached nearly 31,900 tax professionals and IRS employees during 25 events, which consisted of in-person, telephonic, and electronic media.

Due to the COVID-19 pandemic, the IRS converted the six in-person Nationwide Tax Forums with course offerings to an online platform. There were more than 10,300 paid attendees, a strong showing that put attendance in line with previous in-person forums.

Key Performance Measures		
Performance Measure	FY 2020 Target	FY 2020 Results
Customer Service Representative (CSR) Level of Service	60.0%	53.1% ○
Customer Accuracy – Tax Law Phones	92.0%	91.0% ○
Customer Accuracy – Customer Accounts (Phones)	94.0%	93.5% ○
Timeliness of Critical Individual Filing Season Tax Products to the Public	89.0%	78.4% ○
Timeliness of Critical TE/GE and Business Tax Products to the Public	89.0%	96.0% ●
Percent of Business Returns Processed Electronically	60.0%	67.4% ●
Taxpayers Satisfied with the IRS	Indicator	N/A

● Target Met ○ Target Not Met

Explanation of Shortfalls

Customer Service Representative (CSR) Level of Service (LOS) was 53.1%, below the FY 2020 target of 60.0%. This was due primarily to the effects of COVID-19. Sites incrementally began closing March 16. All sites and toll-free lines were closed on March 31. Accounts Management phone lines began a phased approach for reopening in the months of May and June based on resources for telework. Taxpayer Assistance Center lines reopened June 26.

Customer Accuracy – Tax Law Phones was 91.0%, below the FY 2020 target of 92.0%. The primary reason can be attributed to all Tax Law toll-free applications being inactive from April 1 – June 12. When Tax Law phones resumed on June 15, the inactivity due to the COVID-19 severely impacted the enterprise quality, causing 30 Customer Accuracy defects charged over the remaining 12 business days of the planning period.

Customer Accuracy - Accounts (Phones) ended the fiscal year at 93.5%, below the FY 2020 target of 94.0%. The IRS closed all toll-free lines on March 31 to mitigate the spread of COVID-19 and began opening with limited staffing the week ending May 2 with services limited to the Taxpayer Protection Program lines. Other lines continued opening throughout the months of May and June. Taxpayer Assistance Centers was the last product line to reopen on June 26. The IRS will continue to monitor results through data driven analysis of reports obtained from Embedded Quality Review System (EQRS) to ensure achievement of future goals. Ongoing efforts have and will continue to focus on production meetings with field sites, promoting coding consistency of product reviews, and providing training to managers and employees to ensure quality service to customers.

Timeliness of Critical Individual Filing Season (CIFS) Tax Products to the Public ended the fiscal year at 78.4%, below the FY 2020 target of 89.0%. The December 20, 2019, enactment of Public Law 116-94 did not allow enough time to incorporate the new laws into the tax products by January 20, 2020. The legislation effected over 160 tax products; 34 (40%) of these were CIFS, many of which were already released to the public. Despite prioritization, workload planning, and the use of overtime, compensatory hours, and credit hours by IRS employees on weekdays, weekends, and holidays, the results fell 11.9% short of the annual target of 89%.

Protect the integrity of the tax system by encouraging compliance through administering and enforcing the tax code

Strategic Plan Goal Level Measure	FY 2020 Target	FY 2020 Results
Time to Start Compliance Resolution	Indicator	66%

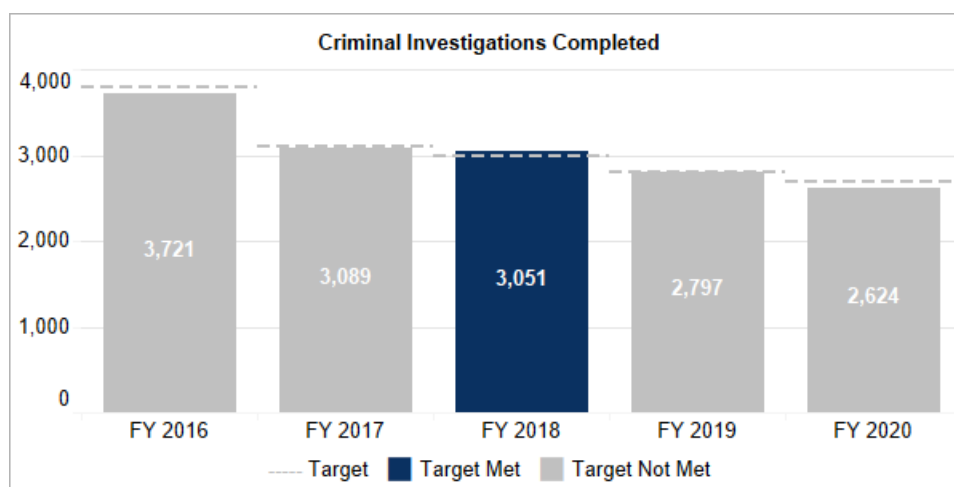
Progress toward goal: This new measure added for FY 2020, measures the percentage of all individual income tax enforcement cases started within six months of the return posting date.

One of the IRS's highest priorities is to ensure taxpayers comply with the tax law. The IRS continues to develop innovative approaches to understanding, detecting, and resolving potential noncompliance to maintain taxpayer confidence in the tax system. In FY 2020, for example, the IRS launched a campaign called *Unlock Fraud Referrals – You Are the Key*, which focuses on recognizing fraud, developing solid cases, and referring the cases for criminal investigation. Law-abiding taxpayers need to know that the IRS is doing all it can to catch those who are not paying their fair share.

Criminal Investigations

The IRS Criminal Investigation (CI) organization investigates potential criminal violations of the Internal Revenue Code and related financial crimes to enforce accountability and maximize deterrence of criminal activity. This includes money laundering, currency violations, tax-related identity theft fraud, and terrorist financing. Using its unique authority and financial expertise, IRS-CI contributes to important national law enforcement priorities. FY 2020 performance highlights included:

- Completing 2,624 criminal investigations.
- Achieving 1,187 convictions with a conviction rate of 90.4%.
- Achieving a Department of Justice case acceptance rate of 91.6% and a U.S. Attorney case acceptance rate of 92.4%, which compares favorably with other federal law enforcement agencies.



The Questionable Refund Program (QRP) identifies schemes that involve one or more individuals who use genuine identities for the purpose of preparing and filing fictitious tax returns

that claim bogus income and deductions to generate fraudulent claims for refunds. Similarly, through its Return Preparer Program, IRS-CI encourages compliance by engaging in enforcement strategies targeting untrustworthy or incompetent return preparers. These strategies include education, outreach, and coordinated cross-functional publicity.

The IRS-CI Cyber Crimes unit identifies and pursues criminal investigations where there is reason to believe the subject is committing a tax or other financial crime through the internet. The internet provides perpetrators the means to commit the crime, remain anonymous, and elude law enforcement, as well as conceal financial transactions, ownership of assets, or other evidence. The IRS-CI Cyber Crimes unit also collaborates with other federal law enforcement agencies to identify the movement of criminally derived profits utilizing virtual currency and the Dark Web. FY 2020 performance highlights included:

- Initiated 140 criminal investigations.
- Completed 187 criminal investigations.
- Achieved 108 convictions with a 97.3% conviction rate.
- Achieved a 77.7% publicity rate.
- Identified 229 schemes, comprised of 133,451 individual tax returns with more than \$530 million in potentially fraudulent refund claims.

International Tax Compliance

New patterns and trends emerging in complex international tax avoidance schemes and cross-border transactions have heightened the IRS's concerns about tax avoidance by individuals and entities with an international footprint. As international tax and money laundering crimes have increased, the IRS continues to protect the integrity of the U.S. tax system by helping the American taxpayers understand and meet their tax responsibilities and by enforcing the law with integrity and fairness, worldwide. The partnership initiative of the Joint Chiefs of Global Tax Enforcement (J5), between the criminal tax authorities of the United States, the United Kingdom, Canada, Australia, and the Netherlands continued to play a major role in combatting international tax and financial crimes through proactive collaboration.

High-Income Nonfilers

The IRS continues to prioritize and pursue high-income nonfilers by using multiple identification strategies. Using the Case Creation Nonfiler Identification Process (CCNIP), the IRS selected 100% of the identified high-income nonfiler cases for TYs 2016 through 2018. If the taxpayer does not voluntarily comply or respond after receiving two notices, the IRS proceeds with other IRS treatment streams, such as the Automated Substitute for Return, where the IRS generates an assessment for the missing return. In addition to the CCNIP process, the IRS developed several new compliance programs including virtual currency nonfilers, return preparer nonfilers, the network nonfiler test and learn, and nonfilers of Form 8300, *Report of Cash Payments Over \$10,000 Received in a Trade or Business*.

In FY 2020, the IRS used a combination of data analytics, media outreach, and strategic use of its civil enforcement investigators to engage the most egregious high-income nonfilers through a specialized field operation, called *High-Income Delinquent Filer Revenue Officer Compliance Sweep*. The goal was to contact high-income nonfilers face-to-face to determine why they did not file, educate them on their legal responsibilities, and bring them into compliance.

The IRS has been testing new predictive models used in the case creation process, including their value in providing early filing reminders to taxpayers at risk of failing to file. The IRS is considering data-driven approaches for incorporating these case creation models into systemically starting nonfiler cases and proposing effective methods of outreach to encourage filing compliance based on predicted behavior and risk of non-filing.

Large Businesses - Campaigns

The IRS continues to position enforcement resources on issue-based campaigns. The IRS identifies issues that are significant compliance risks, then selects and executes one or more treatment streams directed to achieve compliance objectives. Campaign treatment streams include issuing administrative guidance, executing industry issue resolutions, conducting events, providing outreach, proposing legislation, publishing procedures or guidance, and modifying or creating IRS tax forms or publications. The campaign approach leverages IRS knowledge, deploying the right resources to address the right issues. During FY 2020, the IRS announced five additional campaigns bringing the total number of campaigns to 53.

Tax Cuts and Jobs Act of 2017 - Compliance Phase

The IRS FY 2020 Tax Cuts and Jobs Act (TCJA) efforts included developing and issuing the remaining guidance on several provisions that affect large and international taxpayers, as well as identifying and addressing any risks in previously issued guidance. The IRS launched several campaigns dedicated to addressing TCJA compliance. The IRS continues taking steps to ensure its workforce is well-prepared to examine tax returns incorporating TCJA provisions.

Ensuring Compliance by Exempt Organizations

The IRS continues to refine its issue-based strategy approach to ensure examination programs focus on the highest priority compliance areas to promote effective tax administration of the Exempt Organization sector. The IRS considers a variety of treatment streams in using the most appropriate cost-effective and least intrusive approach to achieve compliance. In FY 2020, the IRS provided additional fraud awareness education for employees to improve fraud detection and implemented a new process to detect potential fraudulent transportation fringe benefit claims.

Ensuring Preparer Tax Identification Number Compliance

In treating preparer tax identification number (PTIN) program noncompliance, the IRS mailed 8,696 compliance letters to preparers who filed returns in calendar year 2019 with an invalid PTIN. Sixty-five percent (5,666 of 8,696) of tax return preparers obtained or renewed their PTIN by February 24, 2020. The IRS called 383 preparers who failed to comply, resulting in another 166 preparers obtaining or renewing their PTIN.

Emerging Tax Issues

The IRS routinely monitors new and emerging compliance areas that require attention, including virtual currency, taxpayers working through online platforms (Gig Economy), and the marijuana industry. Along with enforcement activities, the IRS is providing outreach and education in these areas:

Virtual Currency: In March 2020, the IRS hosted a Virtual Currency Summit that brought together stakeholders to discuss virtual currency industry issues and subsequently issued several pieces of guidance, including Notice 2014-21 and Revenue Ruling 2019-24. The IRS began sending about 10,000 letters to virtual currency owners advising them to file amended returns and pay back taxes if they omitted or inaccurately reported virtual currency transactions.

Gig Economy: To evaluate compliance, the IRS sent notices to a population of gig workers identified as underreporting their gig income. The IRS will monitor whether these taxpayers filed an amended return after receiving the notice. The IRS performs outreach to the community on the tax implications of earning income in the gig economy, such as the *Gig Economy Tax Center* website with pages for gig workers and platform companies and Publication 5369, *Gig Economy and your taxes: things to know*, to provide gig workers with basic tax information.

