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IRS RETURN ON INVESTMENT AND THE NEED FOR MODERNIZATION

HEARING

BEFORE THE

SUBCOMMITTEE ON OVERSIGHT

OF THE

COMMITTEE ON WAYS AND MEANS
HOUSE OF REPRESENTATIVES

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United States House Committee on
Ways & Means
CHAIRMAN JASON SMITH

FOR IMMEDIATE RELEASE
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Chairman Smith and Oversight Subcommittee Chairman Schweikert Announce Subcommittee Hearing on IRS Return on Investment and the Need for Modernization

House Committee on Ways and Means Chairman Jason Smith (MO-08) and Oversight Subcommittee Chairman David Schweikert (AZ-01) announced today that the Subcommittee on Oversight will hold a hearing to examine the lack of return on investment from funding provided to the IRS by the Inflation Reduction Act and the need for information technology modernization at the agency. The hearing will take place on **Tuesday, February 11, 2025, at 10:00 AM in 1100 Longworth House Office Building.**

Members of the public may view the hearing via live webcast available at https://waysandmeans.house.gov. The webcast will not be available until the hearing starts.

In view of the limited time available to hear the witnesses, oral testimony at this hearing will be from invited witnesses only. However, any individual or organization not scheduled for an oral appearance may submit a written statement for consideration by the Committee and for inclusion in the printed record of the hearing.

DETAILS FOR SUBMISSION OF WRITTEN COMMENTS:

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All submissions and supplementary materials must be submitted in a single document via email, provided in Word format and must not exceed a total of 10 pages. Please indicate the title of the hearing as the subject line in your submission. Witnesses and submitters are advised that the Committee relies on electronic submissions for printing the official hearing record. All submissions must include a list of all clients, persons and/or organizations on whose behalf the witness appears. The name, company, address, telephone, and fax numbers of each witness must be included in the body of the email. Please exclude any personal identifiable information in the attached submission.

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Note: All Committee advisories and news releases are available on the Committee website at http://www.waysandmeans.house.gov/.

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IRS RETURN ON INVESTMENT AND THE NEED FOR MODERNIZATION

TUESDAY, FEBRUARY 11, 2025

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON OVERSIGHT,
COMMITTEE ON WAYS AND MEANS,
Washington, DC.

The subcommittee met, pursuant to call, at 10:02 a.m., in Room 1100, Longworth House Office Building, Hon. David Schweikert [chairman of the subcommittee] presiding.

Chairman SCHWEIKERT. The subcommittee will come to order.

As we get going, this is our first one, and I would like to actually say I am elated to have Ms. Sewell sitting next to me, one of the people I genuinely like, and my little boy is fascinated with your jacket. If you hear sudden noise, I have a 2-year-old in the little room right behind us.

So shall we actually get going?

I can let you introduce your witness. Do you have a witness?

Ms. SEWELL. I do.

Chairman SCHWEIKERT. I am going to let you—when we get done with—

Ms. SEWELL. Okay.

Chairman SCHWEIKERT. So let's do opening statements, and then let's get this going.

First, good morning. Welcome to the 119th Congress and our first Ways and Means Oversight hearing. I have a script here, but I am going to go off of it because I already shared with you, for many of us, we have had a couple of years here, the fussing back and forth between the cash that was put in the Inflation Reduction Act, hiring lots of people. The fact of the matter is we now have data of how hard it has been, almost impossible, to hire those very staffers. We actually have data in here that we would like to present and walk through on the actual spend versus the actual projected collections now that we are, what, 30-plus months in and how far off target we are. We have data in here talking from the IRS's own information when 31 percent of the phone calls during tax season are actually being answered.

Is the solution an army of more bodies in the same environment where when they had even the resources they were not able to hire, or is it ultimately a technology solution, just as so much of the rest of the world has actually stepped into?

My personal fixation is how do you modernize the IRS so it can meet its mission and actually reduce the friction with the popu-

lation taxpayers, those who are just trying to survive and trying to understand?

Our history here, particularly when you get near the IRS, it becomes a partisan whipping boy, but the fact of the matter is you have a country that is borrowing about $70,000, $80,000 every second. And by the end of this decade, those numbers go autopsy dramatically.

Maybe actually understanding what we are doing, how we are doing it, could we do it better, could we do it fairer, could we do it with more public understanding, and maybe less sense of hostility between the agency, Congress, and the very public we represent.

And with that, let me hand it over to the ranking member whom I am elated to be sitting next to.

Ms. SEWELL. Thank you, Mr. Chairman.

As the new ranking member of the Oversight Committee, I would like to first thank you for your warm words of introduction as well as for the opportunity to work with you on behalf of the American people. I also want to welcome my Democratic colleagues to our first subcommittee hearing. I look forward to working with everyone on this subcommittee on important oversight issues before Congress.

Today, I am pleased to have the opportunity to talk about the Internal Revenue Service and the historic Inflation Reduction Act. The IRA made a once-in-a-generation investment in modernizing the IRS. The results have been record-breaking. The IRS announced that it collected $1 billion from high-wealth taxpayers due to the IRA funding. It dramatically improved taxpayer service, including answering more calls, providing extended in-person outreach to rural and underserved taxpayers, and simplifying notices and letters.

I can tell you that in my district, in the Black Belt of Alabama, we have some of the highest audit communities for the EIT recipients. EITC, as we know, the Earned Income Tax Credit, is for moderate- to low-income folks being able to reduce their tax liability if they so qualify. These are hardworking Americans who make less than the minimum wage, with a median income close to $30,000 in my district. The IRS attempts to even the playing field giving resources that ensure the IRA—sorry—the Inflation Reduction Act with those monies we attempt to even the playing field by giving resources that ensure wealthy individuals who have evaded taxes are audited proportionately. And we still have a lot of ways to go.

Yet my colleagues on the other side of the aisle want to hamstring the IRS at a very important point where the IRA funding is actually making a difference.

This is abundantly clear by the fact that they have rescinded over $20 billion in enforcement funds, and they have frozen another $20 billion in the previous continuing resolution. We need to fix this issue, and slashing funds is not the solution. The IRA funding is not an endless piggy bank for the majority.

Mr. Chairman, I would be remiss if I did not mention the elephant in the room, which is, of course, this faux Department of Government Efficiency, or DOGE, and its unlawful access of the

taxpayers' sensitive payment systems and confidential taxpayer information. DOGE's takeover of the Federal payment system is an egregious invasion of the privacy of every American, especially every American taxpayer. Federal tax laws specifically ensure that Americans' tax return information is confidential. As you know, unauthorized disclosure of this information is a felony. Elon Musk and DOGE should not be rummaging around in the confidential information of private taxpayers and private citizens.

No one knows what information DOGE has accessed or how it will use such information. And, Mr. Chairman, we should all be concerned that our private confidential taxpayer information has been exposed.

Today I want to welcome all of our witnesses. I really look forward to the opportunity to hear from you and for us to have a substantive conversation about the IRA funding for the IRS.

Thank you. And I yield back.

Chairman SCHWEIKERT. Thank you, Ms. Sewell.

All right. Now let's do some quick introductions, and I am going to let you introduce Ms. Olson.

Is it Hayden Dublois?

Mr. DUBLOIS. Dublois.

Chairman SCHWEIKERT. Dublois. I was never going to get that right.

Mr. DUBLOIS. That is okay.

Chairman SCHWEIKERT. Who is a data analytics director at the Foundation for Government Accountability.

Pete Sepp is president of the National Taxpayers Union.

Minesh Ladwa.

Mr. LADWA. Chairman, it is Minesh Ladwa.

Chairman SCHWEIKERT. All right. Is global solution manager for tax and revenue management at SAP.

And Kristen——

Ms. KOCIOLEK. Kociolek.

Chairman SCHWEIKERT [continuing]. Kociolek. That one I might have gotten—is managing director for financial management and assurance team at the Government Accountability Office.

Ms. SEWELL. And I would like to introduce probably the easiest pronounced name on this witness list, Ms. Nina Olson. Ms. Olson is a former national taxpayer advocate. She is now the executive director of the Center for Taxpayer Rights. Welcome, Ms. Olson, to this subcommittee hearing, and we look forward to your testimony.

Chairman SCHWEIKERT. Each of you will have 5 minutes, and at that point we will begin statements and questions.

Hayden.

STATEMENT OF HAYDEN DUBLOIS, DATA AND ANALYTICS DIRECTOR, FOUNDATION FOR GOVERNMENT ACCOUNTABILITY

Mr. DUBLOIS. Well, Chairman Schweikert, Ranking Member Sewell, and members of the committee, thank you for having me here today and for hosting this very important hearing.

My testimony is going to differ just slightly from some of my counterparts and focus on a related issue of the capacity of the Congressional Budget Office to accurately estimate the fiscal effects

of legislation, including the Inflation Reduction Act. Unfortunately, CBO tends to underestimate the costs associated with measures that would increase the size of government and overestimate the cost of tax relief for Americans. And one of the most prominent examples of that, of course, pertains to the Inflation Reduction Act which is obviously relevant to today's hearing.

Following the enactment of the Inflation Reduction Act, CBO predicted the legislation would decrease the Federal budget deficit by $58.1 billion over the following decade. But a 2024 update by CBO suggested the law would actually increase the deficit by roughly $300 billion.

It turns out the CBO's revision reflected a $224 billion upward adjustment in green energy expenses. And additionally, CBO projected that the nearly $80 billion dedicated to IRS enhanced enforcement measures would actually reduce the deficit by $180 billion, but by the end of fiscal year 2024, the IRS announced just $1.3 billion had been collected through those increased enforcement measures, compared to the $7.2 billion CBO projected it would have collected in that first year. In fact, more money had been spent to hire these new IRS agents than they had collected in revenue. For every $1 in new revenue gained, these enforcement efforts had cost $1.04.

According to the Economic Policy Innovation Center, the CBO's faulty estimates are a result of the projected far higher rate of return on IRS enforcement efforts than what actually occurred. As a result, CBO's estimated return on investment was off by more than sixfold.

And this is not the first time that CBO has made these mistakes. In 2010, the CBO projected that approximately 13 million Americans would enroll through Medicaid expansion under the Affordable Care Act in all 50 States. By 2019 actual enrollment had reached 19.5 million in just 34 States.

In the food stamp program, CBO estimated that food stamp changes contained in the 2009 stimulus bill would have cost approximately $20 billion. A decade later CBO revised its estimate and said food stamp driven spending from the stimulus bill had reached $43 billion, more than twice as much as their initial estimates.

Likewise, another provision of the 2009 stimulus was the enhanced unemployment benefits which CBO predicted would cost $39.2 billion. Six years later, CBO revised their score to $64 billion.

And on the revenue side, as Ways and Means Committee Chairman Smith has correctly noticed, actual 2024 corporate receipt collections reached $529 billion well ahead of the $421 billion predicted by CBO following the passage of the historic Tax Cuts and Jobs Act. In fact, cumulative revenues are half a trillion dollars above where CBO estimated they would be following the passage of TCJA.

Now, there are a variety of reasons why CBO has made these inaccurate estimates. Through the Inflation Reduction Act, they failed to account for developments in green energy markets and substantially overestimated the IRS's return on investment. For Medicaid, they dramatically understated enrollment. For the 2009 stimulus package, they were wrong about their assumptions re-

garding the record slow Obama economic recovery. And for TCJA, they failed to predict the tremendous impact that lower taxes would have on the middle class.

Unfortunately, the cumulative effect of these errors demonstrates CBO's implicit bias for more government spending through provisions like the IRA and higher taxes. Now CBO will undoubtedly have a role to play in scoring key pieces of legislation, especially as it relates to the ongoing reconciliation conversation. But already the baseline CBO uses misleads Congress, because CBO assumes, one, certain discretionary appropriations will continue without statutory budget authority; two, all discretionary appropriations will continue to grow with inflation; three, certain mandatory spending programs will continue beyond their expiration; and four, Social Security and Medicare payments will continue at their current levels even after the trust funds are depleted.

Finally, by using a current law baseline rather than a current policy baseline, the likely effect of various programs on outlays is distorted. Congress should not only evaluate CBO's fiscal scores with scrutiny but also consider amending law to have the baseline more accurately resemble reality.

Thank you for the opportunity to testify today, and I am happy to answer any questions.

[The statement of Mr. Dublois follows:]



THE CONGRESSIONAL BUDGET OFFICE'S POOR RECORD OF FISCAL ESTIMATES

"IRS Return on Investment and the Need for Modernization"

U.S. House Ways and Means Committee
Subcommittee on Oversight

February 11, 2025

Hayden Dublois, Data & Analytics Director

Chairman Schweikert, Ranking Member Sewell, and members of the Committee, thank you for hosting this important hearing. My name is Hayden Dublois, the Data & Analytics Director at the Foundation for Government Accountability (FGA). FGA has worked for many years on a wide variety of policy areas, including welfare, workforce, health care, and more. In my role at FGA, I have worked in depth on several key federal policy issues that have been subject to fiscal estimates by the Congressional Budget Office (CBO). The CBO routinely produces fiscal scores for Congress to guide them in decision-making on bills that either raise revenue or reduce costs for Americans. **Unfortunately, CBO's track record in producing these scores has been questionable, at best, in several key areas**—including as it relates to the Inflation Reduction Act (IRA), which, as you know, is directly related to additional funding to the Internal Revenue Service (IRS).

CBO's Scoring Blunders Have Produced Inaccurate Fiscal Estimates

While CBO scores major pieces of federal legislation that are supported by both sides of the political aisle, it **tends to underestimate costs associated with measures that would increase the size of government and overstate the cost of tax relief for Americans**.

By way of example, CBO's score of various provisions of the IRA turned out to be incorrect.

Following the enactment of the IRA, the CBO predicted the legislation would "result in a net decrease in the deficit of $58.1 billion" over the 10-year budget window.[1]

However, CBO got it wrong. A 2024 update by the CBO reflected a new analysis that the law would in fact **increase the total deficit by $300 billion** over the next decade.[2]

This glaring mistake was due to multiple factors. First, CBO substantially underestimated the costs of the green energy tax credits and subsidies contained in the legislation. CBO's revision reflected a $224 billion upward-adjustment in net outlays as it relates to clean vehicle tax credits and lower-than-expected excise taxes on gasoline contained in the IRA. [3]

Second, the CBO projected that an additional nearly $80 billion dedicated to the IRS for enforcement measures would reduce the deficit by $180 billion over the budget window.[4] The IRS's increased funding was subsequently reduced by Congress to $57.8 billion—still a sizable investment.[5]

But by the end of FY2024, the IRS announced just $1.3 billion had been collected through increased enforcement measures, but a slightly larger amount had been spent to hire 4,000 additional IRS agents, actually creating an increase in the deficit.[6] For every $1.00 of new revenue collected by the IRS, these enhanced enforcement efforts cost $1.04.[7]

The CBO predicted that, by the end of FY2024, the IRS would have collected nearly $7.2 billion in additional revenue—but **actual collections of only $1.3 billion were shockingly 82 percent below projections**.[8]

According to the Economic Policy Innovation Center, the CBO's faulty estimates are directly attributable to a far higher return on investment (ROI) for IRS enforcement efforts than what actually

occurred.[9] **The CBO's benchmark ROI of $6.40 in new revenue gained for every $1.00 spent on enforcement was off by more than sixfold**.[10]

This is not the first time that CBO has failed to accurately score key pieces of legislation. In general, CBO tends to overestimate the costs of provisions that would reduce the size of government, underestimate the cost of provision that would increase the size of government, and overstate the deficit impact of tax relief for Americans.

For example, in 2010, CBO predicted that Medicaid expansion under ObamaCare would enroll 13 million able-bodied adults across all 50 states.[11] However, by 2019—just before the onset of the COVID-19 pandemic—actual expansion enrollment reached 19.5 million in the 34 states that had adopted Medicaid expansion by that time.[12]

CBO itself recognized this error, noting in a 2017 report that, "In its May 2013 projection, CBO underestimated such [expansion] spending mainly because it underpredicted the number of people who would enroll in Medicaid. Fewer states expanded eligibility for Medicaid under the ACA than CBO anticipated, but many more people enrolled in Medicaid in expansion states than CBO expected."[13]

During the pandemic, CBO's March 2020 baseline dramatically underestimated Medicaid expenditures from FY2020 through FY2023, leading to a 20 percent overage in spending above CBO projections during that period.[14-15]

In the food stamp program, CBO estimated that various food stamp changes contained in the 2009 stimulus package would cost approximately $20 billion over the ten-year budget window.[16] A decade later, CBO noted that stimulus-driven food stamp spending had reached $43 billion over the period, or, as CBO stated, "the ARRA-related increase in spending on SNAP was more than double the amount CBO estimated in 2009."[17]

Likewise, another provision of the 2009 stimulus package was a temporary $25 weekly unemployment insurance (UI) bonus, which CBO predicted in 2009 would cost $39.2 billion over the next 10 years.[18-19] Six years later, CBO revised their score to reflect a $64 billion cost estimate, a roughly 63 percent overage above original estimates.[20]

Finally, on the revenue side, CBO's most notable blunder relates to the Tax Cuts and Jobs Act of 2017 (TCJA). For example, as Ways and Means Chairman Smith correctly noted just this last year, CBO's own numbers on FY2024 corporate receipt collections reached $529 billion, well ahead of the $421 billion predicted by CBO following the passage of TCJA.[21] **Cumulatively, combined revenues are $502 billion above CBO estimated they would be following the passage of TCJA**.[22]

Why Has the CBO Produced Inaccurate Estimates

There are a variety of reasons why CBO has inaccurately estimated the costs and savings associated with major pieces of federal legislation.

As it relates to the IRA, CBO admittedly failed to account for market developments in the green energy sector while dramatically overestimating the IRS's efficiency in collections.

Regarding their Medicaid errors, CBO has admitted their underestimates of increased Medicaid spending are directly attributable to their inaccurate assumptions surrounding Medicaid enrollment.

For food stamps and unemployment, CBO failed to predict the extremely slow economic recovery of the Obama years, leading to unemployment remaining elevated for a longer period of time and skewing their estimates.

And for TCJA, CBO failed to account for the tremendous economic growth caused by tax relief for the middle class.

Unfortunately, the cumulative effect of these errors demonstrate CBO's bias for more government spending and higher taxes.

Congress Should Consider CBO's Inaccuracies in Light of Reconciliation

CBO will undoubtably have a role to play in scoring key pieces of legislation as part of the reconciliation process. But already, CBO has enabled artificial manipulation their baseline estimates that bias the results of their projections in four key ways:

1. CBO assumes discretionary appropriations will continue even without statutory budget authority;
2. CBO assumes all discretionary appropriations will grow with inflation—even emergency or one-time appropriations;
3. CBO assumes mandatory spending program will continue beyond their statutory expiration dates; and
4. CBO assumes that Social Security and Medicare payments will continue at their scheduled levels, even after their trust funds are depleted and there is no statutory authority to make payments at those levels.[23]

In addition, CBO has previously produced inaccurate estimates of options for reducing the deficit that may be employed considered. For example, CBO dramatically underestimates the costs of applying the federal asset test for food stamps because it relies on administrative data about participants' incomes—rather than available data on participants' assets—leading to what CBO characterizes as "a large source of uncertainty" in its estimates on this issue.[24]

Last but not least, by using a current law baseline rather than a current policy baseline, the likely effect of various programs on revenues and expenditures is distorted.

Congress should not only evaluate CBO's fiscal scores with scrutiny, but also consider amending requirements to have CBO's baseline more closely resemble reality.

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Chairman SCHWEIKERT. Thank you.
Mr. Sepp.

STATEMENT OF PETE SEPP, PRESIDENT, NATIONAL TAXPAYERS' UNION

Mr. SEPP. Chairman Schweikert, Ranking Member Sewell, members of the committee, you honor NTU and taxpayers everywhere by holding this hearing. As you know, NTU has had a long history of involvement in the tax administration space. We thank you, Mr. Chairman, for kicking off the Taxpayers FIRST event that we held last year. That was fantastic. Our taxpayer defense center continues to be very active in presidential litigation, but I would like to focus on a couple of points here.

Surprise, the IRS needs more money. It needed more prior to the Inflation Reduction Act, and if the IRA money for IRS is zeroed, we will have to scale up from there. However, point 2, the IRS must prioritize any additional funding it receives toward taxpayer services and modernization. Three, Congress, the IRS, and Treasury must develop a genuine detailed strategic plan for that modernization with transparent benchmarks and accountability safeguards if those benchmarks aren't achieved. And four, the damaged system of IRS oversight needs to be repaired so that Congress has more partners in ensuring the funding is properly spent.

Now, there are lots of illustrations over the history of IRS modernization that I can go into. Hopefully we will when we get more technical in the Q&A period, but I would like to point out two comparisons and contrasts here.

The IRS Restructuring and Reform Act of 1998, that was the product of 2 years of commission work, hundreds of testimonies, multiple committee hearings, and a 184-page bill set up that tripartite system of IRS oversight that ensured for a few years at least the Service was actually transforming, meeting the objectives of its strategic plan. That system began to weaken, which I will discuss a bit later, but that was generally a success.

Contrast this with the Inflation Reduction Act, which took all of nine paragraphs to describe an agency transformation, three paragraphs to describe how 99 percent of the funds would be spent. This was not a real transformation. It was an attempt to meet a score in the Inflation Reduction Act. That is what the funding was really intended for. And unfortunately, the strategic planning, the resulting strategic operational plan, and now the implementation roadmap, well, those came long after the money was let out the door, and it shows.

It is folly to think that as we discuss estimates ranging from $180.4 billion to $316 billion for the collections the agency could get from the IRA funding when, again, we were trying to meet a score, not modernize. We need to move forward with the real modernization here. And, again, it is going to take money. There is no apparent project in the implementation roadmap for modernizing the individual master file, or the business master file. Customer service priorities are starting to lag.

These are a few reasons why our evaluation of the IRS's report card of IRA funds earned an overall D grade, and I would be happy to explain further as to why that grade was given, but I will just

recommend here, we need to restore the strength of that tripartite accountability system I mentioned going forward. If modernization is going to succeed, we have to have more itemized spending plans for the IRS going forward beyond the 100-odd page budget justification that Members of Congress see. We have to have more detailed real-time data on service levels in the IRS. That will help us figure out where we need to shift personnel and how we can better use technologies like AI. And we have to measure the fiscal benefits of modernization and customer service on compliance. Several witnesses here can talk in greater detail about that as well as myself.

