U.S. GOVERNMENT ACCOUNTABILITY OFFICE

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

Comptroller General
of the United States

July 31, 2023

The Honorable Danny Werfel
Commissioner
Internal Revenue Service

Priority Open Recommendations: Internal Revenue Service

Dear Mr. Werfel:

The purpose of this letter is to provide an update on the overall status of the Internal Revenue Service's (IRS) implementation of GAO's recommendations and to call your personal attention to areas where open or partially implemented recommendations should be given high priority.[1] In November 2022, we reported that, on a government-wide basis, 77 percent of our recommendations made 4 years ago were implemented.[2] IRS's recommendation implementation rate was 68 percent. As of July 2023, IRS had 253 recommendations that were either open or partially implemented. Fully implementing these recommendations could significantly improve IRS's operations.

In August 2022, the President signed into law the statute commonly known as the Inflation Reduction Act of 2022 that provides IRS with nearly $80 billion in supplemental funding over the next decade.[3] Upon enactment, the Secretary of the Treasury directed IRS to develop a plan for these funds, and in April 2023, IRS delivered its *Inflation Reduction Act Strategic Operating Plan*. In refining and carrying out its plan, IRS should work toward implementing our open recommendations, particularly those we highlight in this letter as being of the highest priority.

Since our June 2022 letter, IRS has implemented four of 25 open priority recommendations.[4]

- As of August 2022, IRS demonstrated that it had taken multiple steps to develop a fraud risk profile for identity theft refund fraud on business-related tax returns, as we

[1]Priority recommendations are those that GAO believes warrant priority attention from heads of key departments or agencies because they may significantly improve government operations, for example, by realizing large dollar savings; eliminating mismanagement, fraud, and abuse; or making progress toward addressing a high-risk or duplication issue.

[2]GAO, *Performance and Accountability Report: Fiscal Year 2022,* GAO-23-900398 (Washington, D.C.: Nov. 15, 2022).

[3]"An Act to provide for reconciliation pursuant to Title I of S.Con. Res. 14", Pub. L. No. 117-169, § 10301, 136 Stat. 1831–1833 (2022). The Fiscal Responsibility Act of 2023 rescinded over $1.389 billion of amounts appropriated for the IRS by Public Law 117-169. Pub L. No. 118-5, § 251, 137 Stat. 10, 30 (2023).

[4]We also closed one recommendation for IRS to revise its estimates for resolving the backlog of tax returns and taxpayer correspondence received during the 2020 tax filing season as not implemented. We did this because IRS reported in March 2023 that it had processed all returns received in 2020, bringing this inventory to zero. See GAO, *Tax Filing: Actions Needed to Address Processing Delays and Risks to the 2021 Filing Season,* GAO-21-251 (Washington, D.C.: Mar. 1, 2021).

recommended in January 2020.[5] These steps included implementing an annual risk assessment of the potential for fraud across dozens of business tax forms. These actions provide IRS with important information to establish risk tolerances and determine the sufficiency of existing business identity theft refund fraud controls.

- In November 2022, IRS for the first time reported improper payment estimates for the Premium Tax Credit in Treasury's Agency Financial Report for Fiscal Year 2022, consistent with our July 2017 recommendation.[6] This step provides key payment integrity information for monitoring improper payments to external stakeholders and Congress. It also provides a basis for deciding how best to address the issue of improper payments.

- As of March 2023, IRS showed it had implemented a new online taxpayer authentication platform that is consistent with National Institute of Standards and Technology guidance on secure digital authentication, as we recommended in June 2018. [7] Further, IRS demonstrated it had migrated about 30 online applications onto the new platform. These actions will help minimize potential security risks to IRS online applications that require taxpayers to authenticate their identities.

- In June 2023, IRS demonstrated that all four business divisions have established time frames and monitoring procedures for transferring examination appeal requests to the Independent Office of Appeals, as GAO recommended in September 2018.[8] Sustained effort to improve monitoring of these requests will position IRS to better manage appeal transfer timeliness. This will also address delays that result in taxpayer inquiries tying up its staff resources as well as increased interest costs accumulating on taxpayer liabilities during the appeals process.

While we commend the actions outlined above, we ask that you direct your attention to the remaining 20 priority recommendations. We are also adding four new priority recommendations related to improving taxpayer services, reducing tax fraud and improper payments, and enhancing information reporting. This brings the total number of priority recommendations to 24 (see enclosure for the list of recommendations).

The 24 priority recommendations fall into the following six areas.

Ensuring cybersecurity. Strong cybersecurity and protections for taxpayers' personal and financial information are critical to maintaining public confidence in the tax system, avoiding data breaches that expose sensitive information to fraudsters, and minimizing disruptions to IRS operations. One priority recommendation in this area is for IRS to centralize leadership in its efforts to oversee cybersecurity practices of third-party providers, such as paid tax return

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[5]GAO, *Identity Theft: IRS Needs to Better Assess the Risks of Refund Fraud on Business-Related Returns,* GAO-20-174 (Washington, D.C.: Jan. 30, 2020).

[6]GAO, *Improper Payments: Improvements Needed in CMS and IRS Controls over Health Insurance Premium Tax Credit,* GAO-17-467 (Washington, D.C.: July 13, 2017).

[7]GAO, *Identity Theft: IRS Needs to Strengthen Taxpayer Authentication Efforts,* GAO-18-418 (Washington, D.C.: June 22, 2018).