Marijuana Industry: During FY 2020, 33 states and the District of Columbia allowed state-sanctioned use of marijuana. The IRS developed a marijuana strategy to evaluate the scope of noncompliance, provided examiners with appropriate training, and provided taxpayers with specific industry guidance.

Abusive Tax Shelters

The IRS remains committed to pursuing those who promote and make use of abusive tax shelters. As part of these efforts, the IRS *High-Income Nonfilers Initiative* will increase examinations of individual income tax returns with total positive income of \$10 million or more. The expansion of the *Global High Wealth* compliance program will support efforts to improve the IRS's compliance activities focused on the wealthiest individual taxpayers. The IRS developed a Business Master File (BMF) Strategy to combat tax noncompliance by tax return preparers, promoters, and others who create schemes designed to obtain fraudulent business-related refunds, credits, or deductions. This includes liabilities that flow through to individual tax returns.

In addition, the IRS developed an *Emerging Issue Strategy* to provide a formal structure to identify and evaluate emerging tax issues that significantly affect tax compliance. Beginning as an issue-based campaign, the IRS formed 12 new examination teams to audit taxpayers who claim potentially abusive micro-captive deductions.

Private Debt Collection

Under the private debt collection program, the IRS assigns certain overdue federal tax accounts to one of four private-sector collection agencies. Since the start of the program, private collection agencies have assisted 329,000 taxpayers who either established a payment arrangement or paid their account in full. The IRS announced in an October 2019 News Release that taxpayers working with a private collection agency can choose to select the convenient and secure pre-authorized direct debit option to make one or a series of payments to the IRS. The IRS also communicated this option to taxpayers in the November 2019 revision to Publication 4518, *What You Can Expect When the IRS Assigns Your Account to a Private Collection Agency*.

Effective January 1, 2021, the TFA requires the IRS to exclude taxpayers who receive Social Security Disability Supplemental Security Income (SSDSI) and Supplemental Security Income (SSI) from the private debt collection program. Implementation of this TFA exclusion requires an exchange of data with the SSA. However, the SSA cannot lawfully provide data on SSI recipients. Therefore, the IRS and the SSA collaboratively drafted an informal technical change

to the law, which would permit the SSA to provide and exchange all data needed to implement this provision of the TFA. The IRS submitted the technical change, and in anticipation of the changes being enacted, the SSA and the IRS continue to collaborate and build the technical requirements for the data exchange.

Tax-Related Identity Theft

Safeguarding IRS systems and taxpayer data from tax related identity theft remains an IRS priority, and the agency works continuously to address this threat to the tax system. Despite progress, the IRS remains concerned that identity thieves continue to grow in sophistication.

The IRS's key indicators of identity theft on tax returns have continued to drop at a time when many private sector organizations continue to struggle with this issue. Between 2015 and 2019, the number of taxpayers filing identity theft affidavits as identity theft victims fell 79% from 677,000 in 2015 to 137,000 in 2019. Between 2015 and 2019, the IRS protected a combined \$26 billion in fraudulent refunds by stopping confirmed identity theft returns. Over the same period, the IRS recovered an additional \$1.7 billion in fraudulent refunds with the help of financial industry partners.

Tax Practitioners' Professional Responsibilities

The IRS is responsible for the oversight of tax practitioner interaction with tax administration. During FY 2020, the IRS focused on education and outreach to minimize the number of tax practitioners who deflect from their professional responsibility obligations. To the extent a tax practitioner fails to adhere to the tax practice principles set forth in Circular 230, the IRS timely applies the appropriate level of discipline that will either put the tax practitioner back on track regarding proficiency and integrity in their tax practice or bar the practitioner from practicing before the IRS. Besides ensuring tax practice principles, the IRS takes disciplinary action against practitioners for tax noncompliance.

Key Performance Measures		
Performance Measure	FY 2020 Target	FY 2020 Results
Examination Coverage – Individual (1040)	0.48%	0.29% ○
Examination Coverage – Business (assets >\$10M)	1.7%	1.3% ○
Examination Efficiency – Individual (1040)	115	76 ○
Automated Underreporter (AUR) Coverage	1.7%	0.6% ○
Collection Coverage	39.7%	34.9% ○
Time to Resolve Compliance Issue After Filing (median days)	Indicator	491
Repeat Noncompliance Rate	Indicator	35.6%
Cost to Collect \$100 (in cents)	Indicator	N/A
Criminal Investigations Completed	2,700	2,624 ○
Conviction Rate	92.0%	90.4% ○

● Target Met ○ Target Not Met

Explanation of Shortfalls

Exam Coverage – Individual: Coverage was 0.29%, 39.6% below the FY 2020 target of 0.48%. The effects of the COVID-19 shutdown drove closures 24.9% lower than FY 2019 while filings continued to rise. IRS Operating Divisions will monitor resources, starts, and work-in-process to ensure FY 2021 targets are met.

Exam Coverage – Business ended the fiscal year at 1.3%, below the FY 2020 target of 1.7%. Several non-examination activities that took examination resources offline included:

- New hires in training and examiners conducting new hire training.
- Examiners taking make-up TCJA training.
- Hiring/moving managers to the new training groups, and loss of productivity due to delays resulting from the COVID-19 working environment.
- Reduced contacts with taxpayers.

Exam Efficiency – Individual was 76, falling short of the FY 2020 target of 115, due to the COVID-19 shutdown. The IRS will continue to monitor starts and the movement of inventory. IRS expects improvement in starts once the People First initiative expires, but closures and targets will not be met due to COVID-related impacts.

Automated Underreporter Coverage ended FY 2020 at 0.6%, below the target of 1.7%, due to office closures caused by COVID-19. When employees were able to return to the office time was spent on screening since they did not have access to all correspondence due to backlogs in mail rooms. Early in the year, closures were decreased due to fewer cases being available. This was a lasting effect of the FY 2019 lapse in appropriations. SB/SE will monitor resources, work in process, and planned starts to ensure FY 2021 targets are met.

Collection Coverage was 34.9%, below the FY 2020 target of 39.7% as a result of a decrease in collection dispositions related to Covid-19 and a decrease in available inventory. Collection missed its overall disposition target by 4.8%. Total new receipts were down 20% while available inventory decreased 11.7%.

Criminal Investigations Completed was 2,624, falling short of the FY 2020 target of 2,700. COVID-19 impacted day-to-day investigative activities, contributing to a higher cycle time for investigations completed. Additional factors such as the steady decrease in the number of special agents available to work cases (due to attrition and limited hiring) as well as CI's continued focus on traditional tax case programs, which tend to have a higher cycle time, continued to impact Criminal Investigation's overall performance. Despite this, Criminal Investigation continues to utilize proven case development strategies, expand case development efforts, and leverage interagency partnerships to identify, initiate, and complete significant criminal investigations in all program areas.

Conviction Rate is 90.4% below the FY 2020 target of 92% as convictions decreased more than 31% to 1,187 compared to FY 2019. The COVID-19 pandemic led to temporary court closures throughout the country and impacted day to day investigative activities in support of the judicial system thereby contributing to less cases being processed. Additionally, decreases in the number of special agents in previous years led to a decline in the total amount of cases initiated and consequently recommended for prosecution. Despite this, appropriate case selection and effective field performance continue to positively affect the quality of cases resulting in convictions. Criminal Investigation's rate of conviction continues to be a strong indicator of investigative quality given that it is one the highest in federal law enforcement. Since Criminal Investigation does not prosecute its own cases, it must depend on the ability of the DOJ to accept its cases for prosecution and to move such cases through the courts. Criminal Investigation management will continue its efforts of appropriate and consistent contact with DOJ and U.S. Attorney Offices regarding prosecutorial priorities and the appropriate movement of pipeline investigations to ensure a high rate of conviction.

Collaborate with external partners proactively to improve tax administration

Strategic Plan Goal Level Measures (Milestone Based)	Status
Process CARES Act EIPs Timely in Partnership with the Bureau of Fiscal Services	Completed ●
Develop the IRS Taxpayer Experience Strategy in Collaboration with our Stakeholders	Completed ●

● Milestone Completed ○ Milestone Ongoing

Progress toward goal: In FY 2020, the IRS continued to expand relationships outside the traditional outreach and communication channels to deliver messages about the filing season, tax scams, coronavirus tax relief, and other topics. The IRS also continued efforts to improve outreach to the underserved, millennials, and those who speak English as a second language.

To support the nation's tax system, the IRS must work with partners inside and outside the tax community to improve service and outreach to taxpayers, enhance collaboration, and share leading practices. Outreach efforts also work in coordination with IRS communications to share information with taxpayers across the nation.

Partnering with Foreign Governments to Improve Tax Administration

One of the IRS's goals is to expand partnerships with foreign governments and international organizations to address global tax administration concerns. The IRS is achieving this goal through its many interactions with two international organizations, the Organization for Economic Cooperation and Development (OECD) and the Inter-American Center of Tax Administrations (CIAT). Participation in these groups enable the IRS to improve taxpayer service and tax compliance and share internal best practices on tax governance, including tax control frameworks of multinational enterprises.

Security Summit

During FY 2020, the IRS and its partners in the Security Summit continued to implement measures to combat tax-related identity theft. The Security Summit continues to demonstrate the importance of collaboration between the IRS and its external partners – including the states and representatives from the private sector, both inside and outside the tax community. Security Summit members continue to meet regularly – including the annual Security Summit meeting in December 2019 – to discuss, emerging issues and new initiatives in combating identity theft and refund fraud. An important Security Summit initiative has been the Identity Theft Tax Refund Fraud – Information Sharing and Analysis Center, commonly referred to as the ISAC. This is an important platform for the IRS and its partners in their day-to-day efforts to combat identity theft by helping them gain near-term data on emerging trends.

Key Performance Milestones	
Action	Status
Increase transparency through building Congressional relationship	Ongoing ○
Expand social media capabilities and platforms	Ongoing ○

● Milestone Completed ○ Milestone Ongoing

Cultivate a well-equipped, diverse, flexible, and engaged workforce

Strategic Plan Goal Level Measure	FY 2020 Target	FY 2020 Results
Employee Engagement Index	Indicator	N/A

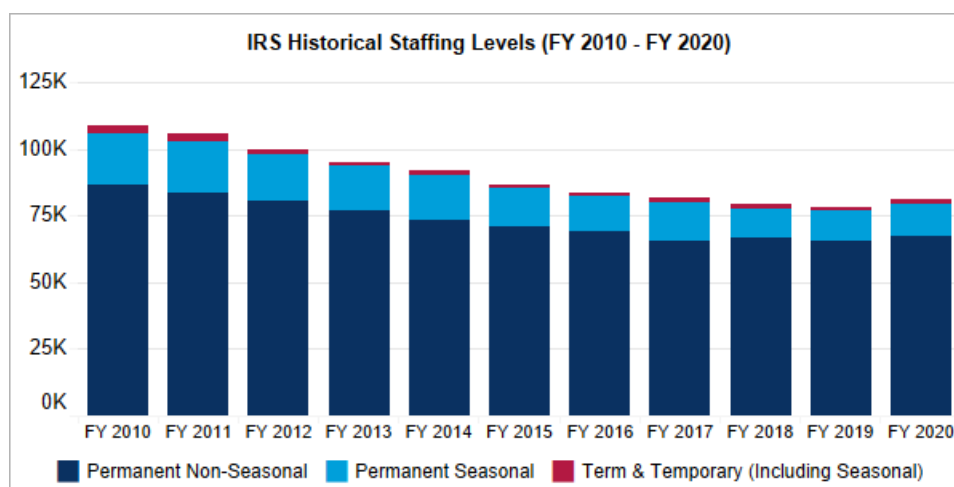
Progress toward goal: In FY 2020, the IRS began developing a comprehensive training strategy to address requirements of the TFA and to support employee development with training opportunities and clear career paths. The final strategy will be reported to Congress in December 2020. The IRS implemented a project entitled “HCO 2022” to determine and implement a new human resource delivery strategy for IRS employees.

The IRS is committed to planning, delivering, assessing, and managing its workforce effectively. Taxpayer service, enforcement, and business modernization efforts require a strong workforce. Supplying end-to-end accountability and promoting partnerships to support customers and operational goals ensures consistent service delivery throughout the human resources lifecycle to effectively attract, develop, and support a world-class workforce.