But let me close this oral presentation with an important and inspiring quote. "Even in the most difficult times, we can come together as a Nation, as a people, and as a Congress to accomplish important things for the American people." That was said 5.5 years ago by the late great John Lewis who many of you know from this panel.

History can repeat itself. It wasn't that long ago when you worked together to produce that legislation. Let's do it again.

Thank you.

[The statement of Mr. Sepp follows:]



Statement of
Pete Sepp, President, National Taxpayers Union
Prepared for The Subcommittee on Oversight
Committee on Ways and Means
United States House of Representatives
Regarding the Subcommittee's Hearing on "IRS Return on Investment and the Need for Modernization"

February 11, 2025

Introduction

Chairman Schweikert, Ranking Member Sewell, and Members of the Subcommittee, it is a great honor for me to provide comments today for your hearing, "IRS Return on Investment and the Need for Modernization." National Taxpayers Union (NTU) is a non-partisan citizen group founded in 1969 to advocate for lower taxes, more efficient and accountable government, and stronger taxpayer rights. More about our work as a non-profit grassroots organization can be found at www.ntu.org.

While we support a range of structural tax reforms—both comprehensive and incremental—NTU consistently emphasizes the importance of *administrability* in tax policy. As policymakers set rates, define tax bases, and design deductions and credits, they must consider the practical impact on taxpayers' lives and rights. Without careful attention to administrability, taxpayers will face greater uncertainty and mistrust in their government, revenue officials will struggle to fulfill their duties efficiently, tax practitioners will become increasingly frustrated with unnecessary complexity, and businesses will divert too many resources toward compliance rather than productive economic activity.

For these reasons, throughout its history NTU has led efforts in support of Congressional legislation to improve operations of the Internal Revenue Service (IRS) and ensure greater balance in the tax enforcement. Throughout the late 1970s and 1980s, NTU brought forward firsthand accounts from taxpayers who had experienced IRS maladministration and organized a broad coalition of civil liberties organizations. These efforts successfully persuaded Congress to enact the first Taxpayers' Bill of Rights as part of the Technical and Miscellaneous Revenue Act of 1988.

In 1996 and 1997, NTU's then-Executive Vice President David Keating was appointed to the National Commission on Restructuring the Internal Revenue Service ("Restructuring Commission"), a federal panel whose recommendations laid the foundation for the most significant IRS overhaul in a generation – the IRS Restructuring and Reform Act of 1998 (RRA '98).

Since then, NTU has continued to advocate for responsible tax administration, urging a cautious and deliberative approach—rather than outright opposition—to proposals for increased IRS funding. As I wrote in *The New York Times* in October 2021, supporting additional IRS funding:

> More resources for customer service, taxpayer rights safeguards, a functioning Oversight Board,

actionable and regularly updated research on the tax gap and innovative approaches such as the recently proposed enforcement fellowship pilot program are all solutions that should unite Washington.[1]

Even more recently, NTU's research and educational arm, the National Taxpayers Union Foundation (NTUF), formed Taxpayers for IRS Transformation (Taxpayers FIRST) shortly after passage of the Inflation Reduction Act (IRA) to provide expert input from a variety of disciplines on how best to implement the IRA's funding provisions for IRS development.[2]

Here I also wish to acknowledge the substantive and lengthy contributions to this testimony from two of my colleagues at National Taxpayers Union Foundation, Policy Manager Debbie Jennings, and Vice President of Research Demian Brady. Although their research and writing has greatly informed and improved the document you are reading today, any errors or omissions are solely my responsibility.

A well-functioning IRS is essential to a fair and efficient tax system, but modernization efforts must be pursued with accountability to ensure real returns for taxpayers. Rather than opposing all additional IRS funding, our focus is on ensuring that IRS spending is targeted, effective, and fiscally responsible. The IRS has a strong need for critical Information Technology upgrades that will enhance administration of the tax laws while also improving the taxpayer experience. NTU's long history of advocating for both taxpayer rights and responsible IRS reform is woven into the remarks to follow regarding how modernization efforts can and should be designed to improve efficiency, reduce administrative burdens, and enhance service for taxpayers.

Historically, IRS modernization has been fraught with deficient planning and disappointing outcomes. For more than 50 years, official and unofficial sources have amply documented the Service's struggles, with Congress, to bring tax administration in the modern age, even while the definition of "modern" is continuously shifting.[3] Yet, modernization that delivers an optimal return on investment to taxpayers as well as government coffers remains imperative, as the following remarks will hopefully elucidate.

I. IRS Modernization and Transformation Efforts

Before discussing the current state of IRS modernization, I would like to recognize the efforts of the Senate Finance Committee on their recently released bipartisan discussion draft on tax administration.[4] Released by Senate Finance Committee Chair Mike Crapo (R-ID) and Ranking Member Ron Wyden (D-OR), this proposal represents the most comprehensive effort to improve tax administration since RRA '98 and the Taxpayer First Act of 2019. It includes long-overdue reforms that NTU has long advocated for, such as expanding taxpayer access to appeals, creating a robust customer service "dashboard," strengthening the National Taxpayer Advocate, clarifying math error notices, and harmonizing the "mailbox rule." These provisions are essential to ensure that the IRS better serves taxpayers rather than merely enforcing compliance. I encourage all Members of the Subcommittee to work with the Senate Finance Committee to help refine the discussion draft into the strongest possible piece of legislation.

The IRS is approaching its third year of spending its historic influx of funding through the Inflation Reduction Act (IRA) and has now spent one-third of the funding designated for Business Systems Modernization.[5] With the start of the 2025 tax season two weeks ago, it is critical to understand what progress the IRS has made in its technological modernization and transformation that was promised through IRA funding.

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[1] Sepp, Pete, "I'm the President of the National Taxpayers Union. Be Careful with I.R.S. Reform." New York Times. October 18, 2021. https://www.nytimes.com/2021/10/18/opinion/tax-irs-reform.html.

[2] National Taxpayers Union Foundation is most grateful to Chairman Schweikert for delivering incisive and instructive remarks at the inaugural public event of Taxpayers FIRST in 2024. See more on Taxpayers FIRST here: https://www.taxpayers-first.org/.

[3] See, for example, David Burnham, *A Law Unto Itself*, (Random House, 1989) and Davis, Shelley, *Unbridled Power: Inside the Secret Culture of the IRS*, (Harperbusiness Books, 1997).

[4] Senate Finance Committee, "Crapo, Wyden Issue Discussion Draft to Improve IRS Administration," January 30 2025, https://www.finance.senate.gov/ranking-members-news/crapo-wyden-issue-discussion-draft-to-improve-irs-administration.

[5] Treasury Inspector General for Tax Administration, "Inflation Reduction Act Oversight," Accessed February 7, 2025, https://www.tigta.gov/inflation-reduction-act-oversight.

Congress did not provide clear goals for the IRS funding provided in the IRA. The legislation simply indicated dollar amounts for broad areas including $45.6 billion for enforcement ($21.6 billion of which was rescinded in subsequent laws), $25.3 billion for Operations Support, $4.8 billion for Business Systems Modernization, $3.2 billion for Taxpayer Services, and $400 million for the Treasury Inspector General for Tax Administration.

In the absence of Congressional guidance, the IRS developed its own modernization goals. In May 2023 – nine months after the IRA became law – the IRS published its Strategic Operating Plan (SOP) outlining how it intended to use its new funding.[6] Despite its length at 150 pages and its impressive formatting, the SOP was vague and offered very little detail regarding the steps procedures the Service will take to modernize. In fact, many technology milestones within the SOP simply state that the goal is to modernize various systems, without providing a plan for how to complete this modernization. Furthermore, despite indicating that the plan covers Fiscal Years (FY) 2023 through 2031, the SOP included very few milestones for years past FY 2025.

Last November, National Taxpayers Union Foundation conducted a comprehensive analysis of publicly available information to assess progress the IRS has made thus far in modernizing its information technology with IRA funding. NTUF's *Grading the IRS* report is a more candid attempt to evaluate the Service's success in response to its own first and second annual self-assessment report cards.[7] NTUF gave the IRS an overall "D" grade for its modernization efforts.[8]

While the report cards released by the IRS spotlight the results of a handful of initiatives developed with the new funding, NTUF's report reviews the progress made completing Fiscal FY 2024 milestones outlined in the SOP and an update released in May 2024.[9] Instead of comparing the original Plan's goals with actual results, the update chose a few select milestones in each of the five main objectives and provided a check mark next to the milestone if complete. At that time, none of the selected information technology modernization milestones for Fiscal Year 2024 had been completed, demonstrating the least amount of progress of any of its five objectives.

The NTUF report shows a more accurate picture of whether the IRS has kept on track with its own goals and takes into consideration the need for information technology modernization to be transformational rather than a mere improvement. It also highlights a lack of transparency in the IRS modernization process. While we appreciate the release of the Plan, its update, and summarized descriptions of work in the IRS report cards, the information provided by the IRS is inconsistent and often still vague.

The Government Accountability Office (GAO) has confirmed that the Service's modernization plans do not follow a clear and consistent implementation strategy. According to GAO, initiatives within the SOP are being implemented through processes outlined in an "enterprise roadmap" that fails to include any plans for reaching the information technology modernization objectives.[10] However, the Treasury Inspector General for Tax Administration (TIGTA) noted in a new report released on January 28 of this year that the IRS is now shifting its strategy from relying on SOP guidance to using a new "Implementation Roadmap."[11]

This Implementation Roadmap must be available to the public and in the hands of Congress, if it is not already available to lawmakers. In lieu of direct access to the new roadmap, NTU has analyzed TIGTA's new report assessing the modernization plans currently in place. The report reveals a troubling pattern of poor prioritization by the Service. We are highly disappointed to find that there is "no project planned at this time" to remedy some of the Service's longest standing modernization challenges. Is this because the Service anticipates near-term completion of initiatives that will fulfill these

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[6] Internal Revenue Service, " Internal Revenue Service Inflation Reduction Act Strategic Operating Plan," May 2023, https://www.irs.gov/pub/irs-pdf/p3744.pdf.
[7] Internal Revenue Service, "Inflation Reduction Act 2-year report card," August 23, 2024, https://www.irs.gov/newsroom/inflation-reduction-act-2-year-report-card-irs-continues-to-improve-service-modernize-online-tools-pursue-complex-taxpayer-arrangements-used-to-evade-taxes.
[8] Jennings, Debbie, "Grading the IRS Part 3," National Taxpayers Union Foundation, November 6, 2024, https://www.ntu.org/foundation/detail/grading-the-irs-part-3-modernization.
[9] Internal Revenue Service, "IRA Strategic Operating Plan Annual Update Supplemental," May 2024, https://www.irs.gov/pub/irs-pdf/p3744a.pdf.
[10] Government Accountability Office, "IRS Needs to Complete Planning and Improve Reporting for Its Modernization Programs," March 2024, https://www.gao.gov/assets/870/867176.pdf.
[11] Treasury Inspector General for Tax Administration, "Inflation Reduction Act: Assessment of the IRS's 2024 Annual Update to Its Strategic Operating Plan," January 28, 2025. https://www.tigta.gov/sites/default/files/reports/2025-02/2025ier011fr.pdf

challenges? Or will there be a follow-on announcement of some new IT endeavor? Given the checkered modernization history mentioned earlier, taxpayers have reason to be skeptical. In any case, among those modernization priorities that apparently have no project planned are:

- Modernizing individual core tax processing to simplify and replace legacy Individual Master File (IMF) processes;
- Modernizing business taxpayer account information and recommissioning legacy systems to support eventual retirement of the Business Master File; and
- Developing additional data-driven methods developed for enterprise-wide optimization of resource allocation for enforcement.

Replacing IMF, the system which houses all individual tax data and that is built on an assembly language program dating back to the 1960s, is vital. Yet as of the time the TIGTA report was published, there was no project planned to modernize IMF. The lack of progress is a glaring shortcoming that leaves taxpayers skeptical over future progress.

The IMF is one of the oldest systems still in use by the federal government. Work to replace the IMF began decades ago, with GAO reporting in 2009 that the Customer Account Data Engine (CADE) was scheduled to entirely replace the IMF in 2018, or potentially as late as 2028.[12] The SOP set a goal of retiring the IMF by FY 2028, the same deadline set in 2009 decades before the influx of funding from the IRA. Unfortunately, TIGTA confirms that the IRS still is not on track to complete this, as there is no plan to complete the FY 2025 milestone of modernizing individual core tax processing to make way for IMF replacement. Despite the IRA funding and decades of work towards replacing this legacy system, the IRS now does not appear to have any project planned for IMF retirement and replacement. In sum, the IRS's most important modernization effort has come to a standstill.

NTU is also concerned about the lack of progress on data-driven modernization goals, which should be the underpinning of system-wide transformation efforts. In fact, alongside a bipartisan group of experts that National Taxpayers Union Foundation convened to form Taxpayers FIRST, NTUF has recommended dramatic changes to IRS data collection, processing, and transparency.[13] This modernization would benefit efforts ranging from improved taxpayer service to closing the tax gap.[14] Information technology relies on data, and with no projects yet planned to implement crucial changes to data management, it is unclear how the Service will be able to identify gaps and ensure that the most urgent modernization needs are met.

II. Misguided Priorities and Missed Opportunities

With its emphasis on enforcement over modernization and taxpayer services, the IRA was a missed opportunity for taxpayers. The push for the IRS funding boost originated in a 2021 Treasury Department report titled "The American Families Plan Tax Compliance Agenda."[15] The goal was to increase tax compliance and shrink the tax gap—the IRS's estimate of the difference between taxes owed and taxes collected. The plan projected significant revenue gains through expanded enforcement efforts, including more audits and a larger IRS workforce.

However, even before Congress began scaling back some of the enforcement funding provided in the IRA, the initial revenue projections proved overly optimistic, requiring downward revisions. Treasury initially estimated that its compliance agenda would generate $316 billion in additional tax revenue over a decade. This projection included revenue from a controversial proposal to require mandatory reporting for financial accounts with at least $600 in annual activity—a provision that was ultimately withdrawn.

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[12] See: https://www.gao.gov/assets/gao-10-225.pdf

[13] Brady, Demian, "Minding the Gap: Recommendations for Assessing, Addressing, and Ameliorating the Tax Gap," National Taxpayers Union Foundation, May 17, 2024, https://www.ntu.org/foundation/detail/minding-the-gap-recommendations-for-assessing-addressing-and-ameliorating-the-tax-gap.

[14] Bishop-Henchman, Joe, "Call to Action: Crafting a New Taxpayer Service Experience," National Taxpayers Union Foundation, May 22, 2024, https://www.ntu.org/foundation/detail/call-to-action-crafting-a-new-taxpayer-service-experience.

[15] See the Treasury Department report at: https://home.treasury.gov/system/files/136/The-American-Families-Plan-Tax-Compliance-Agenda.pdf.

Estimates from the executive branch about their own proposals often skew overly optimistic, which is one reason Congress created its own independent scorekeeping agency, the Congressional Budget Office (CBO). In November 2021, CBO projected that the IRS funding increase would yield $207.2 billion in new revenue. As the Inflation Reduction Act (IRA) neared passage, this estimate was revised downward to $203.7 billion over the decade.

Just weeks after the IRA became law, the administration further reduced its enforcement revenue estimate by $23 billion, lowering the total projected return to $180.4 billion.

As NTU has stated in previous analyses and testimonies to Congress, this back-and-forth over revenue estimates is tantamount to debating the number of angels capable of dancing on the head of a pin. It is quite feasible, even probable, to expect net gains in collections from certain prudent investments in IRS capabilities. Expecting precision in such gains over a ten-year period, to the nearest hundred million dollars, in order to offset spending increases in other areas of government as the IRA envisioned, is folly. Just a few of the factors that should reduce any rational confidence level in collection revenue estimates are:

- Changes to the tax laws themselves that Congress initiates within and beyond the ten-year "scoring" window. Such changes will almost certainly occur this year, for example, as Congress debates how to extend and modify the 2017 Tax Cuts and Jobs Act.
- Court rulings affecting how the IRS may enforce the laws. Just a handful among dozens of potential issues before the courts is whether and how the IRS may invoke the Economic Substance Doctrine in partnership examinations, how small businesses may treat micro-captive insurance, and the seemingly perennial controversies surrounding 170(h) deductions.[16]
- Economic developments that are yet to be known. Ten years ago, cryptocurrency trading was still in its infancy, yet the IRS has only recently attempted to create rules surrounding reporting of these transactions (which were roundly criticized as unworkable).[17] Some future economic trend of similar magnitude could increase or decrease tax administration and compliance challenges, requiring major shifts in how IRS budget resources are deployed.

We provide these illustrations not to dismiss the necessity of attempting to calculate the return on investment from various compliance initiatives. Indeed, we believe that the IRS should engage in more such research, especially the return on investment from modernization and customer service. Rather, we offer them to caution against relying on a particular revenue outcome for unrelated purposes, as the IRA did. By focusing on IRS transformation for the benefit of taxpayers and the administrability of the tax system first, collections will likely improve on their own.

Beyond compliance shortfalls, the IRS's use of its IRA funding has raised serious concerns about misplaced priorities and lack of transparency. For example, rather than emphasizing long-overdue modernization needs, the agency focused on Direct File, a costly, duplicative program that threatens the private sector's role in tax preparation.

The IRA allocated $15 million for the IRS to study the feasibility and costs of a Direct File system. In May 2023, the agency released a report estimating annual costs between $64 million and $249 million, depending on the program's scope. However, it was later revealed that the IRS had already begun secretly developing Direct File before the study was completed. Americans for Tax Reform's John Kartch has documented a timeline of IRS Commissioner Daniel Werfel's statements showing a lack of full transparency about the agency's plans.[18]

Direct File is redundant, duplicating the IRS's public-private partnership Free File program—a cost-effective option that reduces administrative overhead. Its development also represents a significant opportunity cost. The IRS budgeted $114 million for Direct File in 2024, but it remains unclear how many personnel worked on programming and administration or how many hours were spent on the project.

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[16] See, for example, NTUF's commentary here: https://www.ntu.org/foundation/detail/ntuf-urges-tax-court-to-limit-economic-substance-doctrine-on-captive-insurance-companies.
[17] See, for example, NTUF's commentary here: https://www.ntu.org/foundation/detail/irs-proposed-crypto-regulations-are-unworkable.
[18] Kartch, John, "Timeline of IRS Dishonesty," Americans for Tax Reform, May 30, 2024, https://www.atr.org/timeline-of-irs-dishonesty-about-direct-file/.

What is known is that the IRS trained 400 customer service agents for Direct File, and the Government Accountability Office (GAO) has recommended that the agency fully account for those training costs. The IRS also relied on the General Services Administration's Office of 18F, and 29 employees from the U.S. Digital Service (now known as DOGE) contributed to the system's development. While scarce taxpayer dollars and countless staff hours were spent on the unauthorized Direct File program, the IRS neglected core priorities, including:

- Modernizing Outdated Systems – As stated above, the IRS has yet to upgrade the Individual Master File and Business Master File, decades-old systems critical to tax administration.
- Reducing Improper Payments – Billions in tax credits continue to be issued improperly, far exceeding the 10% threshold set by the Payment Integrity Act. Just last week, the Treasury Inspector General for Tax Administration reported that had the IRS made a timely computer programming change, " the IRS could have potentially protected approximately $22.4 million in erroneous refunds" caused by a timing issue of notification of dishonored checks.[19]
- Expanding Taxpayer Assistance – The IRS designates 130 areas of the tax code as "out of scope" for telephone assistance, preventing agents from answering even basic taxpayer questions. Better training and service would improve compliance.
- Enhancing Data Security – The GAO has warned since 2019 that the IRS lacks a coordinated oversight structure to protect taxpayer data from cyber and internal threats. The agency must better track incidents and enforce compliance.

Beyond neglecting key priorities, the IRS has engaged in "last-minute" rulemakings and regulatory overreach, rushing significant tax policy changes without adequately incorporating stakeholder input.[20] By forcing through new regulations that sideline taxpayer protections, the agency has not done enough to build trust with taxpayers or demonstrate a responsible return on investment. If the IRS truly needed additional resources to modernize, then the substantial funding it received under the IRA should have resulted in clearer progress. Instead, the lack of measurable improvements suggests a need for greater oversight and accountability in how taxpayer dollars are spent.

III. The Importance of Investment

NTU has long supported strategic, accountable investments in IRS modernization, but the Inflation Reduction Act's $80 billion allocation lacked clear goals and accountability measures. Lawmakers should consider alternatives beyond enforcement to improve tax compliance, including modernizing the IRS's outdated Master File systems, upgrading case management systems, and expanding taxpayer education and services. These improvements would make it easier for taxpayers to understand and comply with tax laws, reducing the need for aggressive enforcement.

This view is shared by National Taxpayer Advocate Erin Collins, who in March 2023 urged Congress to reallocate IRA funds from enforcement to modernization and taxpayer services:

> For anyone following tax administration in recent years, it's a no-brainer that the areas that require improvement most urgently are taxpayer service and technology. And if the IRS would provide timely and clear guidance, more transparency, and more front-end services in a proactive manner, it could reduce back-end enforcement needs. Successful tax administration requires taxpayers to voluntarily file, self-assess, and pay the taxes due under our nation's tax laws. Successful tax administration also requires the IRS to provide congressionally authorized benefits and credits quickly and efficiently.[21]

Lawmakers need a full accounting from the IRS on the resources required to expedite completion of the IMF and other outdated systems. Additionally, the IRS must develop a long-term plan to address staffing challenges, including high attrition rates compared to other federal agencies and lengthy hiring, onboarding, and training processes that hinder

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[19] See the February 4 TIGTA report at: https://www.tigta.gov/reports/inspection-evaluation/computer-programming-change-needed-delay-erroneous-issuance-refunds.

[20] See, for example, an NTU-led coalition on this topic at: https://www.ntu.org/publications/detail/congress-should-urge-irs-to-avoid-last-minute-rulemaking.

[21] National Taxpayer Advocate, "National Taxpayer Advocate Urges Congress to Maintain IRS Appropriations But Re-Direct Some Funds Toward Taxpayer Service and Information Technology Modernization," March 16, 2023, https://www.taxpayeradvocate.irs.gov/news/nta-blog/nta-blog-nta-urges-congress-to-maintain-irs-appropriations-but-re-direct-some-funds-toward-taxpayer-service-and-it-modernization/2023/03/.

workforce stability. Indeed, a successful modernization effort could also allow the IRS to operate with a leaner workforce, alleviating many of these staffing challenges.