[8]GAO, *Tax Administration: Opportunities Exist to Improve Monitoring and Transparency of Appeal Resolution Timeliness.* GAO-18-659 (Washington, D.C.: Sep. 21, 2018).

preparers and tax software providers. We also call your attention to the 40 recommendations related to information system control deficiencies that remain unimplemented following our fiscal year 2022 audit of IRS's financial statements and information system controls.[9]

Improving taxpayer services. Seven priority recommendations in this area focus on IRS delivering high-quality customer service, which makes it easier for taxpayers to voluntarily file their tax returns and pay taxes owed. IRS has faced challenges in recent years balancing competing taxpayer service demands. While IRS has reduced backlogs of tax returns and taxpayer correspondence left over from filing seasons during the COVID-19 pandemic, it must take further actions to meet taxpayer service needs and make progress toward an improved taxpayer experience. Our priority recommendations for IRS in this area include communicating estimated time frames for resolving its remaining backlog of taxpayer correspondence, finalizing a modernization plan for its "Where's My Refund" tool, and developing additional options for taxpayers to file their returns online for free. These actions would help IRS efficiently use resources to meet its taxpayer service goals.

Reducing tax fraud and improper payments. Identity theft schemes attempted by fraudsters and erroneous claims of tax benefits submitted by substandard return preparers contribute to government losses of hundreds of billions of dollars annually. Four priority recommendations in this area call for IRS to strengthen its efforts to detect and prevent identity theft refund fraud on both individual and business tax returns, and to finalize an agency-wide strategy on paid tax preparer compliance. Implementing our recommendations would help IRS better defend itself and taxpayers against identity theft fraudsters and unscrupulous paid preparers, which will reduce improper payments that should not have been made, or were made in incorrect amounts.

Enhancing information reporting. By matching information reported by third parties against information reported by taxpayers, IRS identifies potential fraud and noncompliance for enforcement action. According to IRS research, taxpayers are more likely to misreport income when little or no third-party information reporting exists than when substantial reporting exists. Seven priority recommendations in this area center on IRS improving its intake, processing, and use of information returns. For example, IRS could improve compliance by expanding third-party information reporting for sole proprietors—which represent the largest portion of the individual underreporting tax gap—and by clarifying taxpayer reporting requirements for foreign-held virtual currencies.

Improving audit effectiveness. Auditing tax returns is a critical part of IRS's strategy to ensure tax compliance and address the tax gap, which is the difference between taxes owed and those paid on time. IRS should implement three priority recommendations in this area. Two recommendations are for IRS to improve how it defines large partnerships and analyzes the results of partnership audits. The third recommendation is to develop a consolidated online submission for public referrals of possible tax noncompliance. These actions would better inform IRS decisions about how to efficiently allocate its audit and enforcement resources to meet strategic goals.

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[9]See GAO, *Financial Audit: IRS's FY 2022 and FY 2021 Financial Statements,* GAO-23-105564 (Washington, D.C.: Nov. 10, 2022), *Management Report: Improvements Needed in IRS's Financial Reporting and Information System Controls,* GAO-23-106401 (Washington, D.C.: May 25, 2023) and GAO-23-106402SU (Limited Official Use Only version). We also have ongoing work on the security of taxpayer information at IRS and expect to issue a report in summer 2023.

Enhancing strategic human capital management. IRS faces capacity challenges with skills gaps in mission-critical roles and must cultivate a well-equipped, diverse, flexible, and engaged workforce to address internal challenges and effectively enforce tax laws. With the influx of Inflation Reduction Act funding, it is critical that IRS implement two priority recommendations, including (1) executing a detailed workforce planning strategy and (2) developing a plan to more efficiently use expensive employee overtime. Implementing our recommendations would position IRS to identify future workforce needs, address skills gaps, and ensure that overtime is used strategically when it is necessary to meet objectives.

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In April 2023, we issued our biennial update to our High-Risk List, which identifies government operations with greater vulnerabilities to fraud, waste, abuse, and mismanagement or the need for transformation to address economy, efficiency, or effectiveness challenges.[10] One of our high-risk areas—enforcement of tax laws—centers directly on IRS. In refining and carrying out its *Inflation Reduction Act Strategic Operating Plan*, IRS should work toward implementing our high-risk and priority open recommendations, particularly those that it previously said the agency lacked resources to implement. In June 2023, IRS officials told us they are working to map the plan's objectives and initiatives to GAO's unimplemented priority recommendations.

Several other government-wide, high-risk areas also have direct implications for IRS and its operations. These include (1) ensuring the cybersecurity of the nation,[11] (2) improving the management of IT acquisitions and operations, (3) improving strategic human capital management, (4) managing federal real property, and (5) government-wide personnel security clearance process.

We urge your attention to the enforcement of tax laws high-risk area and the other government-wide high-risk issues as they relate to IRS. Progress on high-risk issues has been possible through the concerted actions and efforts of Congress, Office of Management and Budget, and the leadership and staff in agencies, including within IRS. In March 2022, we issued a report on key practices to successfully address high-risk areas, which can be a helpful resource as your agency continues to make progress to address high-risk issues.[12]

In addition to your continued attention on these issues, we recognize the key role Congress plays in providing oversight and maintaining focus on our recommendations to ensure they are implemented and produce their desired results. Legislation enacted in December 2022 included a provision for GAO to identify any congressional oversight actions that can help agencies

[10]GAO, *High- Risk Series: Efforts Made to Achieve Progress Need to Be Maintained and Expanded to Fully Address All Areas*, GAO-23-106203 (Washington, D.C.: Apr. 20, 2023).