State of the Workforce

In FY 2020, the IRS employed about 81,272 employees, including 13,650 temporary and seasonal staff. The current FY 2020 staffing levels represent a 3.53% increase since the end of FY 2019. However, the IRS lost more than 33,378 full-time personnel between FY 2010 and FY 2020, including more than 13,388 key enforcement personnel. These losses included revenue agents and revenue officers who audit tax returns and perform collection activities; as well as special agents who investigate tax-related crimes and other issues.

Although the IRS workforce increased over the past year, IRS staffing levels are still below those of FY 2010. The graph below depicts a year-by-year summary of the IRS's total workforce and its subset of temporary and seasonal workforce from 2010 to 2020.



In FY 2020, the IRS continued to transform its hiring process by moving to a workstation concept, ending the hiring backlog and positioning itself to meet hiring requirements timely. In response to the COVID-19 pandemic, the IRS modified the onboarding process and conducted its first-ever virtual orientation on March 30, 2020, for more than 170 new hires. This new

process enables new hires to present required identification virtually and take the oath of office via video or telephone to avoid unnecessary in-person contacts.

Talent Management

The IRS revitalized its Enterprise Workforce Planning Program (WFP) to improve talent management agency-wide, with an agile IRS workforce responsive to current and future operational requirements and changes as its primary goal. The Enterprise WFP promotes integrating human capital management business strategies, processes, and procedures to inform Talent Management function and enables the delivery of a sustainable workforce planning capability.

The TFA renewed the IRS's Streamlined Critical Pay (SCP) authority through September 30, 2025. The SCP provides unique personnel and pay flexibilities to aid in recruiting highly skilled information technology professionals, such as engineering, architecture, cybersecurity, and online services.

Employee Learning and Development

The IRS continued to provide employees with training and developmental opportunities to meet their job obligations and career aspirations. In FY 2020, the IRS developed and deployed Career+ career pathing and career broadening experiences. The newly created Enterprise Talent Development Program provides career management for similar occupational series to align career goals with developmental and training opportunities.

To cultivate a well-equipped workforce, the IRS entered a new partnership with Gallaudet University to expand Disability Service Division employees' knowledge and understanding of the "deaf culture" customer experience and expectations. In fostering a diverse and inclusive workforce, the IRS encouraged employees to self-identify known disabilities and update the human resources system to obtain accurate demographics for IRS employees with disabilities.

Knowledge Management

The IRS Servicewide Knowledge Management (SKM) Program centers around four critical pillars: Share, Connect, Learn, and Improve. The program bases its strategies on best practices of organizational programs worldwide with the goal of promoting collaboration, knowledge capture before attrition, data sharing, and building expertise across the IRS. During FY 2020, the IRS trained more than 720 managers and 2,023 employees on Knowledge Capture Tools and Templates.



Several new knowledge repositories were added to the IRS Virtual Library to preserve accumulated knowledge about working complex corporate examination issues, such as large partnerships under the *Bipartisan Budget Act of 2019* tax regime, banking, real estate investment trusts, regulated investment companies operating under the *American Jobs Creation Act*, and TCJA provisions.

Working During the COVID-19 Pandemic

The IRS sought and used employee suggestions to improve workload selection and develop practical solutions for working during the COVID-19 pandemic period. Frequent town halls, news alerts, human interest features in monthly publications, and options for posting feedback encouraged all employees to stay in touch with leadership on key concerns during the pandemic period. The IRS is assessing whether reopening IRS offices will have inequitable effects on employees.

Key Performance Measures		
Performance Measure	FY 2020 Target	FY 2020 Results
Inclusion Quotient Index	Indicator	N/A
Overall Attrition Rate	Indicator	6.65% ¹
Hiring Cycle Time	80.0	119.5 ○

● Target Met ○ Target Not Met

Explanation of Shortfall

Hiring Cycle Time: Hiring is a shared program between the IRS business operating divisions. The IRS is continuing to streamline hiring actions. However, some parts of the IRS experienced a "strategic pause" on the issuance of job offers, while others requested additional time to complete tasks for various reasons, such as pre-hire, funding, training, interviews, COVID-19, and onboarding.

¹ The overall attrition rate shown is pure losses for permanent employees compared to starting on-rolls.

Advance data access, usability, and analytics to inform decision-making and improve operational outcomes

Strategic Plan Goal Level Measures (Milestone Based)	Status
Establish a Comprehensive Catalog of Data Sources	Completed ●
Create Data Governance Council	Completed ●

● Milestone Completed ○ Milestone Ongoing

Progress toward goal: In FY 2020, the IRS developed its first learning agenda, which outlines 10 key research questions that align to its FY 2018-2022 Strategic Plan goals and objectives. The IRS also established an Innovation Lab to help develop and execute its data strategy.

The IRS strives to provide superior service to taxpayers and their representatives and ensure successful implementation of changes in tax laws. Using analytics, the IRS works continuously to improve its operations: taxpayer service, enforcement efforts, and its internal functions.

Taxpayer Service

Addressing Critical Staffing Needs in Taxpayer Assistance Center Locations

The IRS implemented a two-year staffing plan designed to address critical staffing needs in Taxpayer Assistance Center locations, identified through an analysis of appointment data to focus on current and projected staffing needs.

Preventing Identity Theft

The IRS made significant progress on the collaboration and enhancements to its identity theft detection processes. Since partnering with the Security Summit, the IRS increased identify theft prevention through data analytics and is continuing this trend. For example, in processing year 2018, the IRS successfully protected between \$6.03 billion and \$6.08 billion in identity theft refunds, while between \$0.09 billion and \$0.38 billion of identity theft tax refunds went unprotected. This is a substantial improvement from processing year 2015, when the IRS successfully protected between \$12.35 billion and \$12.88 billion in identity theft refunds and between \$2.24 billion and \$3.34 billion of identity theft tax refunds went unprotected. Unprotected identity theft tax refunds include those refunds paid on probable identity theft refund fraud claims and will most likely be unrecoverable.

Customer Experience Analyses

The IRS used automation to retrieve, catalog, and manage data at scale; for example, the IRS collected and analyzed more than 649,000 survey responses from taxpayers who visited the site for information about EIPs. That data allowed the IRS to find common issues to enhance the Get My Payment application. The IRS connected data from across end-to-end service journeys to identify improvements. As an example, data suggested that many visitors to the online account left the application to visit the online payment agreement tool only to check their payment agreement status, and not to create a new payment agreement. The IRS brought payment agreement status information within the online account itself, removing unnecessary steps. In FY 2020, the IRS increased analysis of application log files to better understand technical performance to determine when and where users were getting errors on IRS.gov, electronic authentication, and the taxpayer online account.

Securing Online Interaction for Taxpayers

The IRS Secure Access supplies a more convenient and secure online interaction for taxpayers. Taxpayers can obtain a copy of their tax return transcripts, identity protection personal identification number (IP PIN), and access to other applications. The IRS Secure Access security enhancements have a multifactor authentication process that verifies and establishes an individual's identity before providing access to applications within Secure Access.

Verifying Tax Return Preparers' Credentials

Tax return preparers report their credentials on PTIN applications. To provide valid information to taxpayers on such credentials, the IRS must verify the information provided by the preparers. This is a manual process involving more than 300,000 preparers, which has limited the number of possible reviews completed in one year to about one-third of the total. The Robotic Process Automation (RPA) pilot matched information in the directory for 5 select states to information provided in the state Board of Accountancy directories. To date, the pilot shows credentials in 75% of the select populations with a 99% accuracy rate and about 67% faster than the current process. The IRS expanded this pilot to incorporate 3 more states.

Enforcement

Identifying High-Effect Criminal Activity

The IRS continues to make significant strides in using data analytics to identify criminal activity for investigation. In FY 2017, the IRS-Nationally Coordinated Investigations Unit (NCIU) launched a centrally led team-based approach, to modernize IRS's criminal investigative tools. Since then, it has further reinforced its analytical efforts by enlisting the IRS-CI's applied analytics team and the Compliance Data Warehouse (CDW).

In FY 2020, the IRS-NCIU referred 109 cases for criminal investigation. In addition to the existing initiatives, the IRS-NCIU extensively used data-driven methodologies to identify and refer for criminal investigation numerous COVID-19 related fraud schemes and helped create a one-stop portal containing more than five million COVID-specific documents in order to develop leads and avoid duplicate investigative efforts.

Identifying High-Risk Corporate Tax Returns

During FY 2020, the IRS's Large Corporate Compliance (LCC) program combined data analytics with tax expertise to identify the largest, most complex, and highest-risk corporate tax returns. The LCC automated the previous manual process used to define the population, and considers all returns meeting the established criteria, saving thousands of staff hours.

The IRS promoted collaborative work on advanced data analytics in an innovation lab and focused on compliance enforcement challenges affecting multiple IRS business organizations. The innovation lab was built upon the work of IRS-CI to identify criminal tax fraud cases by matching wages reported by employees, with employer tax filings. This led to the establishment of 11 individual projects using data analytics to improve employment tax administration.

Maintaining a Balanced Circular 230 Enforcement Program

In FY 2020, the IRS began using its CDW to analyze data on tax practitioners who had penalties assessed and to assist in identifying cases that reflect serious Treasury Department Circular 230 *Regulations Governing Practice before the Internal Revenue Service*, violations. However, the number of potential conduct and compliance cases identified in the CDW data far exceeds the capacity to pursue those cases. The IRS's new intake processing team will use a set of objective criteria designed to select cases with the highest likelihood of actionable violations for further development, in addition to those from other sources.

Internal Operations

Implementation of the Foundations for Evidence-Based Policymaking Act of 2018

The IRS significantly contributed to the implementation of the Foundations for Evidence-Based Policymaking Act of 2018, which requires the federal government to modernize its data management practices. The IRS developed the first Learning Agenda of any bureau within Treasury.

Accessing Information Using a Graph Database Environment

Graph database environments provide powerful tools for exploring and understanding relationships between entities in the tax system, including taxpayers, businesses, and return preparers. The IRS developed and deployed a graph database environment that currently supports more than 5,000 users across the IRS. Users can quickly access information to identify relationships between noncompliant taxpayers and other tax-related people, organizations, and transactions, leading to more efficient and actionable investigations. In FY 2020, the IRS developed new features that included a pattern search capability and enhanced reporting on specific compliance issues. The graph data environment currently supports identity theft detection, evaluations of money laundering issues for field examination, with a planned expansion to detect changes in the tax structures of large corporations.

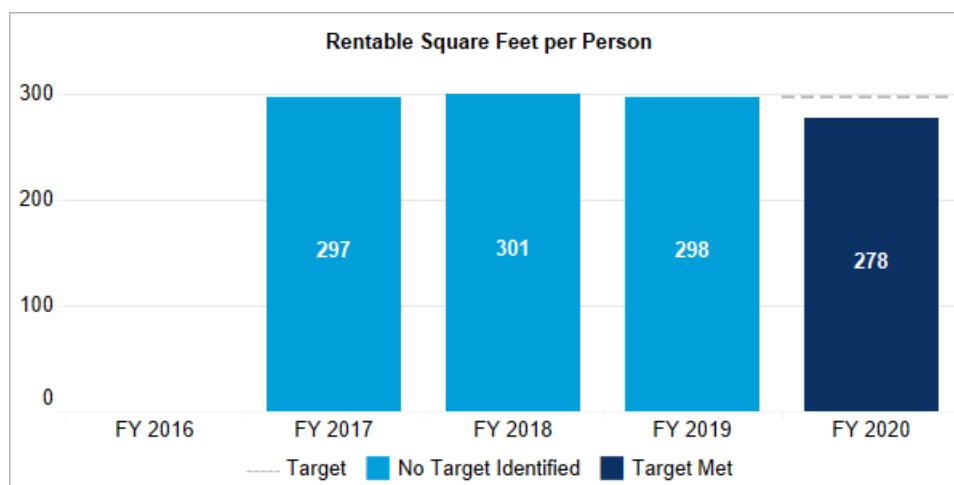
Human Capital Business Processes

The IRS continued to research and identify automation tools promoting effective and efficient program management and service delivery. From developing a data warehouse for reporting systems to Enterprise Case Management, the IRS continues its commitment to modernization and operational efficiency. During FY 2020, the IRS created and used forecasting tools and methods to make informed decisions about future workforce needs. Efforts included:

- Creating a forecasting tool to leverage sets of data to provide a balanced workforce planning approach. Data sets used in the forecasting tool included projected retirements and anticipated hiring and training needs to accurately identify human resource needs.
- Developing data-driven methodologies to prioritize and validate IRS Mission Critical positions. The results of this initiative inform the IRS's initial workforce planning service delivery model and business processes.