At the same time, Congress must establish clear priorities and concrete goals before allocating funding—a lesson underscored by the missteps of the IRA. Comparing and contrasting the IRA with RRA '98, as my testimony before the Senate Committee from 2023 noted, offers perspective:

> RRA '98, for example, was fundamentally shaped by the 18-member National Commission on Restructuring the IRS, appointed by Congress and the Executive Branch … [and producing a] nearly 200-page report. The resulting legislation based in part on this report also involved numerous hearings and markups by multiple Committees and Subcommittees, resulting in a 184-page final bill which, in turn, helped to guide innumerable revisions to strategic plans, Internal Revenue Bulletins, and Internal Revenue Manual procedures. By contrast, Title I, Part 3 of the Inflation Reduction Act contained all of nine paragraphs outlining $79.6 billion in tax administration-related funding. Just three of those nine paragraphs explain how $78.9 billion (99 percent) of the total should be spent.[22]

Finally, transparency about the results achieved and challenges faced through IRS modernization is critical to maintaining taxpayer confidence in our voluntary tax system. The IRS has been opaque about where its efforts actually stand, choosing only to publicize select wins and very rarely providing a look at the processes and costs associated with technological changes. This in turn has rightfully frustrated lawmakers and taxpayers, resulting in calls for reduction in funding or elimination of the IRS altogether. While the IRS is a necessary element of our federal government and a certain level of funding is necessary for it to achieve its goals, increased scrutiny of the return on taxpayer dollars is warranted.

IV. Steps to Move Forward

The path forward to reform tax administration will be made easier with bipartisan collaboration. History has shown that durable, effective IRS reforms—such as the IRS Restructuring and Reform Act of 1998—stem from consensus-driven efforts. The IRA's partisan approach to IRS funding demonstrates the risks of failing to build broad support: without bipartisan buy-in, reforms are more likely to be undone, defunded, or rendered ineffective over time. The 2025 Taxpayer Assistance and Service Act discussion draft, on the other hand, demonstrates the benefits of both staff- and Member-level cooperation on devising solutions to known, longstanding tax administration maladies. This draft is a testament to the fact that even though RRA '98 is a distant memory to most, it is possible for Congress to come together in today's highly volatile political environment to make transformative changes to the way the tax system functions. Future efforts to modernize the IRS, improve taxpayer services, and enhance compliance must be crafted with input from both parties to ensure lasting, meaningful change.

To ensure IRS modernization delivers tangible results, Congress must adopt reforms that prioritize transparency, efficiency, and accountability in how taxpayer dollars are spent. Informed by discussions from the Taxpayers FIRST Advisory Board, NTUF published *From Lag to Leap: A Roadmap for Successful IRS Modernization*, outlining key recommendations to transform the IRS into a 21st-century taxpayer service organization.[23]

Add a Strategic Accountability Entity to the IRS Structure and Consult More with Existing Entities

Congress cannot, on its own, effectively oversee the IRS's strategic plan without institutions that are dedicated to monitoring and making course corrections to the Service's strategies and tactics on a consistent basis. No other entity is better suited to this task than the IRS Oversight Board, whose creation NTU strongly supported when we served with the Restructuring Commission and later when Congress incorporated a version of the Oversight Board in the RRA '98. Its purpose was to bring in outside experts to oversee the "administration, management, conduct, direction, and supervision" of IRS operations. It was specifically tasked with reviewing and approving the annual and long-range strategic plans of the IRS, including its mission and objectives. The Oversight Board was one element of a tripartite system of accountability envisioned under the 1998 law, complementing the enhanced powers of the National Taxpayer Advocate (providing feedback on taxpayer experiences with the system) and the Treasury Inspector General for Tax Administration

[22] See the NTU testimony from May 2023 at: https://www.ntu.org/publications/detail/compliance-should-be-irs-goal-not-enforcement.
[23] See the NTUF report at: https://www.ntu.org/foundation/detail/from-lag-to-leap-a-roadmap-for-successful-irs-modernization.

(investigating specific managerial deficiencies). In fact, during one meeting of the Taxpayers FIRST Advisory Board, those who had experience interacting with the Oversight Board remembered with admiration the quality of advice the Service received on IT from the Board's technically proficient "problem-solvers."

Unfortunately, the IRS Oversight Board has not operated for many years due to a breakdown in the nomination process that has led to a lack of a quorum. As a result, so many missed opportunities for input on best practices that have succeeded in the private sector and other agencies – from IT modernization to customer service innovations, from compliance measurement to crisis planning – have been lost to the IRS. Congress and the Executive Branch can and should work together to stand up the Oversight Board again. Doing so could have a near-immediate impact on the IRS's Strategic Operating Plan as well as the Implementation Roadmap.

As an alternative, Congress and the IRS would benefit from a new high-level panel of experts who provide ongoing, independent, non-adversarial guidance to the IRS and the Commissioner, particularly on medium- and long-term projects. The panel could be housed within the Joint Committee on Taxation (JCT), be a separate entity but whose appointments are not subject to Senate confirmation, or supplement existing Treasury and IRS advisory panels. If implemented properly, it could help minimize disruption and ensure modernization initiatives are not abandoned or rewritten with every change in leadership or new administration.

Another important and relatively straightforward way for Congress to obtain better inputs on modernization goals is to request access to frontline technical personnel at the IRS. Originally provided for in RRA '98, and subsequently highlighted by the National Taxpayer Advocate, this practice has nonetheless fallen into disuse, with Congress instead depending on indirect communication through the IRS legislative liaison. As National Taxpayers Union Foundation's Debbie Jennings put it, "Early direct access to technical staff at the IRS could have helped Congress avoid overly cumbersome changes in tax law, such as the recent reduction of the reporting threshold for 1099-K forms and the creation of the Corporate Alternative Minimum Tax (CAMT)."[24]

Furthermore, NTU recommends that the Oversight Subcommittee consult more frequently with three other advisory bodies to the IRS – the Electronic Tax Administration Advisory Committee (ETAAC), the IRS Advisory Council (IRSAC) and the Taxpayer Advocacy Panel (TAP). Although each entity functions differently and focuses on different points of the tax administration process, all could offer valuable insights to lawmakers. ETAAC's members, for example, have included state tax administrators who have overseen dramatic customer service improvements through technology, while IRSAC is a "brain trust" of practitioners and others who are able to concentrate how the regulations behind tax statutes could be improved. The various TAP meetings often provide valuable public feedback on form design and filing that could likewise benefit from modernization of business systems. While these bodies generally communicate with the IRS and make their findings through public reports, there is no reason Congress could not interact with them directly on specific modernization matters.

Develop a Comprehensive, Properly "Costed" Modernization Plan

One advantage of multi-year funding, like that provided in the Inflation Reduction Act, is that it allows federal agencies to plan long-term budgets and resource needs. However, the IRS has fallen short of doing so effectively. Its current Strategic Operating Plan outlines broad objectives but lacks specific cost estimates, deadlines, and benchmarks that are available to the public for modernization projects .

A key priority must be setting a firm target date for completing the modernization of the Individual Master File—a critical upgrade that would improve efficiency across the entire agency. Simply replacing outdated technology with marginally newer systems is not enough; modernization must keep pace with advancements in the private sector and include scalable, updatable solutions that reduce long-term costs. Congress should require the IRS to release detailed, itemized spending plans that account for expected costs, timelines, and projected benefits. This will ensure transparency in how taxpayer dollars are spent and provide accountability for achieving these much-needed modernization goals. As noted throughout this testimony, NTU is not averse to additional funding for IRS modernization, beyond its projected appropriations

[24] See the NTUF analysis at: https://www.ntu.org/foundation/detail/ten-crucial-reforms-the-next-administration-should-demand-of-the-irs-commissioner.

baseline. However, without a clearly established plan for investment, backed by accountability and oversight, this IRS modernization effort will meet the same undistinguished fate of its predecessors.

Establish Clear Metrics

The IRS must also improve transparency in how it reports performance metrics. Over the past year, the agency has touted service improvements, but some of the data is selective and misleading. The National Taxpayer Advocate has raised concerns about the IRS's misrepresentation of service levels, particularly its claim of an 88% Level of Service (LOS) on phone calls in the 2024 tax season.[25] The Advocate's analysis of the incoming phone calls found that only 32 percent of calls were answered by a live assistor. The rest of the calls were transferred to automated assistance or reflect taxpayers who hung up before they could obtain service.

The Taxpayer Advocate's review also pointed out that the IRS achieved its reported LOS rate by reassigning workers from other phone lines and other crucial functions, such as workers previously detailed to reducing its inventory of amended returns, or to helping victims of identity theft. It currently takes the IRS an average of 675 days to resolve identity theft cases—over five times higher than its goal of resolving these in 120 days.

To restore trust and ensure accountability, the IRS must report accurate and meaningful service metrics, including whether taxpayers actually received the assistance they needed—a standard widely used in private-sector customer service operations. While the IRS has made strides in reducing backlogs and expanding digital filing and correspondence options, these improvements are overshadowed by persistent inefficiencies. By prioritizing modernization and adopting more accurate service metrics, the IRS can enhance its responsiveness and accountability, ensuring that taxpayers receive the assistance and respect they deserve. Congress should require the IRS to release detailed, real-time data on service levels, allowing policymakers and stakeholders to track improvements and ensure IRS modernization efforts are delivering tangible results.

Furthermore, we believe the Service should make greater efforts at measuring the fiscal benefits of modernization in closing the so-called "tax gap." Several iterations of the annual International Conference on Taxpayer Rights, organized by former National Taxpayer Advocate Nina Olson, have explored and presented research from tax administrators around the world that has identified the return on investment that state-of-the art customer service and other IT-driven solutions can have on tax administration.[26] This research can and should be applied more thoughtfully toward increasing voluntary tax compliance in the United States. Ms. Olson is appearing as a witness at today's hearing.

Provide the IRS Flexibility to Repurpose Some Enforcement Funds for Modernization Efforts

The Commissioner should have flexibility in using IRS funding, as many modernization initiatives support enforcement efforts. Policymakers across the spectrum have urged shifting a portion of enforcement funds toward technology and modernization to improve efficiency. If necessary, the IRS should work with Congress to amend IRA funding restrictions that limit this shift. While enforcement of the tax laws is a key component of the IRS's functions, it should not, in itself, be *a goal* of the IRS's mission. The actual objective should be to improve compliance with the tax laws. Prioritizing system upgrades now will strengthen the agency's ability to fulfill all its mandates, including compliance, in the long run.

One promising element of IRS modernization that bears mentioning here is the rise of Artificial Intelligence (AI). There are many benefits to incorporating AI into customer service, data management, infrastructure upgrades, compliance initiatives, and research, all of which offer the promise of maximizing the value of any IRS budgetary resources.

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[25] National Taxpayer Advocate, "National Taxpayer Advocate Urges Congress to Maintain IRS Appropriations But Re-Direct Some Funds Toward Taxpayer Service and Information Technology Modernization," March 16, 2023, https://www.taxpayeradvocate.irs.gov/news/tax-news/national-taxpayer-advocate-issues-mid-year-report-to-congress-highlights-filing-season-challenges-and-focuses-on-strategic-priorities/2023/06/.

[26] In a "Tax Chat!" sponsored by Nina Olson's organization, Erich Kirchler, a psychologist from the University of Vienna, Austria, noted that using a well-developed definition, each one percent increase in public trust of a tax authority led to more than double that percentage in compliance. Furthermore, the panelists discussed how "nudges," such as asking for additional information on a tax return can help to resolve compliance issues before rather than after filing. Notably, all agreed that the IRA's funding ratio of "enforcement" to "taxpayer services" was far too lopsided. See the full "Tax Chat!" to which this paragraph refers at: https://www.youtube.com/watch?v=DR01e0vWRmY. See also Olson's remarks at the 2023 Donald C. Lubick Symposium at https://www.taxpolicycenter.org/event/how-does-irs-intend-invest-80-billion-over-next-decade.

Nonetheless, given the IRS's historic struggles with implementing revolutionary new technologies, we must offer some caution over how AI could work to the detriment of taxpayers. To give one example, on June 1, 2023, the Center for Taxpayer Rights held another of its "Tax Chat!" series featuring experts on tax administration.[27] The topic was "Artificial Intelligence, Taxpayer and Privacy Rights Protections; Data Ethics; Protecting against Bias; and the Use of Automated Guidance." During that session, Josh Blank of the School of Law at University of California, Irvine, perceptively discussed what he calls "symplexity," or the use of "plain language to explain complex law" that can sometimes misconstrue the actual law. He noted that the IRS provides some automated legal guidance via an interactive tax assistant, which has proven competent at answering basic questions, but has fallen short with certain responses. The automated assistant provides very concise replies but often with little explanation. Blank mentioned one instance whereby a taxpayer asks whether hiring a home health aide is deductible as a health expense. The automated assistant answers that it is not a deductible expense, even though there are laws that provide for deductibility in some cases, e.g., a chronically ill taxpayer.

This potential for inaccurate advice, which could exist in numerous complex tax situations (e.g., Earned Income Credit eligibility, or deductibility of "Miscellaneous" items in Publication 529), raises an important equity question. The original Taxpayer Bill of Rights enacted in 1988 (Subtitle J, PL 100-647) required the "abatement of penalty or additional tax attributable to erroneous written advice of IRS if the advice was requested in writing, was relied upon by the taxpayer, and the taxpayer provided adequate information." How would an AI-based "assistant," providing electronically "written" advice as a representative of the IRS, be held accountable in a situation such as the one described in the "Tax Chat!" above? The Service needs to develop, in consultation with the National Taxpayer Advocate and if necessary, Congress, a "hold harmless" standard for taxpayers receiving erroneous government advice from AI that comports with Subtitle J of PL 100-647.[28]

Finally, no NTU testimony on tax administration can be complete without a familiar refrain: the need to simplify tax laws. We have made numerous suggestions, ranging from strengthening legislative Tax Complexity Analyses to providing for a volunteer-based quadrennial tax simplification commission, to normalize the process of examining the Tax Code for technical efficiencies. Such a process would yield many dividends, including making the task of building modern administrative systems less arduous.

V. At Your Service

NTU and NTU Foundation stand ready to assist lawmakers and the incoming IRS Commissioner with the crucial goal of improving the IRS. In fact, this was the impetus for NTUF's Taxpayers FIRST initiative, convening an expert group of non-governmental stakeholders with a diverse set of backgrounds and perspectives to offer guidance to the IRS as it plans to spend the most significant infusion of funding it has ever received. In addition to the paper noted above with recommendations for boosting the IRS's modernization, Taxpayers FIRST has helped inform publications with recommendations for the tax gap[29], taxpayer services[30], and taxpayer rights[31] – all of which can be impacted by modernization.

Conclusion

"A Vision for a New IRS," a nearly 200-page report from 1997 summarizing the findings of the Restructuring Commission, had the following observation on IRS modernization efforts:

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[27] NTU strongly encourages review of the entire "Tax Chat!"; many video recordings of the sessions may be accessed online via https://taxpayer-rights.org/transforming-tax-admin/.

[28] For background, see: https://www.finance.senate.gov/download/1988/03/29/taxpayer-rights-and-excise-tax collection-procedures-report-100-309 and https://www.gao.gov/assets/ggd-92-23.pdf.

[29] Brady, Demian, "Minding the Gap: Recommendations for Assessing, Addressing, and Ameliorating the Tax Gap," National Taxpayers Union Foundation, May 17, 2024, https://www.ntu.org/foundation/detail/minding-the-gap-recommendations-for-assessing-addressing-and-ameliorating-the-tax-gap

[30] Bishop-Henchman, Joe, "Call to Action: Crafting a New Taxpayer Service Experience," National Taxpayers Union Foundation, May 22, 2024, https://www.ntu.org/foundation/detail/call-to-action-crafting-a-new-taxpayer-service-experience

[31] Sepp, Pete, "Shaping a Future of Fairness: Proposals to Safeguard and Strengthen Taxpayer Rights," National Taxpayers Union Foundation, June 18, 2024, https://www.ntu.org/foundation/detail/shaping-a-future-of-fairness-proposals-to-safeguard-and-strengthen-taxpayer-rights.

> To be successful in developing and managing technology, a true three-way partnership must be achieved among congressional sponsors, IRS chief officers, and technology developers. Each partner organization should be accountable and responsible within its domain of expertise; congressional sponsors must provide strategic oversight, IRS chief officers must identify 34 strategic plans and operate the business in accordance with those plans, and technology developers must establish national standards for technology and manage systems development in accordance with business requirements. Resources to accomplish each task must be available to the performing organization.[32]

No better advice has since been written about how the Service should approach technological transformation. It begins with identifying challenges and opportunities, patiently developing realistic, flexible solutions that meet those challenges and opportunities, and then – only then – providing limited, carefully overseen resources backed by clear benchmarks. History proves that lasting change at the IRS must be initiated in a bipartisan, transparent, and results-driven manner. In absence of these elements, reform efforts such as the IRA can easily lead to mis-prioritization and spending inefficiencies.

Despite these issues that undermine the confidence in the IRS and its modernization efforts, there is much for which to be hopeful. Targeted reforms—like those in the Senate Finance Committee draft—can help restore accountability and improve taxpayer service.

I appreciate this Subcommittee's attention to this matter and offer our commitment to follow up on any items you raise in this hearing or in the future.

[32] See "A Vision for a New IRS" at: https://www.govinfo.gov/content/pkg/GOVPUB-Y3-PURL-LPS69710/pdf/GOVPUB-Y3-PURL-LPS69710.pdf.

Chairman SCHWEIKERT. Thank you.
Mr. Ladwa.

STATEMENT OF MINESH LADWA, GLOBAL SOLUTION MANAGER, TAX AND REVENUE MANAGEMENT, SAP

Mr. LADWA. So, Chairman Schweikert, Ranking Member Sewell, and distinguished members of the subcommittee, my name is Minesh Ladwa, and it is an absolute honor to be here today from London to discuss this opportunity about modernizing the IRS, to put technology at the forefront of modernization. That drives economic growth, compliance efficiency, and taxpayer engagement.

So with the right strategy, the IRS can become the world's leading tax authority, setting a global benchmark for modern tax administration.

It is not just about compliance and enforcement. It is about ensuring that America's tax system remains competitive, scalable, and cost efficient in the digital economy.

So for nearly two decades, I have worked with tax agencies worldwide to modernize systems, implement AI-driven automation, and enhance compliance strategies. I have seen firsthand what works and what doesn't work.

So governments across Europe and Asia are not building IT systems from scratch. They are leveraging commercially available scalable IT solutions to increase efficiency, enhance compliance, and improve taxpayer engagement.

So today, I want to focus on three critical—I was going to call it actions, but I will say suggestions. Number one, transforming the IRS into a technology first agency, moving beyond fragmented custom built IT solutions. Number two, leveraging AI automation and digital services to reduce administrative burdens while improving compliance. And number three, implementing a modernization in a phased, controlled manner, ensuring seamless revenue connection and taxpayer services.

This is how we do it, and I want to share some ideas.

So one of the biggest challenges tax agencies face globally is data fragmentation, disconnected systems, and inconsistent taxpayer records, and inefficiencies that increase compliance risks and costs.

So there is a better way. So I would like to think about a real-time, AI-enabled tax platform that can provide things like 360-degree views of the taxpayer obligations, or to make things like case management and call center, reducing manual reviews and errors while improving accuracy, enable digital self-service tools making compliance easier and faster.

So how do you do it? Where do you begin with the scale that the IRS is? So one option for consideration, rather than a full-scale transformation, is taking a pragmatic approach. I would suggest we prototype, we leverage good taxpayers. Big large corporations are willing to participate in pilot programs. We sometimes focus on, Hey, let's solve, you know, the big master of our problem. Well, yes, it is a big issue, but how do we begin in a way that we don't have risk to revenue, but we can pilot these new programs with commercially available solutions?

So if modernization is implemented effectively, here is what I believe the IRS can achieve and what I have seen sort of globally

from around the globe. The potential is anywhere between 5 to 40 percent improvement in tax debt collection using AI-driven compliance solutions. So I have been reading some stats. Over $600 billion net tax gap, you know, just 5 percent of that would be about $30 billion, you know, in tax debt collection. 8 to 12 percent reduction in IT costs, eliminating things like outdated systems, and hopefully, an automation of over 170 tax administration processes.

I am going to say that modernization tax systems must not come at the expense of security or taxpayer trust. That is why leading tax agencies use secure cloud-based solutions that made things like FedRAMP standards, ISO standards that ensures that the IRS remains in full control of tax data.

So my final thought, Chairman Schweikert, Ranking Member Sewell, and distinguished members of the subcommittee, the IRS stands at a pivotal crossroads. So modernization isn't a choice. It is an economic necessity. The opportunity in front of us is to turn the IRS into the intelligent AI-driven tax agency that provides unified taxpayer views internally and externally, uses AI and automation to enhance compliance, and delivers seamless digital taxpayer services.

By adopting proven commercially available solutions, the opportunity is now for the IRS to modernize that scale becoming the global benchmark for technology-first tax administration and setting a new standard for efficient, intelligent governance that serves the American people.

I appreciate your time, and I look forward to your questions later.

Thank you.

[The statement of Mr. Ladwa follows:]



Testimony of

Minesh Ladwa
Global Solution Manager
Tax and Revenue Management
SAP

Before

Committee on Ways and Means
Subcommittee on Oversight
U.S. House of Representatives

Hearing on

"IRS Return on Investment and the Need for Modernization"

February 11, 2025, at 10:00 a.m.
1100 Longworth House Office Building
Washington, D.C.

Written Testimony of Minesh Ladwa
Global Solution Manager, Tax and Revenue Management, SAP

Hearing on IRS Return on Investment and the Need for Modernization

Before the House Committee on Ways and Means
Subcommittee on Oversight

February 11, 2025

Chairman Schweikert, Ranking Member Sewell and Distinguished Members of the Subcommittee, it is an honor to present this testimony on IRS modernization and enhancing tax compliance.

As an expert with two decades of experience leading policy and technology-driven transformations for global tax agencies, I will outline key trends, opportunities, and strategies to assist with IRS efforts to build a future-ready tax system.