[11]With regard to cybersecurity, we also urge you to use foundational information and communications technology supply chain risk management practices set forth in our December 2020 report: GAO, *Information Technology: Federal Agencies Need to Take Urgent Action to Manage Supply Chain Risks*, GAO-21-171 (Washington, D.C.: Dec.15, 2020).

[12]GAO, *High-Risk Series: Key Practices to Successfully Address High-Risk Areas and Remove Them from the List,* GAO-22-105184 (Washington, D.C.: Mar. 3, 2022).

implement priority recommendations and address any underlying issues relating to such implementation.[13]

There are various strategies Congress can use in addressing our recommendations, such as incorporating them into legislation. Congress can also use its budget, appropriations, and oversight processes to incentivize executive branch agencies to act on our recommendations and monitor their progress. For example, Congress can hold hearings focused on IRS's progress in implementing GAO's priority recommendations, withhold funds when appropriate, or take other actions to provide incentives for agencies to act. Moreover, Congress could follow up during the appropriations process and request periodic updates. Congress also plays a key role in addressing any underlying issues related to the implementation of these recommendations. For example, Congress could pass legislation providing an agency explicit authority to implement a recommendation or requiring an agency to take certain actions to implement a recommendation.

Copies of this report are being sent to the Director of the Office of Management and Budget (OMB) and the appropriate congressional committees. In addition, the report will be available on the GAO website at http://www.gao.gov.

I appreciate IRS's continued commitment to these important issues. If you have any questions or would like to discuss any of the issues outlined in this letter, please do not hesitate to contact me or Jessica Lucas-Judy, Director, Strategic Issues, at lucasjudyj@gao.gov or (202) 512-6806, or James R. McTigue, Jr., Director, Strategic Issues, at mctiguej@gao.gov or (202) 512-6806. Contact points for our offices of Congressional Relations and Public Affairs may be found on the last page of this report. Our teams will continue to coordinate with your staff on all of the 253 open recommendations, as well as those additional recommendations in the high-risk areas for which IRS has a leading role. Thank you for your attention to these matters.

Sincerely yours,

Michelle A. Sager
Managing Director, Strategic Issues

Enclosure

cc: The Honorable Shalanda Young, Director, OMB
The Honorable Janet L. Yellen, Secretary, Department of the Treasury

[13]James M. Inhofe National Defense Authorization Act for Fiscal Year 2023, Pub. L. No. 117-263, § 7211(a)(2), 136 Stat. 2395, 3668 (2022); H.R. Rep. No. 117-389 at 43 (2022) (accompanying Legislative Branch Appropriations Act, H.R. 8237, 117th Cong. (2022)).

Enclosure

Priority Open Recommendations to Internal Revenue Service

Ensuring Cybersecurity

Taxpayer Information: IRS Needs to Improve Oversight of Third-Party Cybersecurity Practices. GAO-19-340. Washington, D.C.: May 9, 2019.

Year Recommendation Made: 2019

Recommendation: The Commissioner of Internal Revenue should develop a governance structure or other form of centralized leadership, such as a steering committee, to coordinate all aspects of IRS's efforts to protect taxpayer information while at third-party providers.

Action needed: IRS agreed with the intent of this recommendation but did not agree to implement it. In February 2023, IRS executives reiterated the need for additional explicit authority to establish security requirements for the information systems of paid preparers and others who electronically file returns. IRS reported that to effectively establish data safeguarding policies and enforcing compliance with those policies, a centralized leadership structure would require statutory authority for IRS to do so. IRS stated that without such authority, implementing the recommendation would be an inefficient, ineffective, and costly use of resources.

We continue to believe that IRS could implement this recommendation without additional statutory authority. We also disagree that convening a governance structure or other centralized form of leadership would be inefficient, ineffective, or costly. To fully implement this recommendation, IRS needs to develop a structure to coordinate across seven different offices working on information security-related activities, such as updating existing standards, monitoring Authorized e-file Provider program compliance, and tracking security incident reports. Without this structure, it is unclear how IRS can respond to changing security threats and ensure threats are mitigated.

High-risk area: Enforcement of Tax Laws and Ensuring the Cybersecurity of the Nation

Director: Jessica Lucas-Judy, Strategic Issues
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Improving Taxpayer Services

Tax Filing: 2021 Performance Underscores Need for IRS to Address Persistent Challenges. GAO-22-104938. Washington, D.C.: April 11, 2022.

Year Recommendations Made: 2022

Recommendation: The Commissioner of Internal Revenue should estimate time frames for resolving IRS's correspondence backlog, monitor and update these estimates periodically, and communicate this information to taxpayers and stakeholders.

Action needed: IRS agreed with the recommendation. Although it resolved the backlog of 2021 paper tax returns, IRS's inventory of taxpayer correspondence remained high heading into the 2023 filing season. For the 2022 filing season, IRS reported that it continued to work toward reducing its correspondence inventory by hiring additional staff and redirecting existing staff to this work, among other efforts. As of July 2023, IRS's Status of Operations webpage provides some wait times for its backlog of work, such as more than 20 weeks for taxpayers waiting for amended individual returns to be processed. However, IRS does not provide estimated time frames for other correspondence types, including if a taxpayer responded to a notice.

To fully implement this recommendation, IRS needs to clearly communicate estimated time frames for resolving correspondence so taxpayers know when to reasonably expect a response or refund. Without clear, timely information on IRS's processing time frames for addressing taxpayer correspondence, taxpayers will continue to call, write, or visit IRS in person to try to obtain this information, and IRS will continue to struggle to meet demands for taxpayer customer service and in processing returns.