Facility Planning

The IRS continued to use data to select the best opportunities to release excess facility space by leveraging the timing of expiring leases and planned renovation projects, and by analyzing IRS housing needs to plan building closures and consolidations. In FY 2020, the IRS released 600,000 square feet of space including the closure of eight buildings from its portfolio and the closure of the former submission processing building in Covington, Kentucky.



Key Performance Milestones	
Action	Status
Development of Enterprise Research Plan	Completed ●
Creation of Innovation Lab	Completed ●
Development of Learning Agenda and Evaluation Plan	Ongoing ○

● Milestone Completed ○ Milestone Ongoing

Drive Increased Agility, Efficiency, Effectiveness and Security in IRS Operations

Strategic Plan Goal Level Measure	FY 2020 Target	FY 2020 Results
Rentable Square Feet per Person	298	278 ●
Percent of Aged Hardware	30.0%	16.0% ●

● Target Met ○ Target Not Met

Progress toward goal: Due to the release of square feet and the large volume of refreshed workstations, the IRS exceeded both targets associated with this goal.

The IRS continues to find ways to streamline and simplify processes and manage expenses to make operations more cost effective. This is necessary for sound financial stewardship and maintaining the physical and digital security of IRS systems and taxpayer information, enhancing internal controls, managing risks, and upholding accountability.

Taxpayer First Act

The passage of the TFA, signed July 1, 2019, created a new congressional mandate for the IRS. The IRS has not had a major reorganization of this magnitude since the implementation of the *Internal Revenue Service Restructuring and Reform Act of 1998*. The TFA requires the submission of a comprehensive proposal to Congress for three areas:

- Comprehensive taxpayer service strategy.
- Proposal to update the IRS organizational structure.
- Comprehensive training strategy.

In addition, the TFA has a provision related to the management of IRS information technology and multiple sections with specific requirements to implement a multiyear strategic plan for information technology. The Act also includes another 41 provisions designed to improve taxpayer service and ensure the IRS continues to enforce the tax law in a fair and impartial manner.

The IRS developed robust and effective TFA strategies that reflect taxpayers' input. The IRS prioritized continuous, productive engagement with a wide range of taxpayers, taxpayer representatives, and other stakeholders. The IRS also engaged heavily with employees who interact with taxpayers for their first-hand insights into how the IRS can evolve. Several key themes emerged from this comprehensive outreach including:

- Deliver a seamless experience.
- Expand secure digital communications.
- Provide access to information and promote transparency.
- Expand analytics capabilities.
- Improve agency-wide collaboration and coordination on strategic initiatives.
- Develop taxpayer-focused training.

These themes, along with extensive research and analysis of best practices, set the foundation for the Taxpayer Experience Strategy, Training Strategy, and Organization Redesign Plan. The

IRS implemented these ambitious outreach efforts by integrating stakeholders' perspectives and needs.

The TFA requires the IRS to develop a website by January 1, 2023, enabling users to prepare, maintain, and file Forms 1099 for the IRS and for distribution to others. As part of implementation, the IRS is conducting outreach to a broad base of external stakeholders.

Modernizing the IRS

Published in April 2019, the IRS Integrated Modernization Business Plan describes a six-year modernization roadmap for achieving IRS enterprise modernization goals. The IRS structured the plan into two three-year phases that began in FY 2019. As the IRS concludes the second year of phase one, initial performance results and outcomes show significant progress in delivering the capabilities planned across four pillars:

- Modernized Operations.
- Taxpayer Experience.
- Core Taxpayer Services & Enforcement.
- Cybersecurity & Data Protection.

The key factor for continued success in delivering modernization is stable, predictable, and consistent funding. In FY 2020, the IRS had to re-plan and scale back its modernization commitments due to receiving a lower funding level than requested. Despite these challenges, the IRS made considerable progress toward modernization.

Through June of FY 2020, the IRS delivered 40 new or expanded capabilities, which provided a solid foundation to continue accelerating modernization progress in FY 2021. Key accomplishments include:

Modernize IRS Operations

- *RPA*. The IRS used RPA to reduce the processing time and save around 26,800 hours of manual work per year as part of the IRS's obligation to monitor compliance with Offer in Compromise. In another example, RPA reduced an estimated 7,000 hours of manual work per year when applied to an email referral process and a compliance case management process. The IRS also applied RPA to other internal processes.
- *Application Programming Interface (API)*. APIs allow data exchanges between computers via standard, reusable services and common programming code. This supports IRS business operations and stakeholders who rely on IRS data for authorized purposes by making the process easier and streamlined.
- *Next Generation Infrastructure (NGI)*. NGI provides a more efficient, scalable, and flexible architecture by implementing advanced IT infrastructure tools and technologies for computer, network, and storage activities. This year, the IRS deployed a set of components via an automation tool to provision virtual servers with the latest patches, security compliance, and server domains. This reduced provision times from five days (120 hours) to 28 minutes. The IRS also delivered a strategy to reduce the legacy application code footprint that will reduce dependency on obsolete legacy development languages such as Common Business-Oriented Language (COBOL), Assembly Language Code (ALC), and Visual Basic 6 (VB6).
- *Migrating to the Cloud*. About 49 applications are using cloud technology today, and the IRS plans to deliver the ECM initiative using an IRS- wide cloud-based solution.

Core Taxpayer Services & Enforcement

Customer Account Data Engine (CADE) 2. Completion of CADE 2 will help modernize the technology environment that enables the IRS to process more than 150 million individual tax returns each year and will allow the IRS to more dynamically make changes to the core tax processing Masterfile. CADE 2 consists of multiple transition states or phases. The IRS completed the first phase in 2014 and is now in the second phase and making substantial progress. By the end of June 2020, the IRS converted at least 38% of the legacy code to the Java programming language, which significantly helps modernize and integrate the core code structure. The IRS also completed the CADE 2 Target State Plan by July 2020 in accordance with congressional deadlines set forth in the TFA.

Enterprise Case Management. Transitioning to an ECM system with standard business processes is a complex undertaking. The benefits include allowing authorized IRS employees to see a specific taxpayer's entire range of issues, history of relevant case data and communications, to more quickly resolve cases. This year, the IRS completed a major acquisition for the technical solution that will enable the agency to move forward with the consolidation of many case management systems across the IRS.

Cybersecurity and Data Protection

Protecting systems and taxpayer information against cyber threats is a top priority for the IRS. During FY 2020, the IRS continued working diligently to safeguard the security of its systems and taxpayer data, battling increasingly sophisticated and frequent efforts by cybercriminals to steal data, file fraudulent refunds, and infiltrate IRS systems. The IRS increased monitoring,



detection, and analytical capabilities to find suspicious activity within its systems. These improvements have helped the IRS protect taxpayers while the IRS continues efforts to do more.

The IRS observes and mitigates more than 2.5 million unauthorized access attempts per day, including denial-of-service attacks, unsuccessful intrusion attempts, probes or scans, and other unauthorized connectivity attempts. In FY 2020, the

IRS detected and mitigated 1,016 phishing and malware sites and identified and responded to 324 cyber incidents, 119 of which involved common threats such as removable media, email, and web-based activity. Additionally, the IRS implemented 9,136 content filtering restrictions to mitigate Internet content deemed a security risk to IRS information systems.

Due to the proliferation of sophisticated security threats and sensitive taxpayer information within systems, the IRS has adopted a proactive approach to security that includes continued investment in technology, tools, and processes necessary to defend against expanding cyber threats and to stay current with NIST guidelines.

As part of the IRS Integrated Modernization Business Plan, the IRS continued to deliver key improvements as part of cybersecurity and data protection, such as:

- Identity and Access Management.
- Security Operations and Management.

- Vulnerability and Threat Management.

Enterprise Risk Assessment

The IRS conducts an annual Enterprise Risk Assessment to update the IRS Enterprise Risk Profile that articulates the top risks to achieving its strategic goals. Having a clear line of sight into the top enterprise risks enables IRS leadership to make informed decisions that will encourage innovation, foster change, and lead to more efficient resource allocation. Throughout the past several years, the IRS has operated in an extremely challenging, resource-constrained environment. The IRS updated its FY 2020-2021 Enterprise Risk Profile to reflect the environment that included the CARES Act, the IRS Integrated Modernization Business Plan, the TFA, and disruptions to operations related to the COVID-19 pandemic. The top IRS enterprise risks are:

- Impaired Operations - The risk that significant disruptions, caused by natural disasters or lapses in appropriations, combined with a reliance on paper, manual, and in-person processes, results in halted or slowed operations, hindering the IRS's ability to successfully deliver its mission and make progress in critical areas.
- Adverse Effect of Reduced Enforcement on Compliance - The risk that reduced enforcement activities may adversely affect compliance, erode confidence in the tax administration system, and potentially contribute to the tax gap.
- Effect of Legislation and Non-Statutory Requirements - The risk that legislative or non-statutory requirements, including late, expiring, or retroactive directives that change the IRS's structure, operational or technological requirements may affect the IRS's ability to fulfill its responsibilities.
- Information Technology Operations and Maintenance Budget Reductions - The risk that IRS IT Operations and Maintenance budget reductions will adversely affect the ability to operate and maintain critical information technology systems and lead to increased system downtime when issues occur.
- Taxpayer Experience - The risk that an inability to execute and improve the customer experience, combined with increased demand for services, may negatively affect taxpayers' ability to meet their tax obligations and erode trust and confidence in the IRS.

Key Performance Measures		
Performance Measure	FY 2020 Target	FY 2020 Results
Percent of Major IT Investments within +/- 10% Cost Variance at the Investment Level	90.0%	84.2% ○
Percent of Major IT Investments within +/- 10% Schedule Variance at the Investment Level	90.0%	94.7% ●

● Target Met ○ Target Not Met

Explanation of Shortfalls

Percent of Major IT Investments within +/- 10% Cost Variance at the Investment Level: 16 of 19 major investments (84.2%) were within the cost variance threshold at the close of the 4th quarter, falling short of the FY 2020 target of 90.0%. Significant factors included:

- Account Management Services - caused by the underspend of the AMS project full-time equivalent (FTE). The labor budget was initially allocated to 70 FTE and currently allocated at 60 FTE.
- Customer Account Data Engine 2 - due to a cost underrun for the Individual Tax Processing Engine (ITPE) - Design, Development and Test activity. Last fiscal year, the program initiated an effort to increase resources to the ITPE project in two phases. The IRS implemented first phase and budgeted additional funds for the second phase. In the first quarter, the IRS proceeded with phase one resource levels and re-assessed development velocity. At this time, velocity has stabilized; therefore, the allocation of additional resources is not necessary.
- *Foreign Account Tax Compliance Act (FATCA)* - underrun caused by all FATCA projects categorized as "Keep the Lights On" only, and originally planned enhancements were put on hold.

Information Technology will continue to closely monitor cost reporting for investments in FY 2021 to improve current performance levels for this measure.

LOOKING INTO THE FUTURE – FISCAL YEAR 2021

As the IRS moves into FY 2021, the IRS will continue to pursue its mission on behalf of the American people. The IRS has important work ahead as it continues to implement the TFA, while at the same time continuing to improve the experience of all taxpayers and others who interact with the IRS while navigating complications caused by COVID-19. Throughout this, the IRS must keep the best interests of taxpayers and the nation in its focus.

The IRS is also dedicated to modernizing its systems and maintaining the integrity of the tax system, while also protecting sensitive taxpayer data. As the IRS builds toward the future, it will continue to put taxpayers first, recognize the critical role its workforce plays in fulfilling its mission and make improvements across all lanes of IRS operations. While working hard to enhance every perspective of the taxpayer experience, the IRS is also committed to improving both civil and criminal enforcement efforts and many other priorities.

The success of the IRS is essential to the health of the nation, particularly considering that the vast majority of the country's revenues flow through the IRS each year with billions of dollars distributed to families and others across the country. An illustration of this is the IRS's response to the COVID-19 situation, as described in this report. The IRS was called to provide economic relief during this national crisis while also fulfilling its routine responsibilities of tax administration, and its workforce performed heroically in accomplishing both. This is the latest in a long series of achievements by IRS employees in moments of national crisis through the years. This incremental work occurs in addition to the IRS's regular responsibility of operating the nation's tax system and delivering the tax filing season each year.