This testimony will cover:

- **People, Policy, Process, and Technology: A Blueprint for Modernization** – Why modernization is not just about technology but requires policy reform, process simplification, and workforce enablement to improve compliance, efficiency, and taxpayer engagement.
- **Key Trends in Tax Modernization** – How leading tax agencies are using AI, automation, and digital taxpayer services to improve compliance, reduce administrative burdens, and create a more user-friendly tax system.
- **The Challenge: Rethinking Complexity in Tax Administration** – How the IRS can move beyond layering new technology on top of legacy systems and focus on policy simplification and modernization strategies that reduce complexity and improve taxpayer interactions.
- **A Pragmatic Approach to Implementation** – The importance of a phased, outcome-driven modernization strategy, leveraging real-world pilots with willing participants such as large corporations and their employees before full-scale implementation.
- **Ensuring a Future-Enabled Tax System** – How modernization efforts can be future-proofed by integrating policy reform, automation, and scalable digital services, while ensuring long-term governance and adaptability.

Modernization is not just an opportunity; it is a necessity to create a leaner, technology-driven tax administration. The IRS can benefit from the same AI, automation, and data-driven insights that have revolutionized the private sector, ensuring real-time compliance, faster taxpayer services, and intelligent enforcement all without dramatically increasing the agency's workforce. By leveraging technology first, we can reduce the manual burden on both taxpayers and the IRS while strengthening compliance and fraud detection in a fair, targeted, and scalable way.

About my employer: SAP

As the world's largest enterprise software company, SAP is the world's leading provider of enterprise application software, enabling organizations across industries to drive digital transformation, achieve operational efficiency, and innovate at scale.

- 98 of the world's 100 largest companies run SAP.
- SAP customers generate 84% of total global commerce.
- More than 300 million cloud users run on SAP solutions across industries.
- More than 35,000 customers use SAP Business AI
- Approximately 80% of SAP customers are SME's
- $6.3 trillion in annual commerce runs through SAP's Business Network.

SAP is a market leader in Enterprise Resource Planning (ERP), Supply Chain Management, Procurement, Finance, HR, and Business AI, with over 45 data centers in 24 locations across 15 countries, ensuring global security and compliance standards.

SAP serves federal, state, and local governments, as well as international organizations like NATO and the United Nations. With over 17,500 government customers in 180 countries, SAP is a trusted partner in public sector digital transformation. More than 35 federal, state, and local tax agencies worldwide run SAP's tax administration solutions, supporting revenue collection and compliance for governments at all levels.

Modernizing Tax Administration: The Role of AI, Cloud, and Automation

At SAP, we have worked extensively with tax agencies around the world to help them navigate the challenges of compliance, revenue collection, and digital transformation. Recognizing the complexity of tax administration, we have developed a cloud-enabled, AI-driven tax solution that directly addresses the needs of modern tax authorities. By leveraging automation, AI, and real-time analytics, tax agencies can increase compliance, reduce costs, and create a more seamless, taxpayer-friendly system.

Our aim is to help governments by:

- Enhancing taxpayer services – Digital self-service portals, real-time status tracking, and automated interactions to improve the taxpayer experience.
- Strengthening compliance and revenue collection – AI-driven fraud detection and behavioral insights to identify risks early and optimize enforcement.
- Automating processes – Reducing manual workloads in tax filing, risk assessments, and collections, allowing staff to focus on higher-value tasks.
- Ensuring scalability and resilience – A secure, modular platform that adapts to evolving regulations and policy changes.
- Protecting data security and privacy – Compliance with FedRAMP, ISO 27001, and GDPR, ensuring taxpayer data remains secure.

Perspective on IRS Modernization: Challenges and Opportunities

As someone who has worked with tax administrations globally, I recognize that the IRS plays a fundamental role in ensuring the financial stability of the United States, collecting over $4.1 trillion annually from 140 million taxpayers. It is responsible for managing an incredibly complex system that must balance compliance, taxpayer services, and operational efficiency.

IRS modernization presents a unique opportunity to deliver solutions that meet the evolving needs of taxpayers. Around the world, tax authorities are leveraging technology, automation, and data-driven decision-making to streamline operations, and I see an opportunity for the IRS to do the same in a way that enhances service delivery, strengthens compliance, and reduces administrative burdens.

Delivering large-scale modernization while maintaining continuity can seem like an insurmountable challenge. Many tax agencies globally are navigating similar journeys, replacing legacy systems with new innovations, improving digital taxpayer engagement, and ensuring that data-driven compliance remains fair and efficient. By focusing on people, process, and technology, a more agile, secure, and taxpayer-friendly system can be achieved. My goal today is to share insights from international tax modernization efforts that may be useful in shaping this journey.

Ensuring Data Security in AI enabled Cloud-Based Tax Administration

Technology modernization must be anchored in robust data security measures to maintain public trust and align with federal oversight requirements. Taxpayer data is **the** most sensitive information a government can hold, and its protection is non-negotiable. AI and cloud-based solutions must be governed by strict 'query but not store' principles, ensuring that only necessary, anonymized, and non-persistent data is used for enforcement purposes.

As tax agencies transition to digital-first operations, data security must be the foundation of modernization efforts. Taxpayer data is among the most sensitive information a government holds, and its protection is non-negotiable.

Governments using cloud-based tax solutions retain full control over tax data while leveraging the benefits of real-time processing, AI-driven insights, and global security standards.

The most advanced tax agencies globally are leveraging digital taxpayer services, AI-driven compliance models, and simplified data architectures to enhance efficiency, scale operations, and improve taxpayer engagement.

The private sector has demonstrated how AI and automation can reduce inefficiencies and improve decision-making. AI-powered risk assessment tools can identify discrepancies in reported income vs. spending patterns without requiring IRS agents to manually review each case. With proper governance, the IRS can adopt an approach where AI queries private-sector data to flag anomalies, but without storing sensitive data ensuring both compliance and privacy protections.

Key Trends in IT Tax Modernization: Efficiency, Scalability, and Cost-Effectiveness

As tax agencies worldwide embrace digital transformation, the focus is shifting toward efficiency, scalability, and cost-effective modernization. While tax administrations face unique challenges, three overarching trends are shaping the future of tax systems globally.

1. **A Shift to Taxpayer-Centric Administration**: Tax agencies are redesigning tax services to improve the taxpayer experience, reduce compliance burdens, and enhance transparency. Examples include:
    - Streamlined AI enabled technology platforms which offer real-time analytics significantly reducing errors and administrative efforts.
    - Digital self-service portals and proactive compliance engagement, making tax filing and interactions more seamless and accessible.

- These measures present opportunities to streamline interactions, reduce manual processing, and create a taxpayer-friendly system that enhances voluntary compliance.

2. **Data-Driven Decisions:** AI and Predictive Analytics for Smarter Compliance
   Modern tax agencies are moving from reactive enforcement to proactive compliance management. By leveraging AI and behavioral analytics, tax administrations can:

   - Identify compliance risks early, allowing tax administrations to engage with taxpayers before issues escalate.
   - Optimize enforcement by differentiating taxpayer behavior, offering flexible options for those struggling financially while targeting deliberate non-compliance more effectively.
   - Use predictive analytics to improve revenue collection, ensure fairness in enforcement, and reduce unnecessary audits.

AI-powered compliance does not mean unchecked government surveillance. A modernized system can operate with strict 'query but not store' controls, ensuring taxpayer privacy while detecting non-compliance with precision—without unnecessary data retention

3. **Simplifying Data and Operational IT Architecture:** Rather than focusing solely on migrating legacy taxpayer records, modern tax agencies are exploring simplified, modular architectures that:

   - Improve fraud detection and risk assessment through more dynamic data models.
   - Reduce reliance on batch processing and outdated workflows, leading to faster response times.

The Challenge – Rethinking Complexity in Tax Administration

One of the biggest barriers to efficient tax administration is data fragmentation taxpayer information scattered across disconnected systems, leading to inefficiencies, compliance gaps, and delays in enforcement. Many tax agencies worldwide have addressed this challenge by adopting a unified, real-time taxpayer view, allowing for proactive fraud detection, streamlined compliance management, and improved taxpayer engagement.

The IRS has a unique opportunity to move to an intelligence-led, technology-first platform. Instead of layering new technology on top of legacy systems, the IRS can adopt a unified tax administration platform, leveraging existing solutions.

- A single platform, a single solution, and a single customer record, ensuring different departments access the same data but with tailored views.

By integrating taxpayer data into a single, secure platform, the IRS could:

- Improve compliance due to having 360-degree view of taxpayer obligations and activities and thus understanding the taxpayer better.
- Case management, reducing manual reviews and enforcement delays.
- Taxpayer services, providing proactive compliance guidance and AI-driven support.
- Operational efficiency, streamlining tax collection and reducing administrative burdens.

Modernizing tax administration doesn't just improve efficiency it delivers measurable financial benefits. Globally, tax agencies have aimed to see a 5-8% improvement in debt recovery, whilst having led to a 15-40% improvement in operational efficiency and a 15-20% reduction in manual work.

By integrating real-time analytics, automation, and AI-driven insights, the IRS can enhance compliance, reduce costs, and future-proof tax administration - ensuring a system that works for both taxpayers and the IRS workforce.

A Pragmatic, Phased Approach to Tax Modernization

Large-scale tax modernization is often perceived as a complex, multi-year transformation requiring extensive migration and integration. However, rather than retrofitting outdated systems, a more effective strategy is to start with small-scale, controlled deployments that validate new models in real-world conditions without disrupting revenue collection.

A fresh perspective could begin with controlled pilots, using real-world taxpayers—such as a well-established U.S. corporation and its employees. This allows tax agencies to:

- Test novel approaches in a controlled setting – A prototype deployment provides live, actionable insights into how a new tax system functions without disrupting the broader ecosystem.
- Pilot with willing participants – Trial AI-driven compliance tools with corporate taxpayers and employees to assess usability, enforcement effectiveness, and taxpayer engagement.
- Measure KPIs and gather feedback – Collect structured feedback from employees and taxpayers, tracking key performance indicators (KPIs) such as compliance improvements, administrative efficiency gains, and taxpayer experience metrics.
- Refine and scale – Use pilot data to optimize automation, improve risk detection, and expand adoption in a structured manner.
- Address legislative gaps – Proactively identify policy changes that enable faster, fairer, and more effective taxation.
- Implement an immediate structured decommissioning strategy – Once the new system proves successful, phase out the legacy environment(s) in a controlled, risk-mitigated manner.

This agile approach fosters innovation without disruption, ensuring modernization efforts focus on simplification and effectiveness rather than unnecessary complexity and cost.

Defining a Future Enabled Modern Tax System

As tax agencies embark on modernization journeys, a key priority is ensuring the long-term sustainability, adaptability, and simplicity of tax systems. A well-designed tax platform must evolve with:

- Changes in tax policy and regulation, ensuring that processes remain relevant and efficient.
- Advancements in technology, which should serve as an enabler of efficiency, automation, and compliance rather than driving unnecessary IT complexity.
- Ongoing operational improvements, ensuring that government tax agencies retain full control over policy, compliance, and taxpayer oversight.

While discussions around tax system modernization sometimes highlight concerns about vendor reliance, the real challenge is not about who builds the software but about how modernization is executed. A long-term strategy must be built around:

- Proactive planning and structured governance - ensuring continuity in tax administration.
- Scalable, adaptable technology architectures that evolve without unnecessary disruption.
- A modernization roadmap that integrates policy reform, automation, and improved taxpayer experience.

Ultimately, successful tax modernization is not just an IT exercise it is about simplifying tax administration at every level, ensuring that systems, policies, and processes align to support a resilient, efficient, and future-ready tax system. The IRS has a unique opportunity to implement a strategy that balances innovation, cost efficiency, and long-term resilience while keeping taxpayer trust at the center.

Conclusion: A Vision for Digital Transformation

The future of tax administration is real-time, AI-powered, and data-driven. By focusing on people, process, and technology, and embracing the most efficient practices from around the world, the IRS can ensure a more efficient, transparent, and trusted tax system.

Modernization is not just about technology; it is about reinventing how tax administration serves the American people. The future U.S. tax system should be built to be efficient, ensuring it not only meets the needs of today but is adaptable for tomorrow. A future tax system should be efficient for government, simple for taxpayers, and resilient against future challenges. By leading in these areas, the United States can set a new global standard for intelligent tax administration.

I appreciate the Committee's time and look forward to your questions.

STATEMENT OF KRISTEN KOCIOLEK, MANAGING DIRECTOR FOR FINANCIAL MANAGEMENT AND ASSURANCE TEAM, GOVERNMENT ACCOUNTABILITY OFFICE

Ms. KOCIOLEK. Chairman Schweikert, Ranking Member Sewell, and members of the subcommittee, I am pleased to participate in today's hearing. I have been asked here today to discuss the Department of Treasury's payment process and related systems.

Treasury operates and maintains systems that are critical to the government's financial infrastructure. This includes the disbursements of payments to the American public and businesses, the collection of taxes and revenues, and the borrowing of funds necessary to run the Federal Government. The General Fund of the U.S. Government is the reporting entity responsible for accounting for the cash activity of the Federal Government. The Secretary of the Treasury has delegated management of the General Fund to the Bureau of the Fiscal Service.

In fiscal year 2022, the General Fund reported $23.2 trillion of cash inflows, primarily debt issuances and tax collections, and $22.8 trillion of cash outflows, primarily debt repayments.

My statement today discusses our understanding of the payment process as they relate to the General Fund, and knowledge of the audit activities over the payment systems. This statement is based primarily on work we performed as part of our financial statement audit of the fiscal year 2022 schedules of the General Fund. We are currently auditing the fiscal year 2024 schedules of the General Fund, and we plan to issue that report in March of this year. Our fiscal year 2022 report provides more detailed information on the objectives, scope, and methodology for our audit.

We conducted the work in which the statement is based in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives, and we believe that our audit evidence provides a reasonable basis for our findings and conclusions.

We audited the fiscal year 2022 schedules of the General Fund because of their significance to the consolidated financial statements of the U.S. Government. The Secretary of the Treasury, in coordination with the director of the Office of Management and Budget, is required to annually submit audited financial statements for the executive branch of the U.S. Government to the President and Congress. GAO is required to audit these statements.

Our most recent report on the U.S. Government's consolidated financial statements, discusses progress that has been made but also underscores that much work remains to improve Federal financial management, and that the Federal Government continues to face an unsustainable long-term fiscal path.

We continue to encounter limitations that prevented us from expressing an opinion on the fiscal year 2022 schedule of the General Fund or on Fiscal Service's internal control over financial reporting relative to the schedules. We have provided recommendations to Fiscal Service to address these limitations in their financial reporting processes. Treasury agreed with our recommendations and has

plans to address them. We will provide an update on their status in our fiscal year 2024 report.

Our audit procedures included obtaining an understanding of the Federal payment process and related internal controls over financial reporting relevant to our audits. The U.S. Government disburses cash payments for various reasons. This includes Federal debt redemptions and interest, Federal income tax refunds, benefit payments, vendor and salary payments, and other miscellaneous payments.

The majority of Federal entities, such as individual departments and agencies process their payments through Fiscal Service's Treasury disbursing offices. These Federal entities internally review and approve payments to be made and submit certified payment schedules to Fiscal Service using Fiscal Service systems.

Federal entities are responsible for maintaining the detailed information supporting their payment transactions and related internal controls, such as controls designed to prevent improper payments, including fraud. Fiscal Service then processes the payment schedules via several system applications and submits payment files to the Federal Reserve to make the payments which are primarily electronic fund transfers.

Fiscal Service's processes include certain edit and format checks which can include checking scheduled payments against certain information in the do-not-pay portal. After payments are made, various Fiscal Service systems capture payment information for accounting and reporting purposes.

Since our initial audit of the schedules of the General Fund, we have conducted limited audit procedures over information system controls. These include procedures related to access controls, configuration management, and security management.

During the course of our audit, we also consider the results of relevant information system controls performed as part of Treasury's consolidated audit. In addition to audit procedures performed as part of recurring financial audits, Treasury's Office of Inspector General annually evaluates the effectiveness of Treasury systems in accordance with the Federal Information Security Modernization Act.

Chairman Schweikert, Ranking Member Sewell, and members of the subcommittee, this completes my prepared statement. I would be pleased to respond to questions that you may have.

[The statement of Ms. Kociolek follows:]

United States Government Accountability Office



Testimony

Before the Subcommittee on Oversight Committee on Ways and Means, House of Representatives

For Release on Delivery
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FINANCIAL MANAGEMENT

Overview of Federal Payment Process

Statement of Kristen Kociolek, Managing Director, Financial Management and Assurance

GAO-25-108129

Chairman Schweikert, Ranking Member Sewell, and Members of the Subcommittee:

I am pleased to participate in today's hearing. I have been asked here today to discuss the Department of the Treasury's payment process and related systems.

Treasury operates and maintains systems that are critical to the government's financial infrastructure. This includes the disbursement of payments to the American public and businesses, the collection of taxes and other revenue, and the borrowing of funds necessary to run the federal government.

The General Fund of the U.S. government is the reporting entity responsible for accounting for the cash activity of the federal government. The Secretary of the Treasury has delegated management of the General Fund to the Bureau of the Fiscal Service. In fiscal year 2022, the General Fund reported $23.2 trillion of cash inflows—primarily debt issuances and tax collections—and $22.8 trillion of cash outflows, primarily debt repayments.

My statement today discusses our (1) understanding of the payment processes as they relate to the General Fund, and (2) knowledge of audit activities over the payment systems.

This statement is based primarily on work we performed as part of our financial statement audit of the fiscal year 2022 Schedules of the General Fund. We are currently auditing the fiscal year 2024 Schedules of the General Fund. We plan to issue that report in March 2025.

Our fiscal year 2022 report provides more detailed information on the objectives, scope, and methodology for our audit.[1] We conducted the work on which this statement is based in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a

[1]GAO, *Financial Audit: Bureau of the Fiscal Service's FY 2022 Schedules of the General Fund*, GAO-23-104786 (Washington, D.C: Mar. 30, 2023).

reasonable basis for our findings and conclusions based on our audit objectives.

Background

We audited the fiscal year 2022 Schedules of the General Fund because of their significance to the consolidated financial statements of the U.S. government. The Secretary of the Treasury, in coordination with the Director of the Office of Management and Budget, is required to annually submit audited financial statements for the executive branch of the U.S. government to the President and Congress.[2] GAO is required to audit these statements. Our most recent report on the U.S. government's consolidated financial statements discusses progress that has been made,[3] but also underscores that much work remains to improve federal financial management and that the federal government continues to face an unsustainable long-term fiscal path.[4]

We continued to encounter limitations that prevented us from expressing an opinion on the fiscal year 2022 Schedules of the General Fund or on Fiscal Service's internal control over financial reporting relevant to the Schedules of the General Fund as of September 30, 2022. We have provided recommendations to Fiscal Service to address these limitations related to deficiencies in their financial reporting processes. Treasury agreed with our recommendations and has plans to address them. We will provide an update on their status in our fiscal year 2024 report.

Our audit procedures included obtaining an understanding of the federal payment process and related internal controls over financial reporting relevant to our audits.

The Federal Government Payment Process

The U.S. government disburses cash payments for various reasons. This includes federal debt redemptions and interest, federal income tax refunds, benefit payments, vendor and salary payments, and other miscellaneous payments.

[2]31 U.S.C. § 331(e). These statements, as submitted, also include the legislative and judicial branches.

[3]GAO, *Financial Audit: FY 2024 and 2023 Consolidated Financial Statements of the U.S. Government*, GAO-25-107421 (Washington, D.C.: Jan. 16, 2025).

[4]Also see GAO, *The Nation's Fiscal Health: Strategy Needed as Debt Levels Accelerate*, GAO-25-107714 (Washington, D.C.: Feb 5, 2025) and GAO, *Debt Limit: Statutory Changes Could Avert the Risk of a Government Default and Its Potentially Severe Consequences*, GAO-25-107089 (Washington, D.C.: Dec. 11, 2024).

The majority of federal entities, such as individual departments and agencies, process their payments through Fiscal Service's Treasury Disbursing Offices.[5] These federal entities internally review and approve payments to be made and submit certified payment schedules to Fiscal Service using Fiscal Service systems. Federal entities are responsible for maintaining the detailed information supporting their payment transactions and related internal controls, such as controls designed to prevent improper payments, including fraud.

Fiscal Service then processes the payment schedules via several system applications and submits payment files to the Federal Reserve to make the payments, which are primarily electronic fund transfers. Fiscal Service's processes include certain edit and format checks, which can include checking scheduled payments against certain information in the Do Not Pay portal. After payments are made, various Fiscal Service systems capture payment information for accounting and reporting purposes.

Audit Activities Related to Treasury Payment Systems

Since our initial audit of the Schedules of the General Fund for fiscal year 2018, we have conducted limited audit procedures over information system controls.[6] These included procedures related to access controls, configuration management, and security management for the information systems relevant to the General Fund. During the course of our audits, we also considered the results of relevant information system control tests performed as part of the annual audit of Treasury's consolidated financial statements.[7]

[5]This payment process does not apply to (1) payments processed by Non-Treasury Disbursing Offices and submitted directly to the Federal Reserve Banks for payment; and (2) payments initiated and processed by the Federal Reserve Banks, which consist primarily of debt transactions. The General Fund obtains relevant payment information from Non-Treasury Disbursing Offices and the Federal Reserve Banks for accounting and reporting purposes.

[6]Due to the disclaimer of opinion, we perform limited audit procedures, which are less than we would perform if we were able to provide an opinion.

[7]Department of the Treasury, Office of Inspector General, *Financial Management: Audit of the Department of the Treasury's Consolidated Financial Statements for Fiscal Years 2022 and 2021*, OIG-23-007 (Washington, D.C.: Nov. 15, 2022). For the most recent audit report, see Department of the Treasury, Office of Inspector General, *Financial Management: Audit of the Department of the Treasury's Consolidated Financial Statements for Fiscal Years 2024 and 2023*, OIG-25-013 (Washington, D.C.: Nov. 15, 2024).

In addition to audit procedures performed as part of recurring financial statement audits, Treasury's Office of Inspector General annually evaluates the effectiveness of Treasury's information security program and practices, in accordance with the Federal Information Security Modernization Act of 2014 (FISMA).[8]

Chairman Schweikert, Ranking Member Sewell, and Members of the Subcommittee, this completes my prepared statement. I would be pleased to respond to any questions that you may have at this time.

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For further information about this testimony, please contact Kristen Kociolek, Managing Director, Financial Management and Assurance, at (202) 512–2989 or kociolekk@gao.gov.

Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this statement.

[8]44 U.S.C. § 3554(b).

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STATEMENT OF NINA OLSON, EXECUTIVE DIRECTOR, CENTER FOR TAXPAYER RIGHTS

Ms. OLSON. Chairman Schweikert, Ranking Member Sewell, and members of the subcommittee, thank you for holding this hearing today and inviting me to testify on IRS return on investment and modernization.

I view these topics through the lens of taxpayer rights, rich or poor, multinational or small business, native-born or immigrant, U.S. taxpayers deserve to be treated with dignity and respect. Because taxpayer dignity is closely correlated with taxpayers' trust of the tax agency and willingness to comply with the tax laws, taxpayer rights' protections will not only increase taxpayer trust but also increase the efficiency and effectiveness of the tax system.

The IRS is a large organization that touches nearly every person and business entity in the United States, yet its operations have been mired in mid-20th century processes and technology that create inefficiencies and frustrate taxpayers and IRS employees alike.

The IRS has over 60 case management systems so there is no 360-degree picture of the taxpayers' data, interactions, and filings with the IRS. The situation creates significant inefficiencies. Phone assisters cannot assess or access certain databases, and, therefore, cannot help the taxpayer in real-time. IRS case selection does not reflect all of the information available in IRS systems and databases leading to no-change audits and false positives. Documentation taxpayers have sent in is not available for review by the employee with whom they are speaking. The sheer waste of taxpayer and IRS employee time is both infuriating and costly.

According to the Inspector General, however, with IRA funding, the IRS IT organization, quote, "is making significant technical advances in the areas of AI, automation, cloud capabilities, data access, data quality, and data standards. The IRS is undergoing multiple new processes, and once fully operational, they will pave the way for a new technology era across the enterprise," end quote. In my 50 years of working in tax, I have never seen an IG report praise the IRS like this.

Through 2024, using IRA funding, there has been significant improvements to taxpayer service on the phones, and online account to the fairness of the tax system by focusing on areas of complex noncompliance, and to efficiency and effectiveness through digitalization. Digitalization requires both the retention of employees who have institutional knowledge and hands-on experience in tax administration and the hiring of new employees who are bring new skills and outside-the-agency experience. The balance between seasoned employees and those with new skill sets will not be achieved if government service is vilified and current IRS employees are painted as inept, or even worse, corrupt. Moreover, with a Tax Code as complex as ours, digitalization cannot replace in-person assistance. In many instances, human judgment and intervention are required.

Through June 2024, the IRS spent $1.4 billion or 44.3 percent of IRS funding dedicated to taxpayer service. If the IRS continues to apply IRA funding to make up for the annual appropriation gap, it projects it will run out of IRA taxpayer service funding at the end of this fiscal year. That means that taxpayers will experience

a cliff. In one filing season they are able to get through on the phone and have their returns processed relatively quickly and the next filing season will go back to pandemic levels of assistance that is almost no assistance at all. This path is unsustainable and violates the trust of U.S. taxpayers.

I close my testimony with the fundamental right to confidentiality of returns and return information. Indeed the efficiency and effectiveness of our self-assessment tax system is dependent on taxpayers' trust that information they voluntarily provide the IRS will be held confidential. Congress has recognized that tax returns and tax return information can be very helpful in administering nontax administration policies, but every single exception to confidentiality in the Code contains language restricting such use and disclosure, quote, "for the purpose of and only to the extent necessary," end quote, for carrying out that nontax administration purpose.

Congress has only granted exceptions to 6103 where it has carefully balanced the compelling need for disclosure against the fundamental taxpayer guarantee that if they voluntarily provide the IRS with personal and private information it will remain confidential. We all need to ensure that protection and right is not violated.

Thank you.

[The statement of Ms. Olson follows:]

Statement of

Nina E. Olson

Executive Director, Center for Taxpayer Rights

Hearing on

IRS Return on Investment and the Need for Modernization

Before the

Subcommittee on Oversight

Committee on Ways and Means

United States House of Representatives

11 February 2025

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APPENDIX I: Comments on the IRS Strategic Operating Plan 20

Chairman Schweikert, Ranking Member Sewell, and Members of the Subcommittee,

Thank you for holding this hearing today and for inviting me to testify on the important topic of IRS return on investment (ROI) and modernization. With funding provided by the Inflation Reduction Act, the Internal Revenue Service (IRS) is at an historic juncture, in that this funding can serve as the opportunity to transform the agency into one that equitably administers and enforces our nation's tax laws. Given the enormity of the task, however, Congressional oversight, such as the hearing today, is vitally important to ensure that this transformation is on track.

My perspective on the matter of IRS transformation and technology is informed by my years representing low and middle income taxpayers and small businesses before the IRS and in the courts, both in private practice and at the Low Income Taxpayer Clinic I founded in 1992, as well as my eighteen years serving as the National Taxpayer Advocate at the IRS, which provided me with a unique vantage point from which to observe IRS planning and operations.

Before discussing specific issues, allow me to raise a threshold matter. However large or small one believes government should be, taxation is the primary way governments are able to address the needs of their populace. Unless a system of taxation is confiscatory, taxpayer trust is key to efficient and effective tax administration. Taxpayers are being asked to give up part of the earnings from their labors or investments in order to advance the public good. What taxpayers want in return, among other things, is to be treated with dignity and respect. Taxpayer rights, including the Taxpayer Bill of Rights, exist to ensure that taxpayers are treated with that dignity and respect. Because taxpayer dignity is closely correlated with taxpayers' trust of the tax agency and willingness to comply with the tax laws, taxpayer rights protections will not only increase taxpayer trust but also increase the efficiency and effectiveness of the tax system.

With that framework in mind, in my statement today I will touch on issues I believe are central to creating a trusted, responsive, and innovative tax agency that is both efficient and effective: (1) IRA funding's impact on IRS information technology and modernization; (2) IRA's impact on other IRS functions; (3) the benefits and risks of investments in digitalization of tax administration; (4) the impact on taxpayer service by stagnant annual appropriations; (5) the IRS mission statement; (6) the IRS Oversight Board; and (7) some specific examples of how efficiency and effectiveness can be gained through technology and staffing advancements with IRA funding, including up-front issue resolution with significant taxpayer protections, and revised correspondence examination procedures.[1] I close with a

[1] The Center for Taxpayer Rights discussed many of these issues in our comments of June 21, 2023 to the Secretary and the Commissioner on the original IRS Strategic Operating Plan (SOP), a copy of which is appended to this testimony. Also in 2023, the Center for Taxpayer Rights held a series of fourteen Tax Chats! and a day-long conference focused on *Transforming Tax Administration: Toward an Effective, Trusted and Inclusive IRS*. This series captured the recommendations of stakeholders who collectively have centuries of experience in tax administration. *See* https://taxpayer-rights.org/transforming-tax-admin-materials/.

discussion of the importance of protecting the confidentiality of tax returns and return information, which is key to maintaining taxpayer trust and willingness to comply with their tax obligations.

I. Inflation Reduction Act funding has enabled the IRS to make progress on transforming its outdated technology and better addressing taxpayer needs.

The IRS is a large organization that touches nearly every person and business entity in the United States. Yet its operations have been mired in mid-twentieth century processes and technology which create inefficiencies and frustrate taxpayers and IRS employees alike. The problem of outdated legacy systems, software, and hardware continually prevents the IRS from being able to provide the service US taxpayers expect and deserve (taxpayers have the right to quality service) and from instituting appropriate and proportional compliance actions (taxpayers have the right to a fair and just tax system). The limitations of outdated systems are compounded by the failure of various IRS databases from communicating with each other. The IRS has over sixty case management systems throughout the agency, with many other smaller databases containing program specific information. Only a fraction of that information shows up on the IRS Master File. Thus, there is no 360-degree picture of the taxpayer's data, interactions, and filings with the IRS.

This situation creates significant inefficiencies. It means that IRS employees must input information that in a more advanced system would be pre-populated from other databases. It means that phone assistors cannot access certain databases and therefore cannot help the taxpayer in real time; instead they must write up a form to send to some other unit that has access to the system. It means IRS case selection – in audits and in collection – does not reflect all the information available in IRS systems and databases, to ensure the IRS is working the right work and cases. And for taxpayers it means that information they send in or provide is often not available for review by the employee with whom they are speaking. The sheer waste of taxpayer and IRS employee time is both infuriating and costly.

In 2001, the IRS's master file system – the official record of taxpayer accounts which the Government Accountability Office (GAO) has labeled as "one of the oldest and highest risk"[2] systems in the federal government – was, in former Commissioner Charles Rossotti's assessment, "ancient." This database is still the backbone of IRS systems today, only it is a quarter of a century older – and now qualifies as being called "prehistoric."

The Individual Masterfile (IMF) is the IRS's core tax processing system for individuals. GAO noted that it is "written in a now outdated language code, is highly complex to maintain, and has limited skilled resources supporting it."[3] This means that even as new applications are being developed or acquired, they have to be made to work with 60 year old, mid-20th

[2] GAO-20-249SP, *Information Technology – Key Attributes of Essential Federal Mission-Critical Acquisitions* at 41 (Sept. 2020).
[3] *Id.*

century technology, which consumes ever-increasing operations and maintenance resources, resources that might otherwise be applied to other customer-facing or compliance technology improvements.[4] It is an endless cycle.[5]

Over the years the IRS has tried to replace the IMF partially or in full, with mixed results. Since 2009, the IRS has attempted to update IMF's Assembly Language Code into modern programming language via the Customer Account Data Engine (CADE2), with completion dates frequently revised. TIGTA describes CADE2 as "one of the most complex modernization programs in the Federal Government."[6] One aspect of CADE2 has been significantly advanced by IRA funding – the Individual Tax Processing Engine Project (ITPE). ITPE is supposed to update two programs that "perform core IMF business functions of posting, settlement, and analysis, and are the most complex IMF processing programs."[7] These two programs are core to almost every IRS program and activity. IRS reported that ITPE was supposed to go live in January 2025, and if it has, it is a major achievement in modernization of IRS technology.

TIGTA has also found the IRS made progress in its information technology modernization efforts. It noted in a 2024 report that one of the transformation objectives jump-started by IRA funding, Objective Four, relates to Advanced Technology and Analytics. TIGTA determined that of the 42 initiatives listed in the IRS IRA Strategic Operating Plan (SOP),[8] 35 (83 percent) are dependent on the eight initiatives under Objective Four.[9]

The first initiative under Objective Four is "transform core account data and processing." According to TIGTA, through Fiscal Year (FY) 2023, $53 million of IRA funds has been spent on the Enterprise Data Platform (EDP), described as a "component-based open architecture platform that delivers universal data access for users and systems at the enterprise level, as well as provides an analytics platform for enterprise users."[10] (Emphasis added.) To

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[4] The Treasury Inspector General for Tax Administration (TIGTA) has observed "[t]he reliance on legacy systems, aged hardware and software, and use of outdated programming languages poses significant risks, including increased cybersecurity threats and maintenance costs." TIGTA, *Legacy Systems Management Needs Improvement*, Ref # 2020-20-044 (Aug. 19, 2020) at 4.

[5] To break this cycle, I recommended that Congress require the IRS to produce a five- year strategic plan that sets forth the steps to replace Master File, complete with milestones and cost estimates, and subject to independent review. National Taxpayer Advocate 2018 Annual Report to Congress, Legislative Recommendation: *IT Modernization: Provide the IRS with Additional Dedicated, Multi-year Funding to Replace its Antiquated Core IT Systems Pursuant to a Plan that Sets Forth Specific Goals and Metrics and is Evaluated Annually by an Independent Third Party,* at 351-358 (Dec. 31, 2018).

[6] TIGTA, *The Individual Tax Processing Engine Project is Progressing, But Risks Remain,* Ref # 2024-208-052 (Sept. 15, 2024) at 1.

[7] *Id.*

[8] IRS, Inflation Reduction Act Strategic Operating Plan, FY 2023-2031, Pub. 3744 (Rev. 4, 2023).

[9] TIGTA, *Progress of Information Technology Modernization Efforts,* Ref. # 2024-258-055 (Sept. 11, 2024) at 5.

[10] *Id.* at 12.

date, the IRS has brought major data assets into EDP, enabling them "easy to discover, understand, and use at scale."[11]

I cannot emphasize how important these achievements are. The EDP will enable the IRS to more accurately identify problematic returns and lessen false positives because it will have the full picture of the taxpayer's data. For example, it will allow the IRS to better identify taxpayers at risk of financial hardship and proactively offer tailored payment alternatives, including placing them in currently-not-collectible status, thereby avoiding the wasteful, harmful, and inefficient current approach of levying on taxpayers and then releasing the levy when the taxpayers call and show they are experiencing economic hardship.[12]

But don't just take my word for this. In its conclusion to its September 2024 report, TIGTA wrote:

> The IRS is making progress in its modernization efforts while adhering to its strategic goals. Specifically, in initiatives 4.3 and 4.5, the Information Technology organization is making significant technical advancements in the areas of AI, automation, cloud capabilities, data access, data quality, and data standards. The IRS is undergoing multiple new processes, and once fully operational, they will pave the way for a new technology era across the enterprise. (Emphasis added.)

With the enactment of the Taxpayer First Act, Congress has the tools to ascertain the scope and feasibility of IRS technology plans, their alignment with taxpayer needs and preferences, and the funding required to deliver these plans.[13] The mandate to provide Congress with an ongoing review of IRS's implementation of these plans will ensure that IRS adapts to the changing technological and taxpayer-needs environment. The reporting mechanism should give Congress some confidence that the funds it appropriates are being well spent.

> Recommendation: Protect and retain IRA funding attributable to Business Systems Modernization (BSM) and maintain annual appropriations funding for

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[11] *Id.* at 11. These data assets include Business Master File, Clean Energy, CADE2, Web Apps Online Payment Plan, Direct Debit Installment Agreements, Modernized Individual Custodial Accounting, and Information Returns Master File.

[12] IRC 6343(a)(1)(D) requires the IRS to release a levy where the taxpayer is experiencing economic hardship. I have recommended for years that the IRS use its data to identify taxpayers who are at risk of economic hardship and either proactively protect them from levies or when taxpayers call, collect additional data so IRS can determine they are unable to pay their basic living expenses. The EDP wil make this task much easier to achieve. *See* Nina E. Olson, Procedurally Taxing: *My IRS Wishlist for 2021 Part 2: the Economic Hardship Indicator*, Feb. 1, 2021 at https://www.taxnotes.com/procedurally-taxing/my-irs-wishlist-2021-part-2-economic-hardship-indicator/2021/02/01/7h5p8.

[13] In 2018, Congress responded to IRS's early attempts to articulate a technology modernization plan by adopting section 2101 of the Taxpayer First Act (TFA), in which it created a statutory position for the IRS Chief Information Officer, among whose duties are the development of a multiyear strategic plan for IRS information technology needs, including the resources required to accomplish those needs. Pub. L. No. 116-25; IRC § 7803(f)(4)(A). Moreover, the CIO is to annually review and update the strategic plan to take into consideration new technology and changing environment. IRC § 7803(f)(4)(B).

BSM, so as to maintain the momentum of transforming IRS information technology and increasing the efficiency and effectiveness of tax administration.

II. The interdependencies of IRS operations requires IRA funding to be preserved in order to achieve a more efficient and effective IRS.

In its 2024 Strategic Operating Plan (SOP) annual update, the IRS recorded its first-year achievements using IRA funding.[14] Advances in taxpayer service included enhanced live assistance, expanded online services, Direct File, and notice redesign (reporting 31 notices had been revised and simplified). In the context of compliance activities, the IRS reported a focus on high income/high wealth taxpayers, partnerships, and large corporations. It also addressed racial disparities in audit selection, and is exploring the use of data, including artificial intelligence, to better identify areas of noncompliance. It instituted the "document upload tool" (DUT) for nine of its highest volume notices, so taxpayers can digitally upload documents responsive to the notice, saving taxpayers and IRS significant time and money in mailing, faxing, or scanning. The IRS achieved an 85 percent "level of service" and average speed of answer of three minutes in the 2023 filing season, and it exceeded that level for the 2024 filing season.[15] These are significant achievements that the IRS has wanted to implement for years; before IRA funding, progress on these initiatives has been sporadic as annual appropriations have been granted and then taken away. As a result of IRA funding, the IRS has been able to plan and begin the transformation of the agency.

The IRA funding activity categories do not reflect the reality of IRS operations, nor do they accurately reflect the taxpayer experience with the IRS. This makes it easy to target one category of funding as undesirable. For example, the Enforcement budget category includes so much more than traditional audits and collection:

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[14] The IRS's May 2024 update to its strategic operating plan (SOP) outlines and refines its approach to the transformation of the agency made possible by the historic IRA funding. As the Treasury Inspector General for Tax Administration (TIGTA) has noted in its most recent assessment of the SOP, the IRS has now adopted an implementation roadmap with transformation outcomes and key results for the calendar years 2023-2026. Originally the SOP identified 5 transformation objectives, 42 initiatives and specific milestones that, if met, would be a measure of success. For fiscal year (FY) 2023, the SOP identified 58 milestones for delivery; TIGTA reported that 19 were completed (33%); 36 were in progress (62%); and 3 were delayed (5%). TIGTA, action *Inflation Reduction Act: Assessment of the Internal Revenue Service's 2024 Annual Update to its Strategic Operating Plan,* Ref. No. 2025-1E-R011 (Jan. 28, 2025) at 2.

[15] Dept. of Treasury, Press Release: *IRS Filing Season 2024 Report Card* (Apr. 15, 2024) at https://home.treasury.gov/news/press-releases/jy2250 - :~:text=IRS Achieves 88%25 Level of,around 13%25 compared to 2023. The IRS uses "level of service" or LOS as a "budget projection measure." "But LOS is not the most efficient method or standard to determine the success of customer service and the customer experience." National Taxpayer Advocate Fiscal Year 2025 Objectives Report to Congress at 8. The LOS only reports calls made to the IRS main accounts phone lines, which constitute about 70% of calls received. Thus, calls for tax law questions or compliance issues, including collection matters, are not included in the LOS calculation. Further, in calculating the LOS on account lines, the IRS excludes calls that it automatically routes to automated, rather than live, assistance. Correcting for these omissions, the IRS live assistors answered only about 32% of incoming calls on account lines. *Id.*

- it includes administrative appeals of IRS decisions, a fundamental taxpayer right (taxpayers have the right to appeal a decision of the IRS in an independent forum);
- it includes guidance (formal and informal) to individuals and businesses issued by the Office of Chief Counsel that enables taxpayers to comply with the tax law and avoid costly errors;
- it includes employees who work offers-in-compromise – a statutory taxpayer remedy that enables taxpayers to settle IRS debts based on their ability to pay rather than the absolute amount owed;[16]
- it includes employees who conduct Collection Due Process hearings, a profound taxpayer right that ensures taxpayers have the opportunity to challenge the IRS's first levy or public lien filed with respect to a tax debt in a hearing before an independent Appeals Officer and ultimately petition the US Tax Court with respect to the Appeals Officer's determination in the case;[17] and
- it includes the Return Preparer Office and Office of Professional Responsibility, which help ensure return preparers and Circular 230 tax practitioners are competent and ethical and do not harm taxpayers when they seek professional assistance in meeting their tax obligations.

On the other hand, as noted earlier, information technology and BSM touch every aspect of taxpayer service. Without funding of the former, the agency cannot deliver on the taxpayer's right to quality service.

The reasons for taxpayer noncompliance are myriad, ranging on a continuum from simple mistakes to out-and-out criminal tax evasion. Traditional compliance activities like audits and collection are necessary to address noncompliance, so that taxpayers are confident everyone is paying their tax obligations and others are not gaming the system. But a modern tax agency has many more tools to move the compliance dial, and traditional compliance actions can be counter-productive if disproportionately applied. The category of enforcement spending, then, should include innovative approaches, including educational letters to taxpayers noting potential errors on prior year returns, timed to coincide with the start of the next filing season. Studies have demonstrated how efficient and effective "soft" compliance activities can be in certain circumstances. Proportionality between the compliance action and the underlying noncompliance is key. [18] What is constant for all this activity is the need for stable funding, in

[16] IRC § 7122. The offer in compromise program furthers taxpayers' rights to privacy and to a fair and just tax system. Per IRS Publication 1, Your Rights as a Taxpayer, the right to privacy means taxpayers have "the right to expect that nay IRS inquiry, examination, or enforcement action will … be no more intrusive than necessary;" the right to a fair and just tax system means taxpayers have "the right to expect the tax system to consider facts and circumstances that might affect their underlying liabilities, ability to pay, or ability to process information timely."

[17] IRC §§ 6320 and 6330. Collection Due Process hearings not only address the right to privacy and a fair and just tax system but also the right to challenge the IRS's decision and be heard.

[18] For example, a TAS multi-year research study found that the long-term positive compliance effect of sending an educational letter to taxpayers who claimed the EITC on a prior year return and whose returns were flagged for potential errors out-stripped the long-term positive compliance effect of EITC correspondence audits. *See* National Taxpayer Advocate 2019 Annual Report to Congress: *Study of Subsequent Compliance of Taxpayers Who Received Education Letters from the National Taxpayer Advocate*, at 226.

order to test, pilot, and implement innovative approaches to increasing voluntary compliance and addressing noncompliance.

> Recommendation: Retain the remaining IRA funding for enforcement but provide flexibility to move funding between IRA budget categories, to meet taxpayer service needs, address areas of noncompliance through innovative approaches, and protect taxpayer rights and minimize taxpayer burden.

III. Digitalization of tax administration can be a blessing and a curse.

The IRS also articulated a vision for taxpayer service: "All taxpayers can meet all of their responsibilities, including all interactions with the IRS, in a completely digital manner if they prefer." This focus on digitalization of tax administration is consistent with the approach of tax administrations around the world.[19] Digital self-service tools, automation of manual and clerical steps, and artificial intelligence promise significant cost savings and may reduce taxpayer burden, and IRA funding is essential to realizing these efficiency gains.

The manner in which artificial intelligence applications are used in tax administration will make the difference between them resulting in positive change or significant harm to taxpayers. AI and other automation must be coupled with (1) robust and ongoing oversight; (2) training of employees such that they are knowledgeable in the underlying tax law and are able to properly apply the output of machine learning in human decision-making; and (3) accessible avenues for taxpayers to challenge the decisions made by humans using AI and automation.