Recommendation: The Commissioner of Internal Revenue should work with Treasury to develop and implement a modernization plan for "Where's My Refund" that fully addresses taxpayer needs and requirements.

Action needed: IRS agreed with this recommendation and stated that implementation of this effort will be contingent on available funding. IRS's April 2023 *Inflation Reduction Act Strategic Operating Plan* (henceforth referred to as the *Strategic Operating* Plan) contains an initiative to build status tracking tools for taxpayers. In June 2023, IRS stated that this initiative will include updating the current Where's My Refund application.

In February 2023, IRS officials reported that IRS completed research on user needs and expectations for Where's My Refund. They found that users expected a more modern interface, were frustrated with the authentication process and inability to use the tool many times per day, and desired more information on their refund. To fully implement this recommendation, IRS needs to address technical limitations with the current application or develop a new application to better serve taxpayers in the future. We will continue to monitor IRS's proposed plans for implementing this recommendation. Without clear leadership direction and a timeline for modernizing Where's My Refund, IRS will face challenges with additional workload on IRS staff and associated costs when taxpayers call or write IRS because they cannot obtain the information they need through Where's My Refund.

High-risk area: Enforcement of Tax Laws

Director: Jessica Lucas-Judy, Strategic Issues
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Tax Administration: Taxpayer Input Could Strengthen IRS's Online Services. GAO-20-71. Washington, D.C.: December 19, 2019.

Year Recommendations Made: 2020

Recommendation: The Commissioner of the IRS should work with relevant officials to set a target to reduce taxpayer burden through the development of new online services.

Action needed: IRS did not agree with this recommendation, stating that its taxpayer burden measurement methodology is not designed to evaluate the effect of specific online services. We continue to believe that IRS should set a target. IRS's customer experience plan for fiscal year 2023 (posted on Performance.gov) states that officials are working to measure the time saving resulting from online services, and planned to set a target or projection for this fiscal year. The additional funding from the Inflation Reduction Act makes it important that IRS address this recommendation. IRS's *Strategic Operating Plan* contains an objective to improve services to taxpayers—including online services—with a goal of decreasing filing burdens for taxpayers. However, without targets for reducing taxpayer burden, IRS cannot determine the success of new online services in helping drive progress toward this goal.

Recommendation: The Commissioner of the IRS should direct the Commissioner of Wage and Investment (W&I) to work with the Director of the Office of Online Services (OLS) to ensure that future decisions regarding whether to renew the Free File agreement incorporate findings from a comprehensive examination of the benefits and costs of the agreement as it relates to long term plans for IRS's online services, including plans to file amended returns electronically.

Action needed: IRS agreed with this recommendation. A March 2021 IRS analysis addressed a portion of the recommendation by identifying potential benefits, such as the lower cost of processing electronic returns compared to paper ones. However, IRS did not discuss how the Free File program should be coordinated with online services offered to taxpayers, such as online accounts.

In August 2022, Congress provided IRS with $15 million in the Inflation Reduction Act to study the possibility of an IRS-run online filing system. In May 2023, IRS issued its report to Congress on a potential free direct file system. IRS concluded that there is taxpayer interest in an IRS-run free direct file option and IRS is technically capable of delivering such a system. IRS also plans to use a pilot program to gather data to assess issues identified in the report before deciding whether to deploy a full-scale direct file system.

To fully implement this recommendation, IRS needs to evaluate the results of its planned direct file pilot as part of a benefit-cost analysis of the current Free File agreement. Without a more rigorous examination, IRS is not positioned to manage the risks of its reliance on the Free File agreement nor consider how Free File fits within its portfolio of IRS-provided online services.

High-risk area: Enforcement of Tax Laws

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IRS Free File Program: IRS Should Develop Additional Options for Taxpayers to File for Free. GAO-22-105236. Washington, D.C.: April 28, 2022.

Year Recommendation Made: 2022

Recommendation: The Commissioner of IRS should, before the expiration of the current Free File Memorandum of Understanding in October 2023, work with relevant stakeholders to identify and develop additional options for free online filing of tax returns that would reflect current guidelines for federal digital services.

Action needed: IRS originally disagreed with this recommendation. In its April 2022 comments on the report, IRS stated that it did not believe a public free filing option would significantly improve the taxpayer experience and it did not have sufficient funding to do this. In August 2022, Congress provided IRS with $15 million in the Inflation Reduction Act to study the possibility of an IRS-run system.[14] In January 2023, IRS and Free File Inc. agreed to extend the current Free File Memorandum of Understanding to October 2025.

In May 2023, IRS issued its report to Congress on the potential for a free direct file system. IRS concluded that there is taxpayer interest in such an option and IRS is technically capable of delivering such a system. However, IRS noted that doing so would require additional resources and add complexity to IRS operations. IRS also plans to use a pilot program to gather data to assess issues identified in the report before deciding whether to deploy a full-scale direct file system. Ensuring IRS is positioned to offer free online filing services to taxpayers will help mitigate the risks and uncertainty associated with the current Free File program.

High-risk area: Enforcement of Tax Laws

Director: James R. McTigue, Jr., Strategic Issues
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Taxpayer Service: IRS Could Improve the Taxpayer Experience by Using Better Service Performance Measures. GAO-20-656. Washington, D.C.: September 23, 2020.