To be able to fulfill its mission, the IRS depends on adequate funding. The IRS will continue efforts to secure consistent, long-term funding so that it can deliver quality services to taxpayers, protect the safety and health of our employees, conduct enforcement initiatives to preserve a fair and equitable tax system, and support badly needed long-term information technology modernization efforts.

Even during national emergencies, the entire IRS workforce will remain dedicated to serving taxpayers, respecting their rights and improving the experience they have when they contact the IRS. Everyone at the IRS wants to do more, and the IRS will continue working to meet the challenges faced with innovative ideas and determination, so that the IRS can deliver on its mission of providing top-quality service to the American taxpayer.

INTERNAL CONTROLS AND COMPLIANCE WITH OTHER LAWS

The IRS continued to enhance financial management and appropriate controls that are an integral component of all IRS programs.

Federal Managers' Financial Integrity Act (FMFIA) and OMB Circular A-123, Management's Responsibility for Enterprise Risk Management and Internal Control

Management is responsible for managing risks and maintaining effective internal control and financial management systems that meet the objectives of the *Federal Managers' Financial Integrity Act* (FMFIA). Risk management practices that identify, assess, respond to, and report on risks are considered when designing internal controls and assessing their effectiveness. The IRS assessed risk and internal controls in accordance with OMB Circular A-123 this Circular's Appendix A, Management of Reporting and Data Integrity Risk through a comprehensive internal control assessment and analysis of entity-level and internal controls. Based on the results of this assessment, the IRS provides reasonable assurance that the internal controls over strategic, operational, reporting, and compliance objectives were operating effectively as of September 30, 2020, except for the *Federal Financial Management Improvement Act* (FFMIA) Section 803(a) Non-Conformance with Federal Financial Management Systems Requirements. This Non-Conformance was caused by two FMFIA Section 4 significant deficiencies, Unpaid Assessments and Internal Control Over Financial Reporting Systems. The IRS is a Treasury bureau. FFMIA is managed at the Department level. Treasury reports on this program in its Agency Financial Report.

During FY 2020, the IRS continued to make progress in addressing the FMFIA Section 4 significant deficiencies noted above. Regarding the Unpaid Assessment Significant Deficiency, the IRS uses a well-documented estimation process to mitigate the risk of material misstatement. The IRS will continue to improve data quality and enhance financial systems in order to maintain and improve conditions that led to the unpaid assessments significant deficiency. The IRS is pursuing an accounting standard change that, if successful, along with the implementation of an economic model, will have a significant effect on the issues surrounding this significant deficiency.

The IRS continued to enhance its control posture over its financial management system Information Technology (IT) security. The IRS implemented a strategy and assessment process to verify the effectiveness of internal controls for the financial systems that collect, process, and summarize data to generate the financial statements.

Federal Financial Managers' Financial Integrity Act (FFMFIA)

As noted above, the IRS is not in substantial compliance with FFMIA Section 803(a) due to the two FMFIA Section 4 significant deficiencies discussed above.

Federal Information Security Management Act (FISMA)

In accordance with *Federal Information Security Management Act* (FISMA) requirements and OMB Circular A-130, the IRS maintained an service-wide information security program and provided a comprehensive framework for validating the effectiveness of information security controls over resources that support IRS business operations and goals. Specifically, the IRS

inventory of FISMA reportable systems is compliant with the security requirements from OMB, NIST, Treasury, and IRS internal policies. The IRS completed annual security control testing on these systems, participated in required security authorization and assessment activities, and addressed required Plans of Actions and Milestones (POA&Ms) for identified weaknesses.

Continuity of Operations (COOP)

Under the IRS Information System Contingency Plan (ISCP), the IRS tests application and system contingency plans annually to ensure the recovery of the IRS's technical infrastructure and resumption of processes can be accomplished in the event of an incident or disaster. The IRS conducted exercises and tests to validate that contingency plans were current and executable, backed-up data was available and readable, and Critical Infrastructure Protection assets performed disaster recovery or alternate site processing tests to ensure they could recover within their defined Recovery Time Objective. POA&Ms were assigned for resolution when vulnerabilities were identified during ISCP testing.

The Payment Integrity Information Act (PIIA) of 2019 and the Fraud Reduction and Data Analytics Act (FRDAA) of 2015

The IRS is a Treasury bureau. *The Payment Integrity Information Act (PIIA) of 2019* and the *Fraud Reduction and Data Analytics Act (FRDAA) of 2015* are managed at the Department level, Treasury reports on these programs in its Agency Financial Report.

Government Charge Card Abuse Prevention Act of 2012

In accordance with the requirements of the *Government Charge Card Abuse Prevention Act of 2012*, the IRS provides assurance that its internal control over the use of government charge cards was effective. Specifically, the IRS complied with the Department of the Treasury Charge Card Management Plan and provided agency-wide purchase card guidance for the proper use of government charge cards. The IRS conducted monthly and quarterly reviews of charge card activity to verify proper card use and to address potential inappropriate use. The Treasury Inspector General for Tax Administration (TIGTA) reviewed the IRS's purchase card program and found that controls are generally effective, and the number of purchase card violations identified by the IRS Credit Card Services Branch were minimal and generally for nominal amounts.

Reports Consolidation Act of 2000

In accordance with the *Reports Consolidation Act of 2000*, the IRS provides assurance that the IRS Critical Performance Measures are reliable. Internal Revenue Manual 1.5.1, *Managing Statistics in a Balanced Measurement System, The IRS Balanced Performance Measurement System*, provides a detailed template that documents each measure's definition, formula, reliability, and reporting frequency. These controls verify that performance data is consistent and accurately collected over time.

MANAGEMENT CHALLENGES

GAO High-Risk Areas and Other Financial Management Challenges

GAO reports on federal programs and operations that are vulnerable to waste, fraud, abuse, and mismanagement or that need broad reform at the start of each new Congress in its biennial High-Risk Report. The IRS's high-risk area and its two components below appear in GAO's High-Risk Series report, *Substantial Efforts Needed to Achieve Greater Progress on High-Risk Areas* (GAO-19-392T), published March 6, 2019.

GAO High-Risk Area

Enforcing Tax Laws

- Addressing the tax gap
- Combatting identity theft refund fraud

The IRS remains dedicated to improving taxpayer compliance and combatting identity theft refund fraud through new and existing program activities as presented throughout this document.

TIGTA Management and Performance Challenges

The *Reports Consolidation Act of 2000* requires that 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 IRS.

Each year, TIGTA evaluates IRS programs, operations, and management functions to identify the areas of highest vulnerability to the Nation's tax system and presents them to the IRS in a memorandum titled *Management and Performance Challenges Facing the Internal Revenue Service*. The IRS addresses these challenges through new and existing program activities. For FY 2020, the IRS's top management and performance challenges, in order of significance, were:

1. Security Over Taxpayer Data and Protection of IRS Resources
2. Implementing Tax Law Changes
3. Addressing Emerging Threats to Tax Administration
4. Supporting an Enhanced Taxpayer Experience
5. Modernizing IRS Operations
6. Improving Tax Reporting and Payment Compliance
7. Reducing Fraudulent Claims and Improper Payments
8. Impact of Global Economies
9. Protecting Taxpayer Rights
10. Achieving Operational Efficiencies

Below the IRS addresses audits conducted in FY 2020 under each challenge, providing actions taken in FY 2020 and future actions planned to correct the issue, if any.

Security Over Taxpayer Data and Protection of IRS Resources

Taxpayers have the right to expect nondisclosure of the information they provide to the IRS unless authorized by them or the law. In FY 2020, the IRS continued to make progress toward improving electronic authentication controls on its public-facing applications. These improvements align with NIST SP 800-63-3, *Digital Identity Guidelines*, through the IRS's Digital Identity Risk Assessment (DIRA) process. The DIRA process is a data-driven approach used to broadly assess IRS public-facing application risk. In March 2020, all existing public-facing applications completed the DIRA process. The IRS created a Plan of Action and Milestones (POA&M) to consolidate application survey data and perform an internal analysis using a prioritization scoring model for integration readiness. The IRS will draft a plan for e-Services migration to deploy all external-facing applications behind Secure Access Digital Identity (SADI).

In accordance with NIST SP 800-63-3, the IRS may determine alternatives to NIST recommended guidance. As part of the DIRA process, the IRS will document both the justification for any departure from normal requirements and detail the compensating control(s) employed. Further planned FYs 2021 and 2022 milestones include determining whether solution leveraging can meet the IRS's performance expectations and confirming that web applications do not require any unique access control rules. After filing season 2021, the IRS will begin to deploy external facing applications behind the NIST SP 800-63-3 compliant solution. This is on target for completion by February 2023.

To further safeguard taxpayer data, the IRS continues to strengthen its validation controls to protect against unauthorized filing and input of fraudulent information returns. In September 2019, the IRS completed the DIRA process for the Filing Information Returns Electronically (FIRE) and FIRE-Test System five-step process. The IRS developed an implementation plan for identity proofing the FIRE system's web-based users and a POA&M to track any deficiencies. Milestones for FY 2020 were to analyze data from FIRE to determine the number of foreign users using the Files Information Return, review alternatives for foreign users authenticating through FIRE, and establish requirements. The IRS will complete a milestone to establish a plan for FIRE authentication integration with either eAuthentication or SADI in October 2021.

The IRS's Bring Your Own Device (BYOD) program enables employees to use their pre-approved, personal handheld devices to access IRS applications and data to conduct official IRS business. In FY 2020, the IRS completed risk assessments and analyses and implemented or strengthened policies to improve the BYOD security controls.

The IRS is on target to update the documentation for the device operating system and technical baseline configurations and will review and update the procedures and guidelines related to application audit logs. Contingent upon budgetary, technical, and resource allocations, the IRS will also ensure the retention of BYOD program application audit logs for the appropriate period and implement periodic review of the application audit logs by an independent source.

Implementing Tax Law Changes

The TCJA made substantial changes to the tax code that affect individuals, businesses, and tax-exempt organizations. A review of these changes showed needed revisions to Form 1040, *U.S. Individual Income Tax Return*.

In December 2019, the IRS revised the 2019 Form 1040, Schedule 1, Line 2b to capture the date of original divorce or separation agreement. Prior to December 2019, the IRS only required

the individual claiming the alimony deduction to provide the Taxpayer Identification Number of the individual who received the alimony. Without the date of the divorce or separation agreement, the IRS was unable to determine the eligibility of individuals claiming the alimony deduction. In addition, the IRS added the word "original" to Line 2b and Line 18c to read "Date of original divorce or separation agreement." The IRS also created and activated two new code and edit rules to prevent taxpayers from claiming the alimony deduction that originated after January 1, 2019.

In FY 2020, the IRS expanded the IP PIN opt-in program to allow ITIN holders who are not automatically issued an IP PIN the option to obtain an IP PIN so that they will receive the same identity theft protection measures as SSN holders. The IP PIN web pages instructs all taxpayers on how to apply for an IP PIN and whether they are eligible. If an ITIN holder receives a notice that the IRS flagged their account for identity theft, it includes language to opt into the IP PIN Program.

Addressing Emerging Threats to Tax Administration

The IRS continues to explore programs and processes to further improve the detection and prevention of tax-related identity theft. The IRS completed an analysis to determine whether the reduction of the risk of tax-related identity theft resulting from the use of the Form W-2 Verification Code justifies the cost to fully implement the Form W-2 Verification Code Program. The analysis takes into consideration the reduced benefit of the program as a result of the accelerated receipt of W-2s as required by the PATH Act. The PATH Act requires employers to file third-party income information to the IRS by January 31 and requires the IRS to delay refund issuance on returns claiming EITC/ACTC until February 15th. These changes allow the IRS additional time to perform document matching. The IRS found that the PATH Act requirements mitigate tax-related identity theft risk intended by the Form W-2 Verification Code Program.

Supporting an Enhanced Taxpayer Experience

The IRS offers taxpayers the use of multiple mediums when they need IRS assistance. These include toll-free telephone lines, face-to-face assistance at Taxpayer Assistance Centers or Volunteer Program sites, and self-assistance using IRS.gov and other social media channels. The IRS relies on technology-based services and external partners to direct taxpayers to the most cost-effective method to receive needed services. This approach allows the IRS to focus limited telephone and walk-in resources on customer issues that can be best resolved with person-to-person interaction.