Further, AI systems may be tainted because they are trained on results derived from administrative processes that create significant hurdles for taxpayers trying to achieve correct outcomes in their cases. For example, a 2012 TAS study of fully conceded United States Tax Court cases involving Earned Income Tax Credit (EITC) claims showed that taxpayers had attempted to resolve their case in the IRS Correspondence Examination stage by calling the unit on average five times; yet it was not until they actually petitioned the Tax Court that IRS Chief Counsel, without a trial, fully conceded the case and agreed with the taxpayers' original EITC claims.[20] If an AI system were to be trained solely on cases in Correspondence Examination, thousands of taxpayers with legitimate EITC claims would be harmed. On the other hand, an AI application trained on Correspondence Examination, Appeals, Tax Court, and Taxpayer Advocate Services cases would provide a more comprehensive dataset of taxpayer circumstances and legal interpretation. Adding to that dataset cases in which taxpayers were represented, including by low income taxpayer clinics, would train the

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[19] *See, e.g.*, OECD, *Tax Administration 3.0: The Digital Transformation of Tax Administration* (Dec. 8, 2020) at https://www.oecd.org/en/publications/2020/12/tax-administration-3-0-the-digital-transformation-of-tax-administration_886337a7.html

[20] National Taxpayer Advocate, 2012 Annual Report to Congress, vol. 2: *Study of Tax Court Cases in Which the IRS Conceded the Taxpayer Was Entitled to the Earned Income Tax Credit (EITC)*, at 73.

machine on the characteristics of cases in which administrative burdens prevented correct results.

A system that is trained on this broad set of data would more accurately select problematic cases for further attention than the current IRS systems, reduce the risk of auditing the wrong taxpayer, and preserve resources for those cases that require audits to bring taxpayers into compliance.[21] Further, for the system to continue to reflect the changes in external circumstances and the law, the application must be continuously trained on additional data from new cases. This approach increases rather than reduces the need for trained and knowledgeable IRS employees interfacing with taxpayers, person-to-person, to identify those changing circumstances.

Toward that end, digitalization of the tax agency requires both the retention of employees who have institutional knowledge and hands-on experience in tax administration and the hiring of new employees who bring new skills and outside-the-agency experience. This balance between seasoned employees and those with new skillsets will not be achieved if government service is vilified and current IRS employees are painted as inept, or even worse, corrupt.

IRA funding can assist with the efforts of bringing the IRS into the digital age while ensuring taxpayer rights, recourse, and remedies are protected. Funding for this type of work crosses all budget categories of the IRS -- taxpayer service, enforcement, operating support, and business systems modernization. Thus, IRA funding across all budget categories, including enforcement, must be retained so that the march to digitalization is protective, not destructive, of taxpayer rights.

> Recommendation: Retain IRA funding to ensure IRS existing and future employees are better trained in the use of AI as well as tax law in order to effectively use and oversee AI in tax administration.

IV. Notwithstanding the IRA investment, the baseline IRS appropriation must be sustained to keep up with inflation and support the gains made to taxpayer service delivery.

$3.2 billion of IRA funding is allocated to the taxpayer service budget category and through June 30, 2024, the IRS spent $1.4 billion of that funding, or 44.3 percent of the IRA funding dedicated to taxpayer service.[22] IRS expended $2.8 billion in IRA funding on labor costs through June 30, 2024, with approximately $1.3 billion used for taxpayer-facing positions in

[21] One need look no further than The Netherlands to see the harm that can be wrought upon taxpayers by AI systems that are trained on biased human assumptions, human over-reliance on the system's results, and the absence of accessible legal redress. See Council of Europe, Venice Commission for Democracy through Law: *The Netherlands: Opinion on the Legal Protection of Citizens* (Oct. 18, 2021) at https://www.venice.coe.int/webforms/documents/?pdf=CDL-AD(2021)031-e

[22] TIGTA, *Quarterly Snapshot: the IRS's Inflation Reduction Act Spending Through June 30, 2024,* Ref. No. 2024-IE-R020 (Sept. 2024) at 4.

Taxpayer Service including customer service representations and Taxpayer Assistance Center staff.[23]

TIGTA also reports the coming challenges for IRS funding. According to TIGTA, $2 billion of the $6.9 billion of IRA funding spent by the IRS through June 2024 ended up supplementing IRS annual appropriated funds to cover normal operating costs, including inflation adjustments. Of the $2 billion IRA funding covering normal operating costs, $858,000 was attributable to taxpayer service.[24] Thus, if the IRS annual appropriation remains flat (or reduced), the IRS will have to use IRA funding merely to cover inflation increases. Maintaining the IRS baseline budget at current levels, then, will undermine the transformational purpose of the IRA funding.

More importantly, if the IRS continues to apply IRA taxpayer service funding to make up for the poor service levels funded by the annual appropriation, it projects it will run out of IRA taxpayer service funding at the end of FY 2025.[25] That means that taxpayers will experience a cliff: in one filing season they are able to get through on the phone and have their returns processed relatively quickly, and in the next filing season, we will be back to pandemic levels of assistance, i.e., almost no assistance at all. This path is unsustainable and violates the trust of US taxpayers, who by and large are trying to comply with the tax laws and pay their taxes.

> Recommendation: Fund the annual IRS appropriation for taxpayer service such that the IRS can routinely answer 85 percent of the calls to all of its lines, process and respond to all correspondence within thirty days, process amended returns within sixty days, and resolve identity theft cases within 180 days.

V. The IRS Mission Statement should be updated to reflect the agency's current dual mission of collecting revenue and delivering benefits.

Unlike most tax systems around the world that tax the individual, the United States taxes the family unit. This approach necessarily introduces legal and factual complexity into the system. By taxing the family unit/household, however, the tax system becomes an efficient mechanism for delivering benefits related to families and children. Thus, over the decades, the IRS has been the go-to agency for delivering the Earned Income Tax Credit, one of the largest federal anti-poverty programs for working families; health insurance subsidies for low income families; and education credits. The IRS's herculean efforts in delivering life-saving benefits to individuals during the pandemic clearly demonstrate the extraordinary reach and importance of the IRS's benefit delivery system for the health and welfare of the U.S. economy and families.

Unfortunately, the IRS's current mission statement does not reflect this aspect of the IRS's work. A mission statement drives an agency's vision which in turn drives its goals, strategies,

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[23] *Id.* at 10.
[24] *Id.* at 5.
[25] *Id.* at 7.

initiatives, hiring, training, and skill development. For the IRS to implement the social benefit delivery aspect of its dual mission, the mission statement should explicitly reflect this second "line of business." This explicit recognition will result in the IRS developing performance measures, job descriptions, and training necessary to successfully deliver on the mission and will increase the transparency of its efforts.

Perhaps the most important aspect of a revised mission statement is that it would signal to US taxpayers – and to its employees -- that the IRS is not just about enforcement and auditing. The explicit recognition of the IRS's important role in ensuring the health and welfare of the US population would help restore trust in the agency, and be a clear message to IRS employees that a key component of their jobs is to assist taxpayers and help them comply with the tax laws so they can not only pay the correct amount of tax but also receive the tax benefits for which they are eligible. This is an important first step in culture change at the IRS.

The revised mission statement can help address one of the most significant challenges the IRS faces in years to come – the hiring of qualified employees. How better to attract qualified and professional applicants than by re-stating the agency's mission to make clear its profound role in contributing to the general welfare of the US population, in very real and concrete terms?

> Recommendation: Revise the IRS mission statement to reflect its dual role as revenue collector and benefits administrator, and to explicitly incorporate protection of taxpayer rights.

VI. The IRS Oversight Board should be re-activated and re-invigorated.

One of the most important and innovative aspects of the Internal Revenue Service Restructuring and Reform Act of 1998 was the establishment of the IRS Oversight Board.[26] As National Taxpayer Advocate, I welcomed the oversight of this board, which had more immediate access to IRS initiatives and strategic planning than the traditional oversight agencies. The board's authority to review senior leadership's performance and IRS strategic plans as they were being developed provided an opportunity for the board to not only ensure the IRS was living up to its goals but also that it was continuing to modernize and innovate. Unfortunately, the Oversight Board fell victim to a lack of organizational and political support.

I believe that the time has come to revitalize and reinstate the Oversight Board. The infusion of IRS funding necessitates greater oversight. Both the Government Accountability Office (GAO) and the TIGTA are actively conducting audits. There is no substitute, however, for a board of independent, external, and expert professionals conducting monthly or quarterly meetings with IRS leadership about their plans in real time and making recommendations about those plans as well as an independent recommendation about the IRS annual appropriation. The Oversight Board's reports will also provide Congress with invaluable information it can utilize as it exercises its own oversight responsibilities.

[26] IRC § 7802.

Recommendation: Reinvigorate the IRS Oversight Board by developing a mechanism that ensures continuing appointments and adding members with the necessary skillsets (e.g., backgrounds in education, information technology, small business experience, large business experience, individual taxpayer representation).

VII. Specific recommendations for increasing efficiency while protecting taxpayer rights

In the Center for Taxpayer Rights' comments on the IRS Strategic Operating Plan, we made many actionable recommendations to improve the efficiency and effectiveness of tax administration. Below I discuss two such proposals, to demonstrate that efficiency efforts don't have to come at the cost of taxpayer rights; in fact, taxpayer protections can be enhanced through efficiency gains.

1. Up-front issue resolution, as described in the SOP, can be a positive benefit, but if not carefully implemented it may violate taxpayer rights and improperly reject legitimate returns.

Initiative 2.1 of the IRS Strategic Operating Plan envisions a future whereby the IRS informs the taxpayer at the time of filing if there are questionable claims on their returns. This can be a very positive development. For example, advising a taxpayer at the time of filing that it appears from Social Security Data that the child claimed on the return is too old for a claim of the Child and Dependent Care credit would allow that taxpayer to correct their return before final filing and thus avoid the uncertainty, anxiety and burden of the math error process. On the other hand, if the taxpayer is eligible for the credit because the child is disabled, a poorly designed up-front system would likely deter the taxpayer from claiming a benefit for which they are eligible. Further, if the IRS uses the e-file process to reject this taxpayer's return, it will be violating the law,[27] impairing taxpayer rights, increasing taxpayer burden, and creating downstream work for itself in the form of processing paper returns that previously have been rejected or litigating refund claims. The better system design would be to alert the taxpayer to any issues on the return and provide the taxpayer an option to change the return or to continue with the return as currently configured. In this way the taxpayer retains the ability to electronically file the original return but understands they may need to produce documentation down the line to support their return positions.

- Recommendation: Follow the Beard v. Commissioner test and accept e-filed returns, even where an error has been identified. Process and accept duplicate Taxpayer

[27] According to *Fowler v. Commissioner*, 155 T.C. No. 7 (2020), a return such as the one described above, constitutes a valid return under *Beard v. Commissioner*, 82 T.C. 766 (1984). *Beard* established a multi-prong test for determining whether a document constitutes a tax return: (1) the document purports to be a return and provides sufficient data with which the IRS can calculate the tax liability; (2) the taxpayer makes an honest and reasonable attempt to meet the requirements of the tax laws; and (3) the taxpayer executes the document under penalties of perjury.

Identification Number (TIN) e-filed returns that meet the Beard test as filed. For other e-filed returns, prior to acceptance of a return, alert the taxpayer to any potential errors on the return. Provide the taxpayer with the option to either (a) correct the error per IRS position or (b) file the return as-is with an explanation.

- Recommendation: Where the IRS has identified potential errors on an e-filed return prepared by a for-fee or VITA/TCE preparer, the taxpayer must be directly notified and provide consent for changes other than merely clerical errors such as transposed digits or omission of a required form.

2. IRA funding creates a unique opportunity to dramatically improve the correspondence examination process, which accounts for the vast majority of audits of individual taxpayers.

We commend the IRS and Treasury for committing to not increase the number of audits for taxpayers with income below $400,000, and for the decision to reduce the number of Earned Income Credit audits. But these moves, however commendable, do not address the glaring inequities and deficiencies in the correspondence exam process, which account for between 70 and 80 percent of all audits of individual taxpayers, and over 90 percent of audits for individual taxpayers with total positive income under $50,000.[28] Under the "corr exam" process, no one employee is assigned to the case; each time the taxpayer calls the IRS about the matters under audit, a different employee answers the call. Unlike office and field audits, with corr exam there is no individual continuity or accountability for the conduct of the audit. True to its name, corr exams are conducted via (incomprehensible) correspondence. Ten to 12 percent of IRS corr exam notices are returned as undeliverable. Further, 41.6 percent of the audits are no-response, and 20.4 percent result in default assessments.[29] As a result, over 60 percent of correspondence exam assessments are unconfirmed assessments. That is, the IRS does not actually know if it has achieved the correct result in the audit because it had limited or no engagement with the taxpayer. If this were the result in office or field audits, which generally involve higher income taxpayers, people would be protesting loudly about this violation of taxpayer rights.

Fortunately, IRA funding for both enforcement and business systems modernization provides an opportunity for the IRS to radically restructure the correspondence exam process. Specifically, the IRS could incorporate the benefits of office exams into the correspondence exam process by scheduling appointments with taxpayers to meet with an assigned auditor virtually; during that meeting the auditor would review and explain the issues that are under audit and work with the taxpayer to identify documentation that would support the deduction or credit claim. The taxpayer would leave the audit understanding what steps they need to take to successfully resolve the audit; alternatively the taxpayer would understand why the return was incorrect. Further, because one auditor is assigned to the case, and there is direct engagement with the taxpayer, there will be better communication and response rates, leading to greater trust, accountability, and taxpayer and employee satisfaction.

[28] National Taxpayer Advocate, 2021 Annual Report to Congress, 150.
[29] National Taxpayer Advocate, Fiscal Year 2024 Objectives Report to Congress, at 20.

Recommendation: Conduct correspondence audits as virtual office audits:

- assign one employee to that audit;
- issue an audit notice letter that is tailored and specific to the issue being audited;
- offer a specific date for a virtual audit appointment with the opportunity for the taxpayer to call and reschedule (or do so via smartphone through a QR code provided in the letter);
- conduct the audit via virtual face-to-face technology with camera enabled for document sharing;
- require the auditor to place an outbound call confirming the audit appointment and what elements of the statute the taxpayer needs to prove at the audit; and
- require the auditor to make another outbound or schedule another online meeting prior to issuing the proposed audit report.

VIII. The confidentiality of taxpayer and tax return information is a fundamental taxpayer right and essential to maintaining taxpayer trust.

Internal Revenue Code section 7803(a)(3)(H) provides that taxpayers have the right to confidentiality. This fundamental right is protected and enforced by several Code sections, including sections 6103, 7213, 7213A, 7216, 6713, and 7431.[30] Indeed, the efficiency and effectiveness of our self-assessment tax system is dependent upon taxpayers' trust that the information they voluntarily provide the IRS will be held confidential. IRS employees are trained from day one of their employment about the confidentiality of returns and return information, and that emphasis continues every day of their working lives at the IRS. The recent exposure of tax returns by the contractor Craig Littlejohn demonstrates that one bad actor can significantly erode taxpayer trust in the IRS's ability to protect taxpayer information. Imagine what will happen to that trust – and to voluntary compliance -- if there is widespread inspection and disclosure by actors outside of the IRS.

From the very inception of the income tax, after passage of the Sixteenth Amendment in 1913, tax returns were open to public inspection at the order of the President, under regulations promulgated by the Secretary of the Treasury.[31] The Revenue Act of 1924[32] required the Commissioner to make lists of names and addresses of return filers publicly available, and the United States Supreme Court upheld the right of newspapers to publish those lists.[33] Further, Treasury regulations made individual returns available to other government agencies, upon written request. Over time, with the realization the IRS holds the

[30] IRC §§ 7213 and 7213A set forth the criminal penalties, including imprisonment and fines, for willful unauthorized disclosure of returns and return information or for solicitation of such disclosure, and for inspection of returns or return information, respectively. IRC §§ 7216 and 6713 set forth the criminal and civil penalties, respectively, for the unauthorized use or disclosure of return and return information by tax return preparers (defined broadly). IRC § 7431 provides taxpayers a private right of action against federal officers and employees or other persons in federal district court if their returns or return information are inspected or disclosed in violation of IRC §6103.

[31] Tariff Act of 1913, ch.16, 38 Stat. 114, 177.

[32] Act of June 2, 1924, ch. 234, 43 Stat. 253, 293.

[33] United States v. Dickey, 268 U.S. 378 (1925).

mother lode of data pertaining to family and business relationships, financial dealings, employment, investments, and medical and educational information, federal and state agencies, as well as private sector entities such as lenders, sought access to that data. Things came to a head in the 1970s when President Nixon issued two Executive Orders authorizing the Department of Agriculture Department to inspect returns and return information of all US farmers.[34] Further concerns arose with reports that the White House was attempting to obtain tax return information of the President's enemies and about audits of the President's supporters. All of this led to major reform of what is now IRC section 6103. Whereas before the 1976 amendments, the President controlled public access to returns and return information, the Tax Reform Act of 1976 shifted determinations regarding disclosure to Congress.[35] Section 6103 now starts from the premise that tax returns and tax return information are confidential unless excepted by specific provisions set forth in that section. Criminal penalties are imposed for violations of the statute.

It's worth noting how the Senate Committee Report framed the reasons for this shift in power:

> The committee has reviewed each of the areas in which returns and return information are now subject to disclosure. . . . With respect to each of these areas, the committee has tried to balance the particular office or agency's need for the information involved with the citizen's right to privacy and the related impact of the disclosure upon the continuation of compliance with our country's voluntary assessment system.[36]

This statement is as relevant today as when it was written almost fifty years ago. The current section 6103 contains over 13 sub-sections listing exceptions to the general confidentiality protection, including the broadest exception under 6103(c) pertaining to taxpayer requests for their return or return information to be disclosed to a third party (after all, this is taxpayer information and they should be able to direct the IRS to disclose it per their instructions). Section 6103(l), allowing disclosure for purposes other than tax administration, contains 22 specific exceptions. But for every exception that Congress has created, it also tightened the protections and restrictions on inspection, use, and disclosure. As recently as 2019, in the Taxpayer First Act, Congress imposed limits on the use and disclosure of tax return information by third parties to whom the taxpayer had consented to release it.[37]

Under 6103(i), Congress has authorized disclosure of certain return and return information to federal officers and employees for "administration of federal laws not relating to tax administration." These instances, however, involve very serious endeavors, including use in criminal investigations, investigations of criminal or terrorist activities or in emergency

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[34] Executive Orders 11697 and 11709.
[35] Tax Reform Act of 1976, Pub. L. No. 94-955, 90 Stat. 1667 (1976).
[36] S. Rep. No. 94-938 at 318.
[37] TFA section 2202, amending 6103(c) to provide "[p]ersons designated by the taxpayer under this subsection to receive return information shall not use the information for any purpose other than the express purpose for which consent was granted and shall not disclose return information to any other person without the express permission of, or request by, the taxpayer."

circumstances, in locating fugitives from justice, and relating to terrorist activities. Reading through these exceptions to confidentiality, one finds specific procedural requirements, including in some instances ex parte orders from a federal district court judge or magistrate, before such information may be disclosed by the Secretary.

Congress has recognized that tax returns and tax return information can be very helpful in implementing non-tax administration policies, and that requiring US persons to report the same information to myriad different agencies is inefficient and imposes unreasonable administrative burdens on both those persons and the agencies. Thus, section 6103(l) contains over 22 subparagraphs authorizing the Secretary to disclose tax returns and tax return information for non-tax administration purposes. But every single subparagraph contains language restricting such use and disclosure "for the purpose of, and only to the extent necessary" for carrying out that non-tax administration purpose.[38]

Under section 6103(n), "certain other persons" – i.e., contractors -- are authorized to receive, pursuant to regulations, returns and return information "to the extent necessary in connection with the processing, storage, transmission, and reproduction of such returns and return information, the programming, maintenance, repair, testing, and procurement of equipment, and the providing of other services, for purposes of tax administration." [Italics added.] Thus, if the Secretary contracts with a business to assess or test the efficiency and security of the IRS return submission processing pipeline, that contractor may receive return and return information, but only for the purpose of testing the efficiency and security of the system. It cannot inspect the information to assess, for example, whether the IRS has made "illegal" payments. That type of determination is left to IRS officers and employees pursuant to their tax administration duties under section 6103(h), and oversight by the Treasury Inspector General for Tax Administration under IRC section 6103(k)(6).

I recite this extensive list of exceptions to tax return confidentiality to illustrate that Congress has only granted exceptions where it has carefully balanced the compelling need for disclosure against the fundamental taxpayer guarantee that if they voluntarily provide the IRS with personal and private information, it will remain confidential. Further, where Congress has created such exceptions, it has also imposed significant prohibitions on the re-use and re-disclosure of the information obtained under the exceptions.

Congress has not stopped there. It has imposed criminal and civil sanctions on tax return preparers for the use and disclosure of returns and return information without the taxpayer's express written consent to the specific use or disclosure.[39] And in an extraordinary waiver of sovereign immunity, under IRC section 7431, Congress has created a private right of action

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[38] *See, e.g.*, IRC § 6013(l)(8), authorizing disclosure to federal, state, and local child support enforcement agencies. Only specific tax return information is authorized to be disclosed, including net earnings from self-employment, wages, and retirement income, and "only for purposes of, and to the extent necessary in, establishing and collecting child support obligations from, and locating individuals owing such obligations." In other words, tax return information disclosed under this section cannot be shared with or used by other federal, state or local agencies, or by the child support enforcement agency for another purpose.

[39] IRC §§ 7216 and 6713.

for a taxpayer to bring suit in federal district court against the United States when "any officer or employee of the United States" who knowingly or by reason of negligence inspects or discloses any return or return information with respect to that taxpayer in violation of IRC § 6103. Similarly, a taxpayer may sue "any person" who is not a US employee on the same grounds for violations of sections 6103 and 6104(a), and in this case may also seek punitive damages. If even read-only access to returns and return information is granted to non-IRS employees or contractors of other agencies for vague "efficiency" purposes, we may see a large number of suits in federal district courts in the coming years under this provision.