Year Recommendations Made: 2020

Recommendation: The Commissioner of Internal Revenue should identify agency-wide and division performance goals that align with IRS's strategic service goals and objectives for an improved taxpayer experience.

Recommendation: The Commissioner of Internal Revenue should identify performance measures with targets for improving the taxpayer experience that link with the related performance goals.

Actions needed: IRS generally agreed with both of these recommendations. In its January 2021 *Taxpayer First Act Report to Congress*, IRS identified a new framework of strategic goals and objectives for improving the taxpayer experience and some high-level service performance measures with targets for improving the taxpayer experience.[15] However, the report did not specify related performance goals aligned with strategic goals for assessing progress in improved taxpayer experience outcomes, particularly in the divisions that provide taxpayer services.

IRS's *Strategic Operating Plan* aims to improve the taxpayer experience and says the Transformation and Strategy Office will manage the implementation of all plan objectives, including setting key performance indicators. To fully implement these recommendations, IRS

[14]Pub. L. No. 117-169, § 10301(1)(B), 136 Stat. 1818, 1832 (2022).

[15]IRS, *Taxpayer First Act: Report to Congress*, (Publication 5426: Jan. 11, 2021). The report addresses three provisions of the Taxpayer First Act, each of which included a requirement to report to Congress. Pub. L. No. 116-25, §§ 1101, 1302, 2402, 133 Stat. 981, 985–986, 993, 1014 (2019).

needs to clearly state performance goals for desired improvements in the taxpayer experience and specify their related measures with targets. Without such performance information, it will be challenging for IRS and stakeholders to assess progress made toward an improved taxpayer experience and providing top-quality service.

High-risk area: Enforcement of Tax Laws

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Reducing Tax Fraud and Improper Payments

Tax Fraud and Noncompliance: IRS Could Further Leverage the Return Review Program to Strengthen Tax Enforcement. GAO-18-544. Washington, D.C.: July 24, 2018.

Year Recommendations Made: 2018

Recommendation: The Commissioner of Internal Revenue should implement the most cost-effective method to digitize information provided by taxpayers who file returns on paper.

Action needed: IRS agreed with this recommendation and is taking steps to implement its digitization plans to fully leverage the Return Review Program's (RRP) capabilities. In October 2022, IRS began allowing amended returns to be accessed electronically for processing in RRP. In January 2023, IRS launched an internet platform for businesses to file Forms 1099 electronically, as required by the Taxpayer First Act. According to officials, this change sends these forms directly to RRP for processing. Officials told us that providing venues for companies to submit tax forms electronically is a form of digitization because IRS has access to the data electronically at intake. IRS's *Strategic Operating Plan* contains a plan to increase the digitalization of paper-submitted returns and other forms at the point of receipt. Given that IRS received about 10 million individual returns on paper in fiscal year 2022, to fully implement this recommendation, IRS should follow through on its plans to digitize paper tax returns at intake. This would allow IRS to reduce processing time, use the RRP fraud filters on all paper and electronic forms, and allow more pre-refund compliance checks or investigations, among other benefits.

Potential Financial Benefit if Implemented: Tens of millions of dollars

Recommendation: Based on its evaluation of RRP, the Commissioner of Internal Revenue should expand RRP to support identified activities.[16]

Action needed: IRS agreed with this recommendation. Officials told us that in January 2022, IRS completed a pilot project where RRP was used to notify taxpayers of potential issues with their tax return. In October 2022, IRS began using RRP to check for fraud and other withholding errors on digitized amended returns. According to an IRS official, this helped examiners prioritize thousands of amended returns for manual review. While these steps highlight IRS's progress, IRS needs to continue leveraging RRP capabilities to support enforcement activities

[16]In January 2022, IRS implemented a previous priority recommendation to evaluate the costs and benefits of expanding RRP to analyze individual returns not claiming refunds to support other enforcement activities.

to fully implement this recommendation. IRS's *Strategic Operating Plan* contains plans to enhance systemic checks on tax returns to identify issues at the point of filing and notify taxpayers. Fully expanding RRP will help IRS streamline its detection and treatment of fraud and increase taxpayer compliance.

High-risk area: Enforcement of Tax Laws

Director: James R. McTigue, Jr., Strategic Issues
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Identity Theft: IRS Needs to Better Assess the Risks of Refund Fraud on Business-Related Returns. GAO-20-174. Washington, D.C.: January 30, 2020.

Year Recommendation Made: 2020

Recommendation: The Commissioner of Internal Revenue should designate a dedicated entity to provide oversight of agency-wide efforts to detect, prevent, and resolve business identity theft (business IDT) refund fraud, consistent with leading practices. This may involve designating one business unit as a lead entity, or leveraging cooperative relationships between business units to establish a business IDT leadership team. This entity should have defined responsibilities and authority for managing fraud risk.

Action needed: IRS agreed with the recommendation, but the recommendation remains unimplemented as of March 2023. In May 2021, IRS officials stated that an executive steering committee would serve as an interim oversight body on business IDT until IRS fully establishes the role of Chief of Identity Theft and Fraud. As of March 2023, IRS had not shown how the executive steering committee serves as the oversight body for business IDT. Instead, IRS described fraud detection efforts as occurring at the business unit level, similar to what we reported in January 2020. Although IRS characterized this as a coordinated approach, these units have limited authority to oversee agency-wide efforts on business IDT.

To fully implement this recommendation, IRS needs to establish a new leadership position and demonstrate that it has defined responsibilities and authority for managing fraud risk. We continue to monitor whether IRS is providing centralized oversight consistent with leading practices for fraud risk management in the interim. IRS's continued attention is important for coordinating its efforts to combat the evolving threat of business IDT.