The IRS redesigned the Geographic Coverage Model (GCM) at new and existing Taxpayer Assistance Centers, Virtual Service Delivery, and SSA office locations to expand face-to-face assistance at under or unserved locations. Underserved taxpayers are within a 51 to 120-minute radius of a Taxpayer Assistance Center or Virtual Service Delivery site, and unserved taxpayers are in a radius greater than 120 minutes from a Taxpayer Assistance Center or Virtual Service Delivery site. A set of optimal Virtual Service Delivery locations relative to SSA offices and their resulting population coverage will help inform decisions on future expansion.

Each year, millions of taxpayers call the IRS toll free telephone assistance lines seeking help in understanding the tax laws to meet their tax obligations. The IRS assessed the value of using the level of access (LOA) as a telephone measure to reflect overall call demand and performance of IRS telephone assistance and determined that LOA measures are not

significantly different from the current CSR LOS. The LOA would not reflect the services callers receive and only addresses the access to assistance.

Modernizing IRS Operations

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. The IRS's Information Technology organization provides and maintains the information technology products and services that the IRS needs to meet its mission to deliver tax administration.

To ensure that information technology support aligns with the priorities of the business organizations responsible for delivering tax administration, the Information Technology organization held discussions with the IRS senior executive team to determine key FY 2020 projects that support the IRS Strategic Plan and to track progress towards meeting strategic goals. Information Technology leadership will meet with the senior executives on Phase II of the Modernization Plan and the FY 2022 budget formulation to understand the business and technology effects of unfunded priority requests. In addition, Information Technology leadership will conduct individual recurring check-ins with IRS business organizations' senior executives to facilitate open communication and collaboration on prioritizing information technology demand. In FY 2021, the CFO Strategic Planning Office will prepare an annual report to assess how the IRS has progressed towards meeting its strategic goals. The IRS Information Technology organization will develop the framework for the FY 2021 Internal Review Manual to document its strategic planning and to detail an end-to-end, multi-year approach for selecting, managing, and evaluating a portfolio of strategic modernization initiatives.

The IRS implemented the Information Technology Request for Change (RFC) process on December 13, 2019, to capture updates needed to add new statuses and new categories of work requests needed due to legislative mandates or updates to business processes. The IRS also completed the improvements on internal guidance, including the User Guide. The IRS updated all system bulletins and supporting documentation following the RFC process and disseminated the information to all users. The IRS will work with information technology supporting organizations to evaluate and assess the benefits and/or costs/burdens of establishing a process to track estimated and actual resources needed to complete each work request by system or application.

Improving Tax Reporting and Payment Compliance

The IRS consistently works to improve tax compliance by ensuring taxpayers understand their tax filing requirements and obligations to comply with the tax law. In FY 2020, the IRS took several actions to improve tax compliance.

As required by the 2015 *Fixing America's Surface Transportation Act* (FAST Act), the IRS implemented the Private Debt Collection program, which allows the use of private collection agencies to collect inactive tax receivables. The IRS developed a new payment arrangement estimator tool for use by all private collection agencies. Employees in the Private Debt Collection program office reviewed 12 payment arrangements of less than 60 months to ensure the accuracy of the new payment agreement estimator. The IRS certified readiness to all four private collection agencies that each payment arrangement estimator is fully functional. The IRS also reviewed its policy and procedures guide to determine there were no needed changes to the payment arrangement terms. The IRS considered the payment arrangement options for

taxpayers who owe less than \$50,000 and compared the Private Debt Collection program policies to those in other IRS work streams. After review, the IRS determined that there was no need to revise payment options. The procedures in the policy and procedures guide for the inactive tax receivables assigned to private collection agencies have been effective in providing taxpayers an opportunity for voluntary compliance and support the intent of the law.

With the growth of online platform companies in recent years, which allow people easy and convenient ways to obtain needed services and allow others to work as self-employed individuals providing those services (also known as the sharing or "gig" economy), self-employment tax underreporting continue to be challenging. The IRS developed a gig economy strategy, which included enforcement, communication, and outreach activities. The gig economy strategy team updated the Sharing Economy Tax Center on IRS.gov to provide critical information for taxpayers participating in the sharing economy. The IRS initiated plans to identify and select inventory to test compliance in the gig economy and completed programing changes, which became operational in February 2020.

While various tax products, including instructions and publications, have already been updated to provide information to those earning income in the gig economy, additional updates are expected for Tax Year 2021 instructions for Schedule C, Profit or Loss From Business, and 1099K, Merchant Card and Third Party Network Payments. The IRS is in the process of securing a vendor to conduct gig worker focus groups to assist in learning more about their needs. In addition, the IRS will continue outreach as opportunities arise.

In FY 2020, the IRS reviewed options for systemically identifying non-payroll tax withholding discrepancies between the amount of backup and Federal income tax withheld and reported on Form 1099-MISC, Miscellaneous Income, Form W-2G, Certain Gambling Winnings, and Form 1096, Annual Summary and Transmittal of U.S. Information Returns, to the amounts reported and remitted to the IRS on Form 945, Annual Return of Withheld Federal Income Tax.

The IRS previously updated tax year 2018 to comply with TCJA legislation. In addition, following procedures outlined in IRM 4.1.26.3.2, *Campus Case Selection*, the IRS reviewed the tax year 2018 alimony filters, made tax year specific updates to the filters, and updated tax year 2019. The IRS also provided additional outreach to disseminate the change during the 2020 filing season. In May 2020, the IRS reviewed and updated Tax Topic 452, Alimony and Separate Maintenance, on IRS.gov. The IRS will continue to monitor its alimony selection filters and revise them as needed. In addition, the IRS will review recent alimony communication and outreach efforts for additional education opportunities.

Reducing Fraudulent Claims and Improper Payments

While refundable credits such as the EITC, ACTC, and American Opportunity Tax Credit provide benefits to individuals, these credits can be targets for unscrupulous individuals who file erroneous claims.

The IRS initiated a pilot program to identify and address erroneous EITC and ACTC claims by individuals issued a "nonwork" SSN number. Based on the results of the pilot conducted in PYs 2018 and 2019, the IRS created a model to select and evaluate 4,000 tax returns filed by individuals who have nonwork SSNs, preventing erroneous ACTC refunds through the erroneous EITC process. The IRS will create a rule by 2021 for ACTC only and where there is no EITC claimed.

Impact of Global Economies

The TCJA provides for a tax (subject to special tax rates) on U.S. shareholders of specified foreign corporations (and U.S. persons that own interests through domestic pass-through entities that are U.S. shareholders of specified foreign corporations) through a one-time deemed repatriation of foreign accumulated earnings, set forth under Section 965 of the Internal Revenue Code.

The IRS developed a comprehensive TCJA compliance plan for major international business provisions, one of which was a 965 campaign to identify taxpayers that did not properly comply with Section 965. The IRS developed procedures to monitor taxpayers that elected to defer the 965 tax. The IRS also conducted an assessment to create a campaign that would issue notifications to taxpayers who might have a filing requirement according to information on Form 5471, Information Return of U.S. Persons With Respect to Certain Foreign Corporations. However, the IRS did not launch the campaign due to taxpayer fairness considerations. Instead, the IRS considered a stakeholder outreach campaign with various industry and practitioner groups, which provided general information about the 965 law and filing requirements. During the 965 Cadre training in March of 2020, the anti-abuse provisions were discussed and as part of the 965 campaign, a concurrence check sheet for the very biggest reporters was created with one of the questions asked being, whether the exam team considered any of the anti-abuse rules. The IRS approved to issue a 965 educational soft-letter campaign to individuals based on a filter (Form 5471, with positive Earnings and Profits (E&P)) who potentially should have a 965 inclusion.

The IRS took several approaches to validate Section 965 data reported by taxpayers. The IRS added a program to the agents' Auditors Workbench, which reviews data from the current and prior year Forms 5471 and estimates both an inclusion and a cash position. It also looks for situations where the prior year ending E&P balances do not match, which raises a red flag that some adjustment to E&P occurred. The IRS developed a detailed 965 "lead sheet" that provides suggested audited steps (tailored to specific taxpayers on the initial risk assessment), including instructions to validate various forms of 965 data. Similarly, the IRS developed a pro forma 965 Information Document Request (IDR), which helps agents obtain taxpayer workpapers to verify 965 data. In addition, the IRS provided in-person and virtual training on section 965 verification procedures and the anti-abuse rules under Treasury Regulations 1.965-4. The IRS also produced an IDR that agents can issue to a taxpayer which ask questions about potentially abusive transactions. If a taxpayer inverts, agents reach out to the Technical Specialist on inversions who, among other items, ensures that the taxpayer meets the recapture requirements under IRC Section 965(l).

The IRS assessed the success of the Form 1120-F, *U.S. Income Tax Return of a Foreign Corporation*, nonfiler campaign and determined that the campaign's benefits outweigh the limited amount of resources allocated to better understand compliance risk and uncertainty in the foreign corporate nonfiler population. The IRS made significant changes to the campaign methods to identify nonfilers by broadening the definition of nonfiler to include Form 1120-F protective returns. These returns represent a growing risk to the IRS because the only requirement is for filers to disclose basic identifying information on page one of the returns in exchange for starting the statute of limitation and preserving deductions. For this reason, the IRS expanded the campaign to include a limited number of protective return examinations based on the business activity and other risk factors identified from the databases.

Some of the databases present challenges. The small sample from the Sales Tax and the Form 941, *Employer's Quarterly Federal Tax Return*, databases have disclosed limited potential of identifying Form 1120-F nonfilers. The IRS will discontinue these databases as the Form 1042-S, *Foreign Person's U.S. Source Income Subject to Withholding*, database and Customs database have demonstrated better potential for identifying Form 1120-F nonfilers. In addition, the IRS modified the Customs database filter to include importers that have an IRS TIN. Furthermore, the campaign added the Form 1065 database to identify foreign corporate partners that received a Schedule K-1, *Partner's Share of Income, Deductions, Credits, etc.*, without withholdings by the partnership. This database identified foreign corporate partners that either filed a Protective return or did not file a Form 1120-F.

Protecting Taxpayer Rights

The IRS continues to balance tax compliance activities against the taxpayers' rights to receive fair and equitable treatment. The IRS provides taxpayers with the Taxpayer Bill of Rights in many notices and in in-person interviews to inform them about their rights with respect to examinations, appeals, collections, and refunds.

In FY 2020, the IRS revised its policies and procedures to instruct personnel to forward mis-directed Collection Due Process and Equivalent Hearing requests to the correct location, within one business day of receipt. To receive a Collection Due Process hearing, taxpayers must send the hearing request to the IRS address in a timely manner, as directed on the Collection Due Process notice. Since some notices may include multiple addresses (for example, one for the Collection Due Process request and another for payment), the IRS clarified procedures to allow the use of any address on the notice, for determining timeliness.

The IRS assigns Collection Statute Expiration Date (CSED) on taxpayer accounts who request an appeal hearing. The CSED is the last day the IRS must collect assessed tax debts. A review of CSED revealed the IRS did not process the hearing requests timely for some taxpayers and made errors regarding the determination of the CSED on eight taxpayer accounts. The IRS corrected all inaccurate suspension start or stop dates for the identified taxpayer accounts with CSED errors.

Also, an evaluation of the IRS's compliance with legal seizure provisions took place to determine if there was an active collection case upon receipt of non-judicial foreclosure notices and to determine compliance with legal and internal guidelines related to each seizure. As a result of the evaluation, the IRS developed and implemented a work process to receive, identify, and document its receipt of notices of non-judicial foreclosures, and notify the assigned Collection function employee when such a notice is received on cases under their purview. To reinforce the new process, the IRS updated Publication 4235, *Collection Advisory Group Numbers and Addresses*, to indicate sending non-judicial sale notifications to the Advisory Consolidated Receipts site. When Advisory Consolidated Receipts' employees receive a case assigned to a Collection function employee, policies and procedures directs them to notify the Collection function employee via email and send all documents to them. The IRS also worked to provide Advisory Consolidated Receipts Site employees with access to the Account Management System (AMS). The IRS will use the AMS to receive, batch, and control the non-judicial foreclosure case inventory. The IRS will develop metrics for timely processing, aging of inventory, volume of casework, and other data points.