Congress has also clearly been concerned that, without proper oversight, these exceptions to section 6103 will be misused such that the right to confidentiality will be meaningless. Thus Congress has required the Secretary, under section 6103(p),

- to create and maintain a system of recordkeeping for all requests for inspection or disclosure, and actual inspections and disclosures, of returns and return information;
- report to the Joint Committee on Taxation (JCT), within 90 days of the end of the calendar year, a summary of the records requested and disclosed, excepting any request by the President under 6103(g) regarding any information on any individual who is an employee of the executive branch of government; and
- submit to the Joint Committee on Taxation, within 90 days of the end of the calendar year, a report for disclosure to the public summarizing the disclosures outlined in 6103(p)(A).

The most recent report for Calendar Year 2023 can be accessed at https://www.jct.gov/publications/2024/jcx-14-24/. The number of annual disclosures is eye-popping. In 2023, notwithstanding the statutory exclusion of significant categories of disclosures from the recordkeeping system and reporting, the Secretary reported 42.5 billion disclosures, including 14.5 billion disclosures of bulk Master File data to state tax agencies.

Unfortunately, section 6103(p) excludes important disclosures from this report. For example, requests for disclosure under 6103(c) – i.e., pursuant to taxpayers' requests – are not included; nor are disclosures under 6103(l) (for non-tax administration purposes); 6103(m) (taxpayer identity information disclosures; and 6103(n) ("certain other persons"). It is not clear to me why we would want to exempt these disclosures from reporting to JCT and the public, particularly since in recent years the use of "certain other persons" to further tax administration has expanded exponentially, as have taxpayer consents to disclosure under 6103(c).[40]

I, for one, want to know the number of these disclosures and the category of requestor; they may point out exceptions that need to be narrowed, or instances where the return information is at risk of being mis-used or improperly re-disclosed. In this digital age, capturing this data is not a heavy lift. If it is not being tracked, that points to a profound systemic failure of

[40] *See*, *e.g.*, taxpayer consent to disclose tax return data to Department of Education for FAFSA determination of family contribution or to determine eligibility for or repayment obligations under income-contingent or income-based student loan repayment plans, pursuant to the Fostering Undergraduate Talent by Unlocking Resources for Education Act, Pub. L. No. 116-91, 133 Stat. 1189.

taxpayer rights protections. Erosion of taxpayer confidentiality will also erode trust, reduce voluntary compliance, and increase the enforcement costs of tax administration.

Recommendation: Amend IRC 6103(p)(A) to include in the recordkeeping required to be maintained by the Secretary all requests for inspection or disclosure of returns and return information (including the reasons for and dates of such requests) and of returns and return information inspected or disclosed under this section and section 6104(c), except under the authority of subsections (h)(1), (3)(A) and (4), and (i)(4).

APPENDIX I: Comments on the IRS Strategic Operating Plan



21 June 2023

Honorable Janet L. Yellen
Secretary
Department of the Treasury
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Washington DC 20220
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Honorable Daniel I. Werfel
Commissioner
Internal Revenue Service
1111 Constitution Ave. NW
Washington DC 20224

By U.S. Mail and email

Re: Internal Revenue Service 2023-2031 Strategic Operating Plan

Dear Secretary Yellen and Commissioner Werfel:

We are writing on behalf of members of the Low Income Taxpayer Clinic (LITC) community to provide our comments and recommendations about the Internal Revenue Service (IRS) 2023 - 2031 Strategic Operating Plan (SOP). The Center for Taxpayer Rights (CTR)[41] hosts a weekly call for Low Income Taxpayer Clinic (LITC) personnel, and during May and June, 2023, we dedicated several of these calls to reviewing the SOP.[42] We applaud the IRS and the Department of the Treasury for the plan's emphasis on providing US taxpayers with the assistance they need to comply with tax laws and obligations. To assist the IRS in achieving its goals and effectively applying the Inflation Reduction Act funding, we offer the recommendations discussed in detail below and summarized in Appendix A. We welcome the opportunity to discuss these matters with you and your staff.

Threshold Considerations

[41] The Center for Taxpayer Rights (CTR) is a §501(c)(3) organization dedicated to the protection of taxpayer rights in the United States and internationally. CTR operates the LITC Support Center, which provides technical support and assistance to LITCs and also provides pro bono representation to low income taxpayers through LITC Connect. CTR was recently awarded supplemental LITC grant funding under IRC § 7526 for 2023.
[42] Over 40 representatives of Low Income Taxpayer Clinics participated in discussing the SOP and reviewing these comments.

As a threshold matter, we believe that the SOP and its implementation should be grounded in the Taxpayer Bill of Rights (TBOR).[43] The TBOR should serve as a framework for the key projects listed under the five main objectives of the plan, including the knowledge, skills, and abilities required of employees to implement the plan's initiatives and the performance measures to gauge the plan's success. Each key project should be analyzed from the perspective of how it furthers the taxpayer protections articulated in the TBOR and provided for in the Internal Revenue Code. Explicitly making the TBOR the organizing principle for implementation of the SOP not only helps the IRS explain its strategy to the taxpaying public but also builds trust with that public and reinforces with IRS employees the critical role taxpayer rights play in increasing and maintaining tax compliance.

We also recommend Treasury and the IRS revise the IRS mission statement to explicitly acknowledge the agency's dual role as a revenue collector and benefits administrator. For it to successfully fulfill the SOP's initiative to "[h]elp taxpayers understand and claim appropriate credits and deductions" (Initiative 1.9) the IRS must develop approaches to the target populations that resemble a benefits administration approach rather than an enforcement agency approach. Acknowledging the dual mission will lead to the development of different and more appropriate performance measures, employee position descriptions and skill requirements, and employee guidance and training.

The IRS's dual mission and service-oriented focus can be furthered by establishing a Family and Worker Benefit Unit (FAWBU) that houses all IRS activities touching this population of taxpayers.[44] We recommend all benefits-related outreach and education, compliance and audit, and collection initiatives not only be planned by this unit but also conducted by the unit's employees. This approach ensures that IRS staff developing the strategies are well-versed in the benefit population's needs and that IRS taxpayer-facing staff are selected for and trained in the skills best-suited for working with this large and diverse population. The FAWBU strategy office should be staffed with specialists with practical experience as well as relevant education in psychology, social work, anthropology and other aspects of human behavior and society.[45] The FAWBU can also promote excellent partnerships with groups

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[43] IRC § 7803(a)(3) requires the Commissioner "ensure that employees of the Internal Revenue Service are familiar with and act in accord with taxpayer rights as afforded by other provisions of this title, including …" the ten rights enumerated in subparagraphs (A) through (J).

[44] For a discussion of the FAWBU, *see* Nina E. Olson, Procedurally Taxing: *Thinking Out Loud About the Advanced CTC - Part 3: The Family and Worker Benefit Unit* July 1, 2021) at https://proceduralltaxing.com/thinking-out-loud-about-the-advanced-child-tax-credit-part-3-the-family-and-worker-benefit-unit/ and Nina E. Olson, Procedurally Taxing: *FAWBU and Dispute Resolution Redux: A 12-Step Program for Culture Change at the IRS* (Oct. 28, 2021) at https://proceduralltaxing.com/fawbu-and-dispute-resolution-redux-a-12-step-program-for-culture-change-at-the-irs-part-1/.

[45] For example, the office could include (1) a specialist who has focused on plain language, concrete and effective communication, and lowering reading barriers; (2) a specialist who can oversee Limited English Proficiency services, *e.g.*, proper use of interpreters, range of languages and dialects; (3) a specialist in trauma and mental health – and ideally another with extensive knowledge about domestic violence and experience working with survivors; (4) a specialist with experience with challenges of living in poverty or just above poverty, *e.g.*, the practical impact of housing instability, the harsh demands of low wage work, combined with being a single parent and the shortage and inadequacy of child care; and (5) a specialist knowledgeable about

serving this taxpayer sector, as well as undertake innovative research. We also recommend the IRS establish a FAWBU Federal Advisory Committee, composed of LITC and VITA repesentatives, as well as representatives of non-tax legal aid programs and other nonprofits that represent or serve the low income population, to formally advise and be consulted by the IRS on its initiatives and approach to this population.

Taxpayer Service [SOP 1.1]

We applaud the IRS's commitment to multichannel taxpayer assistance and equality of access. As the IRS acknowledges, taxpayer needs and preferences may be different depending on the issue the taxpayer is experiencing. For example, while taxpayers may be comfortable initially using the Where's My Refund app to check the status of their refund, as time passes and delays occur, taxpayer anxiety increases. As the SOP notes, anxiety can be lessened through greater transparency and more personalized information about the refund's status, and we commend the IRS for committing to create these robust self-help tools. But at some point the taxpayer will want to speak to a live human being who has the necessary data and training to advise the taxpayer about the refund's status, the actions (if any) required of the taxpayer, and options for assistance.[46] For example, on Where's my Refund, if the app shows the refund was issued on x date to y account, the app should explicitly state "If not received, click here to initiate a refund trace."

Taxpayer anxiety (and the resulting repeat dialing) can be further reduced by managing taxpayer expectations through providing greater transparency about wait times, processing times, and reasons for unexpected delays. A general dashboard that is updated in real time (not once every three to six months) is helpful and necessary. Toward that end, we recommend the IRS adopt alternate measures of "Level of Service" on the phones that reflect the taxpayer experience. Nothing erodes taxpayer trust more than hearing a LOS figure that the taxpayer knows does not align with their experience.

Similarly, we recommend the IRS conduct detailed analysis of how its phone tree system does or does not meet the needs of the taxpayer public. LITC experience is that the phone tree, through limited or misleading prompts, shunts people to automated lines that do not resolve their issues. For example, taxpayers with math error notices are directed to automated lines when what they need is a live assistor. In some instances, there is no public phone number, for example with the unit processing Individual Taxpayer Identification Numbers (ITINs). Imagine the taxpayer anxiety when one can't get through to find out what has happened to one's child's original passport, submitted to obtain an ITIN. Designing the phone tree from

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the range of assistive technology, and its limitations. With this expertise on staff, the FAWBU would ensure IRS initiatives do not create administrative burdens that result in taxpayers either not receiving benefits for which they are eligible or becoming noncompliant for lack of understanding or assistance.

[46] A "Taxpayer Anxiety Index" analysis is a way to identify when taxpayers stop being comfortable with digital-only tools and need human assistance. This approach can be applied to all IRS workstreams – filing and refunds; examinations; collection – and can assist with workforce staffing and training projections. See National Taxpayer Advocate Fiscal Year 2020 Objectives Report to Congress, p. 6-8 (June 30, 2019).

the taxpayer's perspective, in conjunction with a Taxpayer Anxiety Index analysis, will enable the IRS to make the case for the appropriate staffing necessary to provide the service taxpayers need and deserve.

Digitalization [SOP 1.2]

Digitalization and a robust online taxpayer account promise to give taxpayers far greater control and access to their own account information. On the other hand, authentication measures designed to protect the privacy of that information raise equity issues and can exacerbate the digital divide, resulting in undue administrative burden for vulnerable taxpayers. At present, LITC clients are unable to access payment options via their smart phones. The IRS should work with NIST and articulate the different types of access to information (retrieval vs. submission) so that identity proofing does not permanently lock out a large segment of the taxpayer population. User testing with this population can identify chokepoints in the process that need to be addressed. Further, this user testing must include international and ITIN taxpayers.

The alternative to online accounts is paper – the IRS mailing letters in envelopes marked "IRS" that end up sitting on radiators in apartment building lobbies, available to anyone. With that exposure to privacy risks as the benchmark, we recommend the IRS work with advocates for low income, disabled, and limited English proficiency (LEP) taxpayers to come up with authentication methods that do not lock them out.[47] We also recommend that the IRS provide greater transparency into the pilots it has underway, e.g., the use of a QR code on correspondence examination notices. Sharing the results of pilots, even midway through, with external experts for the most affected populations, will expand IRS knowledge.

Privacy risks are also implicated in making taxpayer information available to third parties, including preparers who are not otherwise subject to regulation by the IRS (Initiative 1.11). We recommend the IRS limit access to taxpayer data to those tax professionals who are regulated by Circular 230 and those preparers who are participating in the IRS Annual Filing Season Program. Further, because taxpayers must provide consent for the representatives, preparers, and even tax preparation software programs to have access to their account information, the issue surrounding taxpayer and preparer identity authentication and digital consent must be carefully explored. As noted above, too-strict identity authentication means that low income and other vulnerable populations may be blocked from receiving the benefits of this initiative.

Self-service options, including chatbots, while promising can also lead to incorrect results. As Professors Josh Blank and Leigh Osofsky have noted in their study for the Administrative Conference of the United States (ACUS), simplifying complex rules (or "simplexity") can harm taxpayers if the system does not elicit sufficient information with which to provide

[47] We use the term "limited English proficiency" here to include both "English as a Second Language" or "ESL" (the term used in IRC § 7526, which authorizes federal funding of low income taxpayer clinics) as well as individuals who are not able to fully comprehend or fully communicate in English.

correct answers.[48] ACUS has adopted recommendations for how federal agencies should utilize automated legal guidance, and we recommend the IRS follow that guidance and design procedures, including robust testing and even review by external advocates, including LITC personnel, to ensure these systems do not provide inaccurate guidance.[49] Further, where self-service options and chatbots provide such guidance and answers, taxpayers should be able to download a complete transcript of the exchange; where they have acted in reliance of the exchange, we recommend they should not be subject to penalties.

These new or alternate forms of legal guidance also create a risk of a caste system of guidance – that taxpayers with what the IRS deems to be not legally complex issues will receive guidance in an informal format, with no ability to rely on the guidance and no penalty relief, while issues relating to high income/large corporate/partnership taxpayers receive bespoke attention. For example, the final regulation under IRC § 7526, Low Income Taxpayer Clinics, has been through two rounds of Treasury/Chief Counsel/IRS review, and was in final form as of July 2019, yet it has still not been issued because it is deemed low priority. We recommend that the Priority Guidance Plan adopt a more even-handed distribution of issues that are selected for formal guidance. Moreover, we recommend there be greater transparency about the status of projects selected, including to whom the project is assigned.

Up-front Issue Resolution [SOP 2.1]

While we support the concept of early issue resolution, we have a number of concerns we believe must be addressed before this initiative is implemented in order to protect taxpayer rights. Initiative 2.1 of the SOP states "if the return is not corrected, the IRS will follow its normal procedures to reject or accept it. If the return is accepted, the taxpayer will still have opportunities to resolve errors later." We are concerned that the IRS is prioritizing agency expedience over legal rights and sound public policy.

The current IRS approach to issue resolution in the filing process violates taxpayer rights and increases taxpayer burden, which in the context of low income taxpayers can mean they do not receive the benefits for which they are eligible. For example, the IRS currently rejects e-filed returns where another person has already e-filed and claimed the dependent or the taxpayer. This "race-to-filing" often arises in situations involving domestic abuse, whether the domestic violence survivor is the EITC-eligible taxpayer but the abuser wins the race to e-filing. The IRS rejects the legitimate e-filed EITC claim; the taxpayer then has the choice to e-file and lose the benefits for which she is eligible, or file a paper return, with all the attendant delays, including being audited. Only 20 percent of e-filed rejected returns for duplicate Taxpayer Identification Numbers later file on paper.[50]

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[48] For a discussion of the risks and potential mitigation strategies regarding automated legal guidance by federal agencies, see Joshua D. Blank and Leigh Osofsky, *Automated Legal Guidance at Federal Agencies* (May 26, 2022) (report to the Administrative Conference of the United States).

[49] See https://www.acus.gov/recommendation/automated-legal-guidance-federal-agencies (last visited 06/21/23).

[50] IRS, FOIA response to Justin Schwegel, Gulfcoast Legal Services LITC (March 6, 2023).

This approach is flawed on many counts, including the fact that under established case law, Beard v. Commissioner[51] and Fowler v. Commissioner,[52] the rejected e-filed return is actually a return. The IRS, then, is improperly rejecting a return instead of accepting it and putting it through its normal refund review processes. Under Beard, the IRS should simply accept the e-filed return that has a duplicate claim for a child and use its internal data – including historical data of filing behavior – to determine which return (the first or second filed) poses the greatest compliance risk and should be subject to audit or some other compliance "touch."

In other contexts when the IRS detects what it believes is an error upon e-filing, a modern tax administration approach that is based on taxpayer rights would treat the return as follows:

(1) prior to acceptance alert the taxpayer to the potential error;
(2) provide the taxpayer with the option to either (a) correct the error or (b) file the return with the original information and, at the taxpayer's option, provide an explanation for why the IRS is not correct; and
(3) proceed with submission of the return and acceptance by the IRS. The IRS can review the taxpayer's statement and decide whether the return requires further scrutiny.

The above approach has the benefit of both identifying potential errors up front and educating the taxpayer while providing the taxpayer due process – notification of the potential error and provision of an opportunity to explain why the IRS is wrong – in the context of the filing pipeline. This procedure can be used for minor errors – those typically triggering summary assessments ("math errors") under IRC § 6213(b) (e.g., transposed digits in a social security number, or the failure to attach a required form) – that can be easily addressed at time of filing. It can also be used in the context of identity theft – where the IRS informs the taxpayer of a missing Form W-2, but the taxpayer can alert the IRS up-front that that Form W-2 is the result of identity theft and should be disregarded.

The other issue raised by up-front issue resolution is who, exactly, receives the notification of the error. We believe that where taxpayers are using a paid return preparer or off-the-shelf tax preparation software, the taxpayer must be the one notified of the certain potential error (i.e., those errors that are not merely clerical such as transposed digits or omission of a form). We suggest that preparers and software be required to input the taxpayer's email address or cellphone number for texts so taxpayers receive notification and can either respond directly or authorize the preparer to make the adjustment/correction. Without this protection, preparers for low income taxpayers will likely simply remove the dependent claim because they want to be paid their fee. This may also increase return preparer fraud.

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[51] 82 T.C. 766 (1984). Beard established a multi-prong test for determining whether a document constitutes a tax return: (1) the document purports to be a return and provides sufficient data with which the IRS can calculate the tax liability; (2) the taxpayer makes an honest and reasonable attempt to meet the requirements of the tax laws; and (3) the taxpayer executes the document under penalties of perjury.

[52] 155 T.C. No. 7 (2020). For a discussion of the Fowler case, see Keith Fogg, Rejecting Returns That Meet Beard, Procedurally Taxing (Sept. 15, 2020) at https://proceduralltaxing.com/rejecting-returns-that-meet-beard/.

The final issue relates back to one discussed before – identity proofing in order to access a filing system that identifies these errors up front. Because the information about the error is return information covered by IRC § 6103, the IRS needs to know it is the taxpayer (or the taxpayer's representative) it is communicating with. Depending on the nature of the potential error, the preparer may not be authorized or eligible to receive the information. If identity proofing is too burdensome, a low income taxpayer may not be able to access an online account and will thus face delays in processing the return or have it rejected because of lack of response (which we believe is unlawful under the Beard test).

Correspondence Exam and Early/Appropriate Treatments/Tax Certainty (SOP 2.2 and 2.4)

At the outset, the IRS should consider why it is auditing so many EITC returns. In the past, IRS Commissioners have justified this high audit rate by saying the Improper Payments Information Act requires the IRS to conduct these audits. That is not correct. The IPIA requires an agency with improper payments to submit "a report on what actions the agency is taking to reduce the improper payments." The IRS, then, could address EITC and other refundable credit claims by approaches that do not include an audit. For example, TAS research has shown that a mere letter sent two weeks before the start of the filing season to taxpayers whose prior year EITC return triggered scrutiny but were not audited resulted in positive compliance behavior over the next three years.[53]

The taxpayers we represent and advocate on behalf of are disparately impacted by the IRS correspondence exam procedures. TAS research has shown that taxpayers do not even know they are under examination and, if they do understand they are being audited, they don't understand what information and documentation the IRS requires.[54] The correspondence exam process does not tailor its audit approach and notices to the circumstances of the taxpayer. For example, currently an audit may be focusing on only one aspect of eligibility for a credit; the audit notice, however, states the taxpayer must prove every element. LITCs report that auditors generally disallow all benefits attributable to a child if the taxpayer cannot produce a birth certificate, regardless of what other evidence the taxpayer may provide. These approaches create significant administrative burden for low income taxpayers, which are unsurmountable.

Taxpayers would be better served if audits of social benefits delivered through Internal Revenue Code, such as the EITC, are conducted in an inquisitorial manner rather than adversarial one. For example, in determining eligibility for disability, the Social Security Administration can, with the taxpayer's consent, obtain medical information directly from medical providers. The IRS has tested use of an affidavit, Form 8836 and its accompanying Schedule A, Third Party Affidavit, that make it easy for the taxpayer to obtain evidence of joint principal residence, and it should incorporate that form into its audit procedures. On the

[53] National Taxpayer Advocate 2019 Annual Report to Congress, Vol. 2, *Study of Subsequent Compliance of Taxpayers Who Received Educational Letters from the National Taxpayer Advocate,* 239-256 (Dec. 31, 2019).
[54] National Taxpayer Advocate 2007 Annual Report to Congress, Vol. 2, *IRS Earned Income Credit Audits – A Challenge to Taxpayers*, 2-24 (Dec. 31, 2007).

other hand, the IRS's reliance on the Federal Registry for Child Support Orders as (automated) evidence of non-custody is misplaced, since many, if not most, states do not track custody status in the registry.

We recommend that where the IRS believes an audit of a low income taxpayer is necessary, that it conduct the audit as a virtual office audit:

- assign one employee to that audit;
- issue an audit notice letter that is tailored and specific to the issue being audited;
- offer a specific date for a virtual audit appointment with the opportunity for the taxpayer to call and reschedule (or do so via smartphone through a QR code provided in the letter);
- provide a copy of Form 8836 and Schedule A (Third Party Affidavit) where residency is at issue;
- require the auditor to place an outbound call confirming the audit appointment and what elements of the statute the taxpayer needs to prove at the audit; and
- require the auditor to make another outbound or schedule another online meeting prior to issuing the proposed audit report.

This approach will ensure that taxpayers have a discussion with the auditor about what documentation they have and what more they need to provide and also educate taxpayers about eligibility requirements so they do not make mistakes in future years.[55]

Correspondence exams have the lowest agreement rate and highest default rate of any type of examination; surveys have found taxpayer trust of the IRS is lower after a corr exam than other types of exams.[56] Accordingly, we recommend that the IRS partner with LITCs to provide training of Tax Compliance Officers in how to communicate and work with low income and limited English proficiency (LEP) taxpayers, survivors of domestic violence, persons with disabilities, and similar populations. Gaining an understanding of the taxpayer experience and life circumstances will help the IRS get the right answer in these cases, rather than a default answer because the taxpayer could not navigate IRS processes or did not understand what was expected of them.