High-risk area: Enforcement of Tax Laws

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Paid Tax Return Preparers: IRS Efforts to Oversee Refundable Credits Help Protect Taxpayers but Additional Actions and Authority Are Needed. GAO-23-105217. Washington, D.C.: November 30, 2022.

Year Recommendation Made: 2023

Recommendation: The Commissioner of Internal Revenue should finalize the Service-wide Return Preparer Strategy and identify the resources needed to implement it.

Action needed: IRS agreed with this recommendation. IRS's *Strategic Operating Plan* describes initiatives that could help paid preparers improve the accuracy of returns they submit, such as by notifying preparers of potential issues, but does not contain additional information on agency-wide preparer compliance efforts. As of May 2023, IRS reported that it is aligning the Service-wide Return Preparer Strategy with the *Strategic Operating Plan's* goals and objectives, but that resources still need to be allocated to implement the preparer strategy.

To fully implement this recommendation, IRS needs to capitalize on the planning efforts it has already made and identify the remaining steps toward a more coordinated approach to paid preparer compliance. Implementing a Service-wide Return Preparer Strategy could benefit taxpayers and their representatives by helping them prepare more accurate tax returns, and could help IRS efficiently allocate resources across its paid preparer compliance activities.

High-risk area: Enforcement of Tax Laws

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Enhancing Information Reporting

Tax Administration: Better Coordination Could Improve IRS's Use of Third-Party Information Reporting to Help Reduce the Tax Gap. GAO-21-102. Washington, D.C.: December 15, 2020.

Year Recommendations Made: 2021

Recommendation: The Commissioner of Internal Revenue should research, evaluate, and develop potential recommendations to expand third-party information reporting to include more information on sole proprietors' income and expenses.

Action needed: IRS neither agreed nor disagreed with this recommendation. IRS officials reported that IRS will research and evaluate the tax administration benefits and taxpayer burdens of expanding third-party information reporting for sole proprietors' income and expenses. In April 2022, IRS officials reported that the agency is compiling a list of ideas that were proposed in the past but were never adopted, and soliciting additional ideas within IRS. As of March 2023, IRS reported that it continues to make progress on its research but needed additional time to complete the analysis and develop a summary report, which it expects to complete in November 2023.

Continued efforts to research expanding third-party information reporting will help IRS develop additional recommendations. To fully implement this recommendation, IRS needs to complete its research on options to increase information reporting for sole proprietorships. Without options to help improve compliance for sole proprietorships, IRS is missing an opportunity to help address a significant part of the tax gap.

Recommendation: The Commissioner of Internal Revenue should revise the 2017 Information Returns Systems Modernization plans by evaluating changes in the environment, assessing risks to systems and programs, and detailing how the agency plans to address issues in the intake, processing, and use of information returns across business units.

Recommendation: The Commissioner of Internal Revenue should submit a revised information returns system modernization plan to Congress that describes how it integrates with IRS's broader information technology modernization efforts, the resources needed to achieve effective and timely modernization, and the proposed schedule and scope of the effort.

Actions Needed: IRS neither agreed nor disagreed with these two related recommendations. In January 2023, IRS rolled out the release of an internet platform that IRS officials stated is the first step in modernizing the systems related to the intake and processing of information returns. However, as of March 2023, IRS officials said they are still developing plans related to the specific resources needed, scope, and schedule of the future releases of the internet platform. Officials noted that future releases of the platform will allow IRS to be more flexible and responsive to changes needed for information returns by integrating legislative and other changes in a quicker and more efficient manner. Further, officials stated that they have a goal to integrate future releases of the internet platform into more modernized compliance systems.

IRS officials reported that more specific plans were being developed as part of agency planning for the Inflation Reduction Act funding. It is important that IRS can explain to Congress and other decision makers the critical need to modernize the information reporting system, as well as the proposed scope, schedule, and resource requirements needed to implement such a project. To fully implement these recommendations, IRS should establish a plan that provides an overall picture of what IRS is investing in as well as the benefits expected from such an investment. Since some of the costs being incurred by IRS today are for foundational modernization efforts, it is even more important that the agency develop a strategy explaining the long-term benefits expected from this work.

Recommendation: The Commissioner of Internal Revenue should develop a plan and schedule to systematically evaluate the suite of information returns with a goal of improving compliance and reducing fraud and reporting burden. The evaluation should consider factors such as filing requirement thresholds, deadlines for filing, corrections and amendment data, and the potential to consolidate similar forms, and include recommendations for needed changes.

Action Needed: IRS neither agreed nor disagreed with this recommendation. However, in July 2021, IRS agreed to conduct an evaluation of a select group of third-party submitted information returns. IRS plans to use the results of the study to determine if these forms continue to provide value and if changes to the current form revision processes are needed. For each of the selected returns, IRS will examine the revisions IRS considered and those it made, and categorize each of them according to the factors we recommended.

As of March 2023, IRS reported it needs additional time to complete this analysis and expects to complete this evaluation by November 2023. To fully implement this recommendation, IRS needs to complete its review of the suite of information returns. Without completing this comprehensive evaluation of information returns or their characteristics, IRS risks gathering information that it cannot use effectively in some areas and burdening filers and taxpayers and not gathering enough information for enhancing compliance in other areas.

Recommendation: The Commissioner of Internal Revenue should develop a collaborative mechanism to coordinate among the internal stakeholders who are responsible for the intake, processing, and use of information returns, as well as to improve outreach to external stakeholders in relation to information returns.