Achieving Operational Efficiencies

Achieving efficiencies within Federal tax administration requires the IRS to continuously monitor and effectively manage a wide range of risks inherent within a fast-paced and changing operational environment.

Efficient and cost-effective management and implementation of the IRS's software assets is crucial to ensure that information technology services continue to support the IRS's business operations and help provide services to taxpayers. In FY 2020, the IRS implemented processes and tools to support increased utilization of available licenses and enhanced license compliance by migrating to a software program that allows products to be accessed on an as needed basis and once the use stopped, returned to an overall token pool for reallocation. The IRS measure the effectiveness of these programs through monitoring tools.

In FY 2020, the IRS developed and implemented an IBM Service/Software Credit Operating Guidance document, which formalizes the review and approval process for the use of software and service credits. This process requires review and approval by the Information Technology management team and IBM Service Credit Approval Team prior to sending it to the Associate Chief Information Officer for approval. This also ensures that the procurement of hardware, service, and support includes a well-developed plan, process for utilization, and reasonable timelines.

Due to potential cost-saving benefits, the IRS decided to consolidate platforms and migrate applications from Oracle-based proprietary hardware to Linux-based operating systems. The IRS's processes to effectively assess and execute Linux migration activities are maturing with consistent use of the Enterprise Demand Management tool in conjunction with the "Linux Cross-Functional Playbook." Per IRS policy, Information Technology will continue to submit acquisition plans for any purchases greater than \$250,000. The Linux Lifestyle Program (LLP) remained compliant with the *Federal Information Technology Acquisition Reform Act (FITARA)* of 2014.

FINANCIAL MANAGEMENT HIGHLIGHTS

The IRS received an unmodified financial statement audit opinion for the 21st consecutive year.

The principal financial statements are prepared to report the financial position, financial condition, and results of operations, pursuant to the requirements of 31 U.S.C. Section 3515(b). The statements are prepared from records of Federal entities in accordance with Federal generally accepted accounting principles (GAAP) and the formats prescribed by OMB. 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. Federal Government. The financial management activities that support the responsibilities of the IRS are divided into two distinct account categories.

Administrative accounts are included as appropriations and offsetting collections in the Statement of Budgetary Resources. These resources are also reflected as assets, liabilities, costs, revenues, and ultimately the net position of the IRS.

Custodial accounts include activity in support of tax collection. The IRS is the custodian for the majority of receipts for the U.S. Federal Government. These receipts are accounted for in designated custodial accounts as presented on the Statement of Custodial Activity. Custodial accounts are also included as custodial fund balance with Treasury prior to distribution as refunds or credits, taxes receivable not yet collected, and taxes payable not yet disbursed on the Balance Sheet.

COVID-19 Legislation

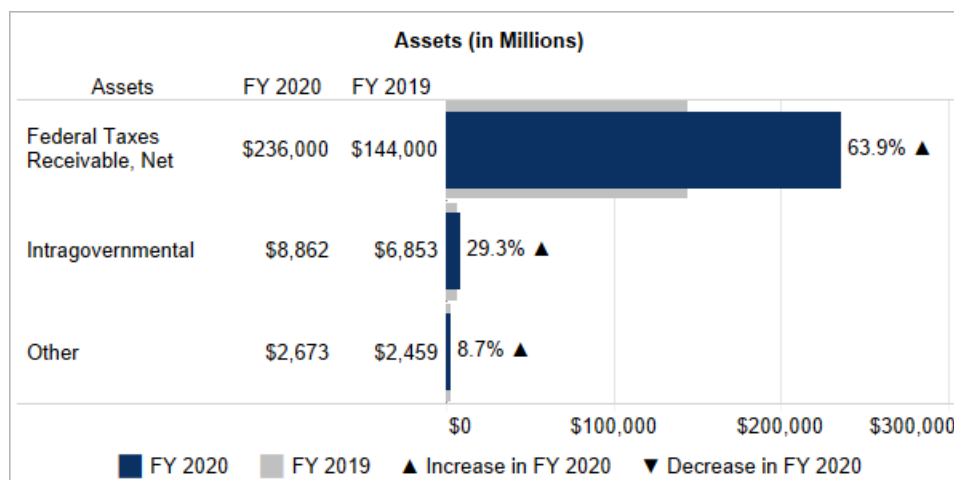
The IRS implemented legislative provisions to support the national response to the COVID-19 pandemic in FY 2020. This legislation includes the *Families First Coronavirus Response Act of 2020* (FFCRA) and the CARES Act. The IRS distributed \$275 billion in economic impact payments as presented on the Statement of Custodial Activity under Federal tax refund and outlay activities. The IRS was also the recipient of \$766 million in additional appropriations to fund the requirements included in this legislation. Fluctuations resulting from this activity are discussed in more depth in the applicable financial statement analysis.

Financial Statement Analysis

Analysis of the Balance Sheet

The Balance Sheet displays 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.

Assets of the IRS are primarily comprised of Federal taxes receivable, Intragovernmental balances (Fund balance with Treasury and Due from the General Fund of the U.S. Government), and Internal Use Software classified as General Property and Equipment. Comparative asset balances as of September 30, 2020 and 2019 are presented below.



Asset fluctuations in FY 2020 include increased Federal taxes receivable, net, due to higher collectability estimations, increased appropriations to fund the State Innovation Waiver Program (SIWP), and the administration of COVID-19 legislative requirements.

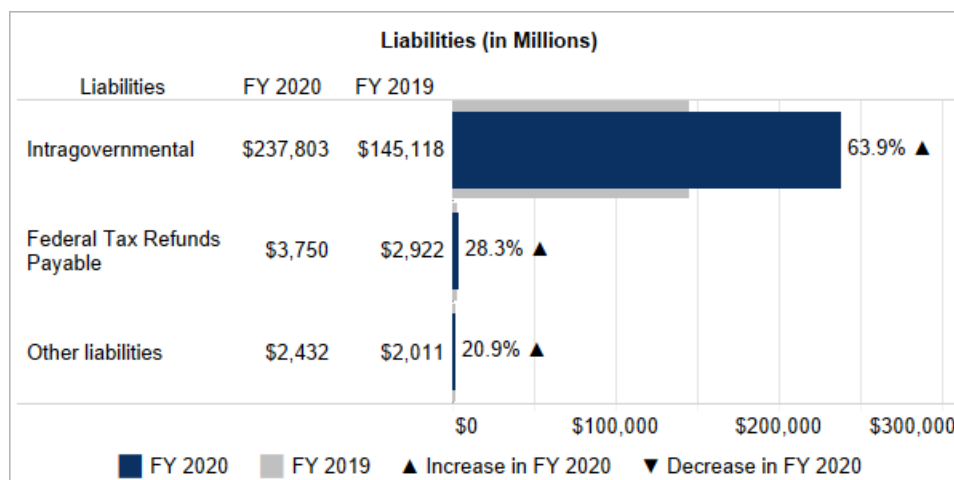
Federal taxes receivable, net, increased \$92 billion in FY 2020 as compared to FY 2019. The IRS estimates Federal taxes receivable, net, using the collectability methodology as discussed in Other Information, Analysis of Unpaid Assessments. In FY 2020, the estimated rate of collectability for IRC Section 965(h) balances increased based on individual account analysis. A small number of taxpayers, representing 88% of the IRC Section 965(h) balance, are in a favorable long-term position to make the payments. Taxes receivable also includes an increase resulting from the two-year deferral on the employer portion of *Federal Insurance Contributions Act* (FICA) Social Security taxes due to the federal government.

Intragovernmental Fund balance with Treasury (FBWT) increased \$658 million due to the expansion of the SIWP. These funds are not available for use by the IRS. This program is authorized under Section 1332 of the *Patient Protection and Affordable Care Act* (PPACA). The Department of Health and Human Services administers the program which permits states to pursue innovative strategies for providing their residents with access to high quality, affordable health insurance while retaining the basic protections of the PPACA.

FBWT also increased by \$482 million as a result of budgetary resources in FFCRA and the CARES Act appropriations received that have not yet been disbursed.

Intragovernmental amounts Due from General Fund of the U.S. Government increased \$828 million as this line item correlates to Federal taxes payable. This line item is representative of funds that will be required in future periods to liquidate the Federal taxes payable liability.

Liabilities include amounts due to the General Fund of U.S. Government, federal tax refunds payable, and other liabilities. Other liabilities include accrued annual leave and employee benefits. Comparative asset balances as of September 30, 2020 and 2019 are presented below.



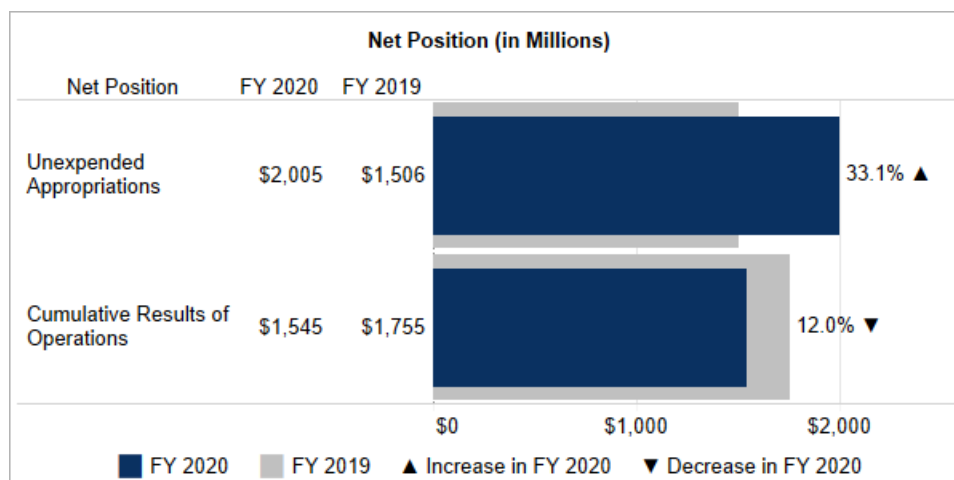
Liability fluctuations in FY 2020 primarily include increased Federal taxes payable and increased Intragovernmental liabilities.

The increase in FY 2020 Federal tax refunds payable of \$828 million is due to amounts payable to the public for tax refunds that the IRS has processed and are either pending disbursement, or were undeliverable by the Department of the Treasury, Bureau of Fiscal Service.

Intragovernmental amounts Due to General Fund of the U.S. Government increased \$92 billion as this line items correlates to Federal taxes receivable, net. This line item is representative of funds that will be distributed to the General Fund upon collection.

Net Position consists of Unexpended appropriations and the 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, transfer in, revenues, reimbursements, or any combination of the four) to the reporting date of the financial statements.

The Net Position of the IRS includes increased appropriations offset by higher expenses resulting from COVID-19 legislation. Comparative Net Position for the periods ending September 30, 2020 and 2019 are presented below.



Analysis of the Statement of Net Cost

The Statement of Net Cost presents costs and exchange revenues aligned under four core programs. Taxpayer Assistance and Education, Filing and Account Services, Compliance, and the Administration of Tax Credit Programs. These programs are discussed in detail in the financial Section, Note 1.K Program Costs.

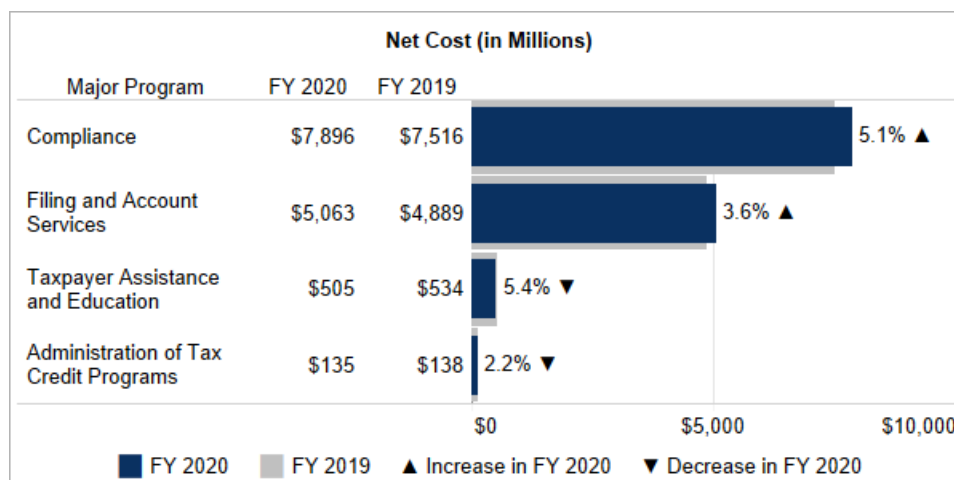
The Total Net Cost of IRS operations has remained stable as compared to the prior fiscal year. The Statement of Net Cost reflects a total of \$13,599 million for the period ending September 30, 2020 as compared to \$13,077 million for the period ending September 30, 2019.