Action Needed: IRS neither agreed nor disagreed with this recommendation. IRS's *Strategic Operating Plan* states that IRS plans to build a unified compliance organization that enhances centralized planning and strategy. IRS plans to review the current organizational structure and develop a proposal for needed organizational changes in fiscal year 2024. Until then, IRS reported that in the interim, the Deputy Commissioner for Services and Enforcement is to facilitate coordination among internal stakeholders. Until IRS implements a collaborative mechanism with a coordinated approach to using information returns, IRS risks missing opportunities to improve the effectiveness of its development, intake, processing, and use of information returns.

High-risk area: Enforcement of Tax Laws

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Workplace Retirement Accounts: Better Guidance and Information Could Help Plan Participants at Home and Abroad Manage Their Retirement Savings. GAO-18-19. Washington, D.C.: January 31, 2018.

Year Recommendation Made: 2018

Recommendation: The IRS Commissioner should systematically analyze data reported through Form 8938 filings on foreign retirement accounts owned by U.S. individuals with the goal of developing an evidence-based understanding of how these accounts change over time and what level of risk these accounts pose for tax evasion. To assist with this analysis, IRS should consider revising Form 8938 to more clearly distinguish between retirement accounts and other types of accounts or assets being reported by taxpayers under current reporting requirements.

Action needed: IRS disagreed with this recommendation, citing a lack of resources to implement it. At the time, IRS noted that although the suggested modification to the Form 8938 was minor, systematically collecting and analyzing the data would require resources beyond those currently available. However, as we reported, IRS indicated that it already collects foreign account filing data through Form 8938 and that current reporting requirements help the agency monitor U.S. individuals' foreign pension arrangements to some extent. IRS's *Strategic Operating Plan* describes an initiative that could improve use of data related to activities outside of the United States but does not discuss foreign retirement accounts.

To fully implement this recommendation, IRS should modify the form and conduct a systematic analysis of these data—data that current law requires taxpayers to report—in order to assess the risk of tax evasion that foreign retirement accounts pose. As of June 2023, we continue to believe such an analysis can provide an understanding of how these accounts may pose risk for tax evasion. Such analysis would also provide assurances to U.S. individuals owning foreign retirement accounts that the data they are required to provide are useful for tax enforcement.

High-risk area: Enforcement of Tax Laws

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Virtual Currencies: Additional Information Reporting and Clarified Guidance Could Improve Tax Compliance. GAO-20-188. Washington, D.C.: February 12, 2020.

Year Recommendation Made: 2020

Recommendation: The Commissioner of Internal Revenue should clarify the application of reporting requirements under the Foreign Account Tax Compliance Act (FATCA) to virtual currency.

Action needed: IRS disagreed with this recommendation. In an August 2020 letter, IRS said it intends to focus on developing guidance regarding information reporting on certain virtual currency transactions involving U.S. businesses instead of clarifying the application of reporting requirements under FATCA to virtual currency. IRS stated that additional guidance on FATCA requirements may be appropriate in the future as the workings of foreign virtual currency exchanges become more transparent over time. We found that many virtual currency stakeholders were uncertain about how, if at all, FATCA requirements apply to virtual currency and would benefit from clarifications to the guidance.

In March 2023, IRS informed us that it submitted a proposal, which was included in the Department of the Treasury General Explanations of the Administration's Fiscal Year 2024 Revenue Proposals, to require reporting by certain taxpayers of foreign digital asset accounts under Section 6038D of the Internal Revenue Code. If adopted, the proposal would address the intent of our recommendation by clarifying the application of reporting requirements under FATCA to virtual currency. IRS could also implement this recommendation by providing taxpayers with a clear statement about the current requirements under FATCA related to foreign virtual currency accounts. Lack of clarity about these requirements could lead to underreporting, which deprives IRS of data needed to address offshore tax evasion, or over reporting, which creates unnecessary burdens and costs for taxpayers.

Potential Financial Benefit if Implemented: One billion or more dollars.

High-risk area: Enforcement of Tax Laws

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Improving Audit Effectiveness

Large Partnerships: With Growing Number of Partnerships, IRS Needs to Improve Audit Efficiency. GAO-14-732. Washington, D.C.: September 18, 2014.

Year Recommendations Made: 2014

Recommendation: The Commissioner of Internal Revenue should track the results of large partnerships audits by: (1) defining a large partnership based on asset size and number of partners; (2) revising the activity codes to align with the large partnership definition; and (3) accounting separately for field audits and campus audits.

Recommendation: The Commissioner of Internal Revenue should analyze the audit results by these activity codes and types of audits to identify opportunities to better plan and use IRS resources in auditing large partnerships.

Actions needed: IRS agreed with these recommendations. It defined large partnerships as having $10 million or more in assets. However, whereas IRS has eight asset categories for tracking corporations above this size, it has created only one category for tracking large partnerships. Until IRS develops a more expansive definition of large partnerships, IRS may have challenges analyzing the results from its audits of large partnerships.

In December 2021, IRS officials said the agency had started efforts to improve selection of partnership returns for audit based on compliance risk. Its Large Partnership Compliance program selected cases for auditors to begin in late fiscal year 2021 but said resolving these complex cases will take 2 to 3 years. Other IRS efforts include developing a model to identify partnerships that represent a compliance risk and specialized studies to identify tax return issues affecting partnership compliance. However, as of May 2023, IRS indicated that it needed until April 2024 to have sufficient results to determine how to implement our recommendations. In July 2023, we issued a related report examining IRS's large partnership audit procedures.[17]

To fully implement these recommendations, IRS needs to improve how it defines large partnerships to help it analyze the results of its audits. IRS's *Strategic Operating Plan* includes an initiative to expand enforcement for large partnerships. Without detail on audits by additional size categories of large partnerships, IRS is missing opportunities to better plan and use resources when auditing large partnerships.

High-risk area: Enforcement of Tax Laws

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IRS Referral Programs: Opportunities Exist to Strengthen Controls and Increase Coordination across Overlapping Programs. GAO-16-155. Washington, D.C.: February 23, 2016.

Year Recommendation Made: 2016

Recommendation: IRS should direct the referral programs to coordinate on a plan and timeline for developing a consolidated, online referral submission. This could better position IRS to leverage specialized expertise while exploring options to further consolidate the initial screening operations.

Action needed: IRS generally agreed with our recommendation. In March 2023, IRS began using its electronic document upload tool to digitize paper information referrals received. In May 2023, IRS launched an online portal for the public to submit information referrals on potential tax law violations. However, IRS continues to offer different paper forms for the public to report

[17]GAO, *Tax Enforcement: IRS Audit Processes Can be Strengthened to Address a Growing Number of Large, Complex Partnerships*, GAO-23-106020 (Washington, D.C.: July 27, 2023).

other types of tax fraud, such as abusive schemes and return preparer misconduct. The multitude of forms and instructions can confuse taxpayers about which form to use or cause them to file their report incorrectly.

To fully implement this recommendation, IRS must establish a timeline for consolidating intake for its multiple public referral programs. Without further progress on efforts to consolidate referral intake, IRS faces continued public confusion and inefficiencies in receiving and routing referrals to the correct enforcement unit.

High-risk area: Enforcement of Tax Laws

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Enhancing Strategic Human Capital Management

Internal Revenue Service: Strategic Human Capital Management Is Needed to Address Serious Risks to IRS's Mission. GAO-19-176. Washington, D.C.: March 26, 2019.

Year Recommendation Made: 2019

Recommendation: The Commissioner of Internal Revenue should fully implement the workforce planning initiative, including taking the following actions: (1) conducting enterprise strategy and planning, (2) conducting workforce analysis, (3) creating a workforce plan, (4) implementing the workforce plan, and (5) monitoring and evaluating the results.

Action needed: IRS agreed with this recommendation. In March 2021, IRS reported it had established a workforce plan, including an enterprise strategy, and had initiated the associated workforce analysis needed to implement the initiative. Our review of the workforce plan found IRS was scheduled to implement the plan and have a process in place to monitor and evaluate the results by December 2021. However, IRS reported in December 2021 that it was providing additional time to facilitate concurrence with key stakeholder organizations across IRS. As of May 2023, IRS has delayed implementation to March 2024.

IRS's *Strategic Operating Plan* emphasizes developing a highly skilled and diverse workforce and aims to upgrade IRS's workforce planning strategy. Fully implementing our recommendation will provide a comprehensive inventory of IRS's current workforce that will allow IRS to develop competency and staffing requirements to conduct agency-wide activities associated with identifying and addressing skills gaps.

High-risk area: Enforcement of Tax Laws and Strategic Human Capital Management

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2019 Tax Filing: IRS Successfully Implemented Tax Law Changes but Needs to Improve Service for Taxpayers with Limited-English Proficiency. GAO-20-55. Washington, D.C.: January 15, 2020.

Year Recommendation Made: 2020

Recommendation: The Commissioner of Internal Revenue should direct the Wage and Investment division to develop and implement a strategy, in collaboration with its strategic workforce planning initiative, for the efficient use of overtime.

Action needed: IRS agreed with this recommendation, but stated that its existing process within the Wage and Investment division for the use and approval of overtime is sufficient, so it would not take any further action. However, as we reported in January 2020, offices in the Wage and Investment division had exceeded their overtime allocations in several of the preceding years. Further, we reported in April 2022 that IRS's use of overtime doubled during fiscal year 2021 compared to the prior year.[18] In December 2022, we reported that IRS used its direct-hire authorities to help meet urgent staffing needs and address its backlog of returns during the 2022 filing season.[19] However, IRS reported using a mix of mandatory and voluntary overtime, in part because many of the new hires were not on-boarded in time for the filing season.

For the 2023 filing season, IRS used Inflation Reduction Act funds to hire 5,000 new customer service representatives, and according to officials, continued to use direct-hire authority to support the filing season. Despite the influx of new staff, IRS officials told us in February 2023 that the agency was considering using a mix of mandatory and voluntary overtime. As of April 2023, officials said they had not needed to implement mandatory overtime. Nevertheless, we continue to believe that a strategy, in collaboration with IRS's strategic workforce planning initiative, would help ensure the efficient use of overtime. If not well managed, overtime can be costly, contribute to skills gaps, and could negatively affect employee morale.

Potential Financial Benefit if Implemented: Less than one million dollars.

High-risk area: Enforcement of Tax Laws

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[18]GAO, *Tax Filing: 2021 Performance Underscores Need for IRS to Address Persistent Challenges.* GAO-22-104938 (Washington, D.C.: Apr. 11, 2022).

[19]GAO, *2022 Tax Filing: Backlogs and Ongoing Hiring Challenges Led to Poor Customer Service and Refund Delays,* GAO-23-105880 (Washington, D.C.: Dec. 15, 2022).

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