The total gross cost for FY 2020 increased \$462 million due to expenses incurred under the FFCRA and CARES Act. Total earned revenue decreased \$60 million due to several factors.

The IRS experienced a decrease in user fees of \$110 million. This is primarily attributable to a \$119 million decrease in installment agreement user fees, which decreased as the result of the COVID-19 temporary relief for taxpayers, suspension of certain collection activities under the President's declaration of a national state of emergency. User fees in FY 2020 included those collected for consent based-income verification as a result of modernization implementation under section 2201(d)(1) of the TFA.

Additionally, miscellaneous revenue for services provided to FEMA and other agencies, Treasury for the Debtor Master File, and the Treasury Executive Office for Asset Forfeiture increased by \$50 million.

Comparative Net Cost of Operations results by core program are presented in the table below for the periods ending September 30, 2020 and 2019.



Analysis of the Statement of Budgetary Resources

IRS operations are financed through appropriations, spending authority from offsetting collections, and unobligated balances carried forward.

Appropriations for the periods ending September 30, 2020 and 2019 (in Millions)		
	2020	2019
Taxpayer Services	\$ 2,892	\$ 2,557
Enforcement	4,993	4,678
Operations Support	4,215	3,918
Other:		
Business Systems Modernization	195	240
Private Debt Collection Program	152	97
Miscellaneous Retained Fees	261	299
Total Other	608	636
Total Budgetary Resources	\$ 12,708	\$ 11,789

Taxpayer Services funds staffing for the processing of tax returns and related documents, and assistance for taxpayers in filing returns and paying taxes due.

Enforcement funds staffing for the examination of tax returns, collection of balances due, the administrative and judicial settlement of taxpayer appeals of examination findings, provides resources for strengthening enforcement to reduce invalid claims, and erroneous finding associated with the EITC program as well as other refundable tax credits.

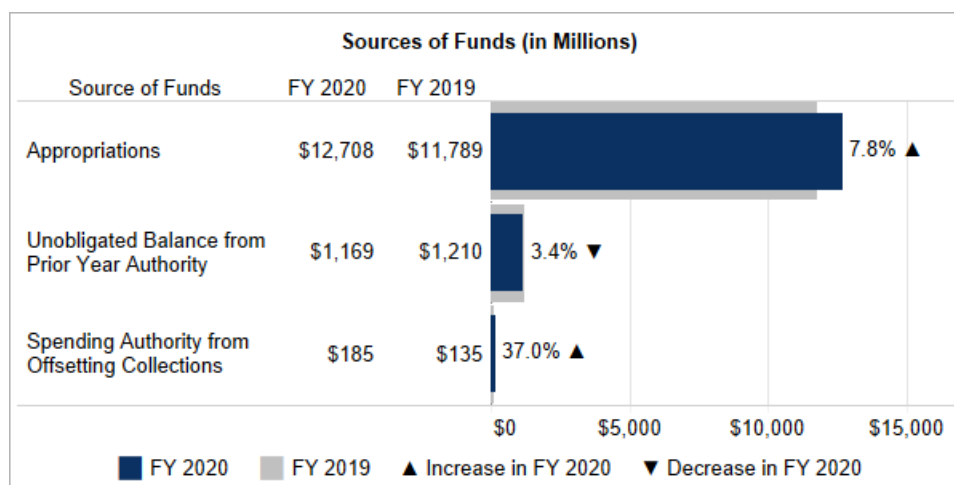
Operations Support funds overall planning, direction, operations management and control, and critical infrastructure activities for the IRS. These activities include information technology and cybersecurity that keep tax systems running and protect taxpayer data, the financial management activities that ensure effective stewardship of the nation's revenues, and the physical infrastructure and security that helps keep IRS employees and customers safe and well

served in office, campus, and Taxpayer Assistance Center sites. Human resources, telecommunications, and communications infrastructure are also critical components of this appropriation and are vital to maintaining adequate levels of customer service and post-filing processes that ensure the tax system's fairness and equity.

Business Systems Modernization funds capital asset acquisitions of information technology to modernize key tax administration systems.

The Private Debt Collection Program funds qualified tax collection contracts to use private collection agencies.

IRS Miscellaneous Retained Fees include those collected and retained by the IRS for installment agreements, enrolled agents, tax preparation, photocopies, and other general fees.

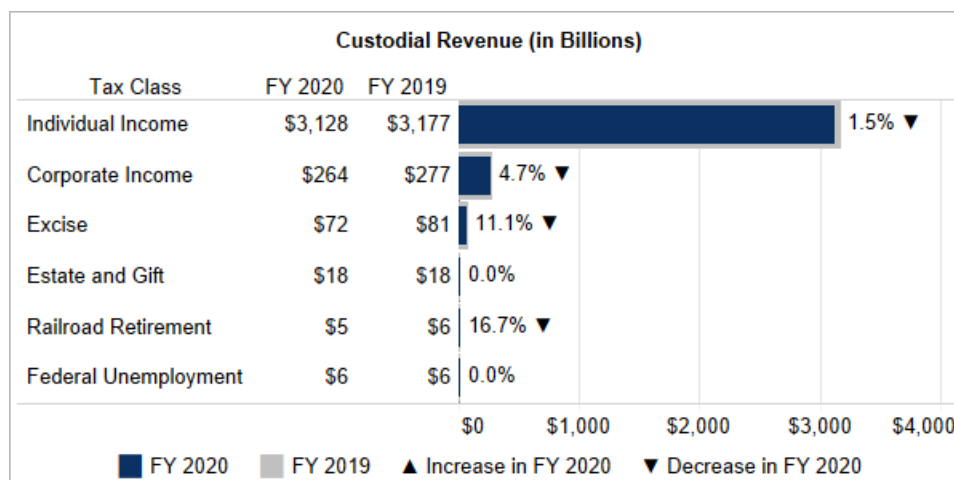


The IRS Total Budgetary Resources increased \$973 million. This increase was primarily attributable to \$766 million in COVID appropriations and an increase of \$207 million in appropriations compared to FY 2019. Spending authority from offsetting collections primarily increased due to \$30 million in spending authority from FEMA for support provided by the IRS call center during hurricane Laura. In addition, the IRS received increased reimbursements from the Treasury Executive Office for Asset Forfeiture and the collection of certain offsets for state and local governments.

Analysis of the Statement of Custodial Activity

The Statement of Custodial Activity is the presentation of custodial revenues, appropriations, and distributions that occur for the current and prior fiscal year. This activity is performed on behalf of the Federal Government. The custodial appropriations presented on the Statement of Custodial Activity are not available to the IRS for operational expenditures and are therefore not included in the presentation of the Statement of Budgetary Resources. Additional information relative to the fluctuations discussed below is provided in the Other Information section of this report.

FY 2020 revenue receipts collected by the IRS totaled \$3.5 trillion, a decrease from \$3.6 trillion in FY 2019. Federal tax revenues are collected through six major classifications: individual income and FICA/*Self-Employment Contributions Act* (SECA) taxes, corporate income taxes, excise taxes, estate and gift taxes, railroad retirement taxes, and federal unemployment taxes.



The Statement of Custodial Activity also presents refund and outlays made by the IRS on behalf of the Federal government. Refund and outlay activity was \$736 billion for the period ending September 30, 2020, as compared to \$452 billion for the period ending September 30, 2019. This 63% increase in activity was primarily driven by the \$275 billion in COVID-19 economic impact payments paid under the CARES Act. Federal tax refunds and outlay activity include refunds of tax overpayments, payments for interest, and disbursements for refundable tax credits such as EITC and the ACTC.

Unpaid Assessments

Unpaid assessments require taxpayer or court agreement to be considered federal taxes receivable under federal accounting standards. Assessments not agreed to by taxpayers or the courts are not included on the balance sheet as federal taxes receivable and are categorized as compliance assessments. Assessments with no future collection potential are categorized as write-offs.

Unpaid Assesments As of September 30, 2020 and September 30, 2019 (in Billions)		
	2020	2019
Federal taxes receivable, gross	427	369
Amounts not agreed to by taxpayer or courts	74	75
No future collection potential	95	106
Total Unpaid Assessments	\$ 596	\$ 550

The increase in total unpaid assessments is equal to \$46 billion, with \$23 billion for Social Security Deferrals (SSD) payable by December 31, 2022², and \$17 billion of additional IRC Section 965(h) amounts³ owed by taxpayers who can elect by law to pay over eight years without being subject to penalties or interest.

The unpaid assessment balance consists of delinquent and non-delinquent balances. Non-delinquent balances include the IRC Section 965(h) amounts and SSD. Delinquent balances are owed by taxpayers who file returns without sufficient payment as well as amounts assessed through the IRS's enforcement programs.

Federal Taxes Receivable, Gross As of September 30, 2020 and 2019 (in Billions)		
	2020	2019
Nondelinquent 965h unpaid assessments	\$ 178	\$ 160
Nondelinquent SSD unpaid assessments	23	-
Delinquent unpaid assessments	224	207
Delinquent restitution based unpaid assessments	2	2
Federal taxes receivable, gross	\$ 427	\$ 369

Collectability Modeling and Economic Conditions

The economic uncertainty of FY 2020 related to COVID-19 resulted in new legislation and changes to collectability. New legislation affecting payroll tax deferrals introduced almost 71,000 new SSD. IRS treated these deferrals as collectable unless there was specific evidence otherwise, for FY 2020 reporting as these amounts are not yet due. Indicators of financial health were manually reviewed for publicly traded taxpayers with large dollar IRC Section 965 amounts due. Analysis determined that large dollar IRC Section 965(h) taxpayers are primarily in a favorable long-term position to make the payments. The unpaid assessments audit process effectively incorporates current economic conditions at the time it is performed.

The total Federal taxes receivable, net, reflects a reduction of \$191 billion in uncollectable amounts as of September 30, 2020 and \$225 billion as of September 30, 2019. Examples of uncollectable taxes include taxpayers who agree they owe the tax but are unlikely to pay, and taxpayers with extreme financial hardships. Overall collectability combines separate

² CARES Act Section 2302 contains a provision for employers to defer, without penalty, the entire amount of the employer's share of the Social Security portion of FICA, and the employer's and employee representative's share of the Railroad Retirement Tax (RRTA). Self-employed individuals can defer up to 50% of the Social Security tax on net earnings. The deferral period began March 27, 2020 and will end on December 31, 2020. The deferment must be repaid over two years. The first payment is due December 31, 2021. The amount due is 50% of the maximum deferral, less any payments. The remaining deferred amount is due by December 31, 2022.

³ Section 14103 of the Tax Cuts and Jobs Act (TCJA) of 2017, P.L. 115-97, required changes to IRC section 965. IRC 965 requires U.S. shareholders to pay a transition tax on untaxed foreign earnings of corporations as if those earnings had been repatriated to the United States. Specifically, these repatriated profits are subject to a one-time reduced tax rate, with the option to pay on an eight-year installment schedule, referred to as subpart (h) elections.

collectability calculations for taxes receivable, IRC Section 965(h) amounts, Social Security deferrals, and restitution-based assessments.

Federal Taxes Receivable As of September 30, 2020 (in Billions)			
	Collectability	Gross	Net
Nondelinquent 965h unpaid assessments	94.3%	\$ 178	\$ 168
Nondelinquent SSD unpaid assessments	99.6%	23	23
Delinquent unpaid assessments	20.0%	226	45
Federal Taxes Receivable		\$ 427	\$ 236

Federal Taxes Receivable As of September 30, 2019 (in Billions)			
	Collectability	Gross	Net
Nondelinquent 965h unpaid assessments	60.8%	\$ 160	\$ 98
Nondelinquent SSD unpaid assessments	-	-	-
Delinquent unpaid assessments	22.1%	209	46
Federal Taxes Receivable		\$ 369	\$ 144