We applaud the SOP's emphasis on pre-filing assistance. Toward that end, we recommend the IRS establish a year-round toll-free phone line dedicated to providing assistance with respect to family status benefits administered by the IRS, both in the pre-filing and post-filing context.[57] Taxpayers should be able to call and speak with a specially-trained representative

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[55] For a detailed discussion of these recommendations, *see* Nina E. Olson, Procedurally Taxing: *How Did We Get Here – Correspondence Exams and the Erosion of Fundamental Taxpayer Rights* – Part 1 (March 14, 2022) and Part 2 (March 15, 2022) at https://procedurallytaxing.com/how-did-we-get-here-correspondence-exams-and-the-erosion-of-fundamental-taxpayer-rights-part-1/ and https://procedurallytaxing.com/how-did-we-get-here-correspondence-exams-and-the-erosion-of-fundamental-taxpayer-rights-part-2/.

[56] See National Taxpayer Advocate 2017 Annual Report to Congress, Vol. 2, *Audits, Identity Theft Investigations, and Taxpayer Attitudes: Evidence from a National Survey*, 148-188 (Dec. 31, 2017) and National Taxpayer Advocate 2019 Annual Report to Congress, Vol. 2, *Audit Impact Study: the Specific Deterrence Implications of Increased Reliance on Correspondence Audits,* 258-268 (Dec. 31, 2019).

[57] See National Taxpayer Advocate, 2015 Annual Report to Congress, 240-247 (Dec. 31, 2015).

about their eligibility for these benefits. Such assistance goes beyond mere chatbots and guards against "simplexity" risks discussed above. The phone line would also provide excellent data on which areas of the law the IRS needs to conduct better education about. The IRS might also consider offering a pre-filing certification pilot, completely voluntary, in which taxpayers during the second half of the calendar year could demonstrate to the IRS that the child met the tax provision's requirements and thus be pre-cleared for expeditious processing during the filing season.[58] This approach would not take the place of an audit, being completely voluntary, but it would be of great value to separated parents and survivors of domestic violence, who often have their e-filed returns rejected because someone else has won the "race to file" and claimed the child, as discussed above.

We also recommend that the IRS analyze audit reconsideration, Taxpayer Advocate Service, Office of Independent Appeals, and Tax Court cases where these entities reversed IRS auditors initial disallowance of the EITC and other credits. The IRS should use these cases to train its audit selection model; further, the cases will provide a roadmap to auditors for how better to communicate with taxpayers and obtain alternative forms of documentation.

Finally, we recommend the IRS partner with external researchers to conduct a study of alternative approaches to correspondence exams, as discussed below and set forth in Appendix B.

Tax Penalties (SOP 2.2.6)

We understand the drive for the IRS to develop efficient processes for determining the application of penalties and penalty abatement. These procedures, however, can seriously impair taxpayer rights if they are not well designed and have a safety valve for cases that do not fit nicely into the automated approach. Below we discuss two instances where the SOP's goals provide an opportunity to re-examine the IRS's approach to penalty administration.

Reasonable Cause/First Time Abatement Penalty. We commend the IRS for developing the first time penalty abatement procedure (FTA) as a means for the IRS and taxpayers to quickly address taxpayer missteps. However, the automatic FTA abatement as the first recourse can actually harm taxpayers because FTA relief is available only once every 3 years.[59] Consider a taxpayer whose situation in year 1 meets the requirements of reasonable cause abatement. Under current policy the IRS never reaches the RCA analysis; instead, it automatically applies FTA. If the taxpayer in year 3 has a different situation which does not meet RCA criteria, FTA is no longer available.

Reasonable cause abatement is a matter of statutory relief, unlike FTA, which is an exercise of administrative discretion. The IRS should restructure its penalty application to reflect the statutory scheme: (1) iteratively train its employees on the case law under reasonable cause abatement so they can override the Reasonable Cause Assistor in appropriate circumstances;

[58] See Internal Revenue Service, *IRS Earned Income Tax Credit Initiatives: Report on Qualifying Child Residency Certification, Filing Status, and Automated Underreporter Tests* (2008).
[59] IRM 20.1.1.3.3.2.1., First Time Abate.

(2) convert the Reasonable Cause Assistor to a true Artificial Intelligence program that is trained on reasonable cause case law as well as Appeals, Taxpayer Advocate, and court cases where relief was initially denied by the IRS and ultimately obtained; and (3) develop procedures whereby the IRS can retroactively change the basis for penalty relief from FTA to reasonable cause so FTA is available in a later year.

IRC § 32(k) Two-Year/Ten-Year Ban In past years, the National Taxpayer Advocate's Annual Reports to Congress have demonstrated that the IRS's current policies and procedures regarding the implementation of IRC § 32(k) significantly harms eligible taxpayers and violates taxpayer rights.[60] The 32(k) 2-year penalty requires a finding of the taxpayer's "reckless or intentional disregard of rules and regulations." Such intent cannot be imputed under an automated approach or black-and-white rules. The IRS's own data show that 1/3 of the EITC taxpayer population moves in and out of eligibility each year. This creates a steep learning curve for any taxpayer, especially low income and LEP taxpayers. Even where a taxpayer has been audited for the EITC, TAS research has shown that taxpayers do not understand why the credit was disallowed. As discussed above, the IRS approach to correspondence audits is not designed to educate taxpayers about how to avoid problems going forward. To impute such knowledge to a taxpayer who has experienced these flawed audit techniques, with little or no personal interaction, is a fundamental violation of the right to a fair and just tax system. We also believe the current approach to the penalty has a racially disparate impact. We recommend that IRS work with representatives of TAS and the LITC community to revise its procedures with respect to application of the IRC § 32(k) penalty.

Taxpayer-Centric Notices (SOP 2.3)

Coherent, understandable notices are key to effective tax administration. We are very pleased to read that the IRS hopes to substantially increase the number of notices it annually reviews and revises. Making notices and other communications intelligible includes applying plain language standards and ensuring the content provides the necessary information, with key information on the first page, that will encourage the reader to look at additional pages. Past efforts at notice clarification have resulted in the IRS prioritizing enforcement messages over information providing explanations of avenues of relief and taxpayer rights. Important information about access to judicial review, the Taxpayer Advocate Service, and LITCs have been relegated to the second or third pages of notices. Further, as noted earlier, mere simplification (in contrast to plain language standards) may result in incorrect guidance.[61]

The 2018 National Taxpayer Advocate Annual Report to Congress covered IRS Notice Communications extensively, and we recommend the IRS hew closely to those

[60] *See, e.g.*, National Taxpayer Advocate 2019 Annual Report to Congress, Vol. 2, *Study of Two-Year Bans on the Earned Income Tax Credit, Child Tax Credit, and American Opportunity Tax Credit,* 241-256 (Dec. 31, 2019).
[61] Two sites that have some useful plain language guidance are https://plainlanguagenetwork.org/plain-language/what-is-plain-language/ and https://www.transcend.net/aboutUs/Journey_to_PL.html.

recommendations.[62] Further, we recommend that the IRS adopt a rights-based approach to notices, with emphasis on the availability of due process. If the IRS is to fulfill its service-focused mission, its notices need to emphasize the availability of assistance and alternatives. Moreover, we recommend the IRS prioritize the protection of taxpayer rights in selecting which notices to first revise and translate into other languages. Notices relating to math errors, audit adjustments, Collection Due Process, Notices of Deficiency, refund disallowances, and other communications substantially implicating legal and taxpayer rights should be moved to the front of the line for revision. We also recommend the IRS share all proposed notice revisions with the LITC community for review and comment; this can be efficiently accomplished through the establishment of the FAWBU Federal Advisory Committee, discussed above.

Proactive Debt Resolution (SOP 2.5)

We are pleased to see the IRS's commitment to using "analytics to identify the repayment options best suited to each taxpayer's circumstances." Properly implemented, this initiative protects the right to privacy and the right to a fair and just tax system. The right to privacy provides that "any IRS inquiry, examination, or enforcement action will comply with the law and be no more intrusive than necessary…."[63] This balancing of the government's legitimate interest in collecting the tax due and the taxpayer's interest in such actions being no more intrusive than necessary is an expression of both due process and equal protection principles and should form the basis of any debt collection strategy.

The balancing test can be operationalized in the following manner:

- Develop Allowable Expense guidelines (ALEs) that are based on a sustainable standard of living reflecting geographic diversity, rather than the Bureau of Labor Statistics' data, which only reflects what people actually spend, rather than what people need to spend to have a sustainable life.[64]

- Adopt an Economic Hardship Indicator (EHI), as recommended by the National Taxpayer Advocate.[65] By utilizing an algorithm based on most recent return or

[62] The report contains specific recommendations about how to improve Summary Assessment (math error) notices, Collection Due Process notices, and Notices of Deficiency. National Taxpayer Advocate 2018 Annual Report to Congress, 174-222 (Dec. 31, 2018).
[63] IRS, Publication 1, Your Rights as a Taxpayer.
[64] National Taxpayer Advocate 2016 Annual Report to Congress, 192-202 (Dec. 31, 2016). See also, National Taxpayer Advocate 2018 Annual Report to Congress, Vol. 2, *A Study of the IRS's Use of the Allowable Expense Standards*, 40-52 (Dec. 31, 2018).
[65] *See* National Taxpayer Advocate 2018 Annual Report to Congress, 228-239 (Dec. 31, 2018) and National Taxpayer Advocate 2020 Annual Report to Congress, Vol. 2, *The IRS Can Systemically Identify Taxpayers At Risk of Economic Hardship and Screen Them Before They Enter Into Installment Agreements They Cannot Afford*, 249-267 (Dec. 31, 2020). *See also*, Nina E. Olson, Procedurally Taxing: My IRS Wishlist for 2021, Part 2 – The Economic Hardship Indicator (Feb. 1, 2021) at https://proceduralytaxing.com/my-irs-wishlist-for-2021-part-2-the-economic-hardship-indicator/

Information Return data and the IRS's (revised) ALEs, the IRS can place a marker on the taxpayer's account to indicate they are at risk of economic hardship.[66] When a taxpayer with the EHI on their account contacts the IRS by phone, the assistor can receive a prompt to ask specific questions so a determination of economic hardship can be made. If as a result of these questions the taxpayer is placed in Currently Not Collectible – Hardship status, the assistor can evaluate whether an offer in compromise might be the appropriate option and direct the taxpayer to more information about the OIC process, as well as make a direct referral to Low Income Taxpayer Clinics, as authorized by IRC § 7526(c)(6). The EHI also has the side benefit of making the IRS recognize and acknowledge that CNC-Hardship is a legitimate collection alternative.

- Replace the current online Installment Agreement (IA) tool and "chatbot" with a true machine-learning algorithm that is trained on data from existing installment agreement, OIC, and other payment cases, including IAs that were defaulted, and cases from the Taxpayer Advocate Service, the Independent Office of Appeals, and the Tax Court in which IRS collection actions were either upheld or reversed. By training the machine on these cases as well as actual taxpayer data and IRS ALEs, the program may be able to identify candidates for various collection alternatives. Instead of forcing taxpayers into steamlined IAs that they cannot afford, which results in high default rates, the algorithm can be trained to identify those cases requiring additional information and even in-person, human assistance. By having the algorithm operate in conjunction with the Economic Hardship Indicator, the online tool can also automatically request additional information about income and special-needs/extraordinary expenses so that a determination can be made of CNC-hardship status (and a recommendation for an OIC). We also recommend the online IA tool be renamed to reflect a more wholistic approach to debt resolution.

- Exercise the Commissioner's discretion to not offset the EITC portion of a taxpayer's refund, unless it will be otherwise offset by the Treasury Offset Program. This approach not only promotes the underlying policy goals of the EITC but also reduces resources currently directed to the Offset Bypass Refund process.

- Establish an Economic Hardship Unit that will be the first stop for handling all Offset Bypass Refund (OBR) requests and align the criteria for bypassing refunds with the definition of economic hardship in the regulations and the revised ALEs. Given the timing urgency of OBR requests, there is no need for the Taxpayer Advocate Service to be the first stop in the process. By establishing an IRS unit focused on Economic Hardship, the principles of the balancing test, awareness of taxpayer needs, and the IRS impact on those needs is reinforced. TAS can play a role where the processes are not working as intended.

[66] Treas. Reg. § 301.6343-1(b)(4).

- Exercise the Commissioner's discretion in establishing a late payment penalty rate of .25% (as opposed to .50%) while the taxpayer is in CNC-Hardship status. The taxpayer should not be penalized because they do not have the resources to pay for basic living expenses.

Research (SOP 4.8)

We fully applaud the IRS's commitment to the OMB standard to "annually facilitate engagement of non-IRS researchers in high value research." As clinicians, we daily see the downstream effects of IRS actions that harm taxpayers and undermine compliance and trust. These observations lead us to make recommendations on how to revise agency approaches to avoid these negative effects. These recommendations deserved to be tested in a rigorous fashion, but the inability to gain access to IRS data and research staff remains an obstacle.

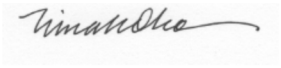
In the 2016 Annual Report to Congress, the National Taxpayer Advocate recommended the IRS establish an outside advisory board to recommend research projects, so that "high value research" was not determined only by IRS insiders, which can result in one-sided, pre-ordained selection of research topics.[67] We support that recommendation.

We also strongly recommend the IRS move forward with the research proposal Improving Revenue Service: Specific Pilot Tests for Improving IRS Correspondence Audits, prepared by Day Manoli of Georgetown University and Nina Olson of the Center for Taxpayer Rights and attached as Appendix B to these comments. This proposal sets forth ways to test the multiple recommendations we have made for improving correspondence audits. Furthermore, this proposal reflects insights from tax researchers who have been studying audits for many years and from tax practitioners who have years of first-hand experiences of the impacts of correspondence exam procedures on low income taxpayers. We recognize that the IRS has internal efforts underway to improve correspondence audits and that IRS staff are busy. However, we recommend that the IRS proceeds with this proposal because it combines internal and external expertise, and this combination will maximize the effectiveness of current internal efforts and best position the IRS to achieve the goals laid out in the Strategic Operating Plan.

The Inflation Reduction Act funding provides an unprecedented opportunity for the Internal Revenue Service to achieve its mission of administering the tax laws in a fair and just manner. The LITC members of the CTR LITC Strategy group support the five goals set forth in the Strategic Operating Plan and offer our recommendations in the spirit of collaboration and partnership. We welcome the opportunity to discuss them with you and appropriate Treasury and IRS staff.

Respectfully submitted,

[67] National Taxpayer Advocate 2016 Annual Report to Congress, 358-363 (Dec. 31, 2016).



Nina E. Olson
Executive Director
Center for Taxpayer Rights
On Behalf of Members of the LITC Strategy Group

Cc: Honorable Wally Adeyemo, Deputy Secretary, Department of the Treasury
Honorable Lily Batchelder, Assistant Secretary for Tax Policy, US Department of the Treasury

APPENDIX A:
Summary of Recommendations for Implementation
of the IRS 2023 – 2031 Strategic Operating Plan

Threshold Considerations:

- Revise the IRS mission statement to explicitly acknowledge the agency's dual role as a revenue collector and benefits administrator.
- Establish a Family and Worker Benefit Unit (FAWBU) housing all service, compliance, and enforcement activities touching the benefits population.
- Establish a FAWBU Federal Advisory Committee including LITC and VITA representatives as well as members from nonprofits serving or advocating on behalf of the low income population.

Taxpayer Service:

- Apply a "Taxpayer Anxiety Index" to all IRS service offerings and channels to identify those points at which a live assistor's intervention is appropriate and even necessary.
- Develop a comprehensive dashboard that is updated regularly, providing greater transparency about wait times, processing times and reasons for unexpected delays.
- Provide taxpayers with more detailed information about the status and processing stage of their refund claims on "Where's my refund."
- Adopt alternate measures of "Level of Service" on the phones that better reflects the taxpayer experience.
- Conduct a detailed analysis of the IRS phone tree system from the perspective of taxpayers' needs and preferences and in conjunction with the Taxpayer Anxiety Index.

Digitalization:

- Work with NIST to reduce the identity-proofing burden on low income taxpayers and identify the different levels of access to information that may not require the highest and most restrictive authentication.
- Work with advocates for low income, disabled, and ESL taxpayers to develop authentication methods that are accessible and do not exclude these populations from digital tools.
- Limit access to taxpayer data and digital accounts to those tax professionals who are regulated by Circular 230; for tax return preparers who participate in the Annual Filing Season Program, only provide access to that taxpayer information that is necessary to prepare or correct a return. Unregulated return preparers who do not participate in the Annual Filing Season Program should not have any access to taxpayer digital account information.
- Where self-service options and chatbots provide guidance and answers, provide taxpayers with a complete, downloadable transcript of the exchange; and where they have acted in reliance of that exchange, do not apply penalties.

Up-front Issue Resolution:

- Follow the Beard v. Commissioner test and accept e-filed returns, even where an error has been identified. Process and accept duplicate TIN e-filed returns that meet the Beard test as filed. For other e-filed returns, prior to acceptance of a return, alert the taxpayer to any potential errors on the return. Provide the taxpayer with the option to either (a) correct the error per IRS position or (b) file the return as-is with an explanation.
- Where the IRS has identified potential errors on an e-filed return prepared by a for-fee or VITA/TCE preparer, the taxpayer must be directly notified and provide consent for changes other than merely clerical errors such as transposed digits or omission of a required form.

Correspondence Examination:

- Reform the culture of the IRS correspondence exam function, especially with respect to EITC and CTC audits, from that adversarial to inquisitorial and education-oriented.
- Partner with LITCs and other advocates to provide training of Tax Compliance Officers (TCOs) on how to communicate and work with low income and ESL taxpayers, survivors of domestic violence, persons with disabilities, refugee populations, etc.
- Train the audit selection model on audit reconsiderations, TAS, Appeals, and Tax Court cases where IRS auditors' initial disallowance of the family status provisions have been reversed. TCOs should also be trained on these cases.
- Conduct correspondence audits as "virtual office audits" by assigning one employee to each audit, establishing virtual appointments for review of documents, and making outbound calls to ensure the taxpayer understands the issues.
- Make Form 8836, including Schedule A, available to all taxpayers who are being examined to establish principal residency with the child.
- Establish a year-round toll-free phone line dedicated to provide assistance with respect to IRS family status benefits.
- Consider offering a pre-filing certification pilot during the second half of the tax year so taxpayers could demonstrate they meet the eligibility requirements for a given credit.

Tax Penalties:

- Apply reasonable cause analysis before application of the First Time Abatement authority.
- Iteratively train IRS employees on the case law pertaining to reasonable cause abatement so they are able to override the Reasonable Cause Assistor in appropriate situations.
- Convert the Reasonable Cause Assistor from a rule-based system to a machine-learning/AI model and train the algorithm on reasonable cause case law and TAS, Appeals, and court cases where relief initially denied by the IRs was ultimately obtained.
- Develop procedures to retroactively change the basis for penalty relief from First Time Abatement to reasonable cause.

- Work with TAS and the LITC community to revise the IRS procedures with respect to application of the IRC § 32(k) penalty.

Taxpayer-Centric Notices:

- Adopt a rights-based approach to notices, with emphasis on the availability of due process and avenues for assistance.
- Prioritize the protection of taxpayer rights in selecting which notices to first revise and translate into other languages, i.e., notices substantially implicating legal and taxpayer rights should be prioritized.
- Share draft notice revisions that substantially implicate legal and taxpayer rights with the LITC community, either directly or through the FAWBU Federal Advisory Committee.

Proactive Debt Resolution:

- Adopt Allowable Expense guidelines that are based on a sustainable standard of living reflecting diversity and cost-of-living variations between states and cities.
- Adopt the Economic Hardship Indicator (EHI) as recommended by the National Taxpayer Advocate, and use the EHI to prompt specific questions on by IRS phone assistors or via the online installment agreement tool.
- Replace and rename the current online Installment Agreement tool and chatbot with a machine-learning/AI algorithm that is trained on data from existing IAs, OICs and other payment cases, including defaulted IAs and cases where IRS collection actions were either upheld or reversed by TAS, Appeals, or the courts.
- Exercise the Commissioner's discretion not to offset the EITC portion of a taxpayer's refund, unless it will be offset by the Treasury Offset Program.
- Exercise the Commissioner's discretion in applying a lower .25% late payment penalty rate while the taxpayer is in Currently-Not-Collectible (Hardship) status.

Research:

- Establish an outside advisory board to recommend research projects to the IRS.
- Accept the research proposal, Improving Revenue Service: Specific Pilot Tests for Improving IRS Correspondence Audits.

APPENDIX B: Research Proposal
Improving Revenue Service:
Specific Pilot Tests for Improving IRS Correspondence Audits

IRS Proposal – June 2023

Day Manoli, Georgetown University
Nina Olson, Center for Taxpayer Rights

I. Summary

Building on previous work and goals included in the IRS Strategic Operating Plan, this research project will test strategies to improve the IRS' correspondence audit process. The project is motivated by prior research that indicates (1) a significant fraction of correspondence audits result in default outcomes that do not distinguish between taxpayer confusion and confirmed noncompliance, and (2) specific barriers in the correspondence audit process may drive taxpayers to these default outcomes. More specifically, this project will test strategies to reduce and possibly eliminate barriers in the correspondence audit process so that more audited taxpayers complete the process with confirmed, deliberate outcomes instead of default outcomes. These insights will provide valuable evidence to improve IRS operations and taxpayer experiences.

The research project will consider the following specific pilot tests:

- Pilot 1: Plain Language Audit Notifications
- Pilot 2: Understanding Nonresponse and Noncompliance
- Pilot 3: Referrals to LITCs and Virtual Audit Assistance
- Pilot 4: Post-Disallowance Educational Notices
- Pilot 5: Understanding Impacts of Correspondence Audits
- Pilot 6: Investigating Possible At-Filing Filters
- Pilot 7: Developing an Audit Working Group

Each pilot test addresses a distinct barrier in the current correspondence audit process, and more detail on each pilot test is included in Section II. Additionally, each pilot test is independent from the other pilot tests and therefore could be done with or without any of the other pilot tests. For each pilot test, there is an initial developmental phase that will be followed by an experimental phase. The developmental phase will involve background data analytics and creation of novel outreach materials and technologies. The experimental phase will implement a randomized controlled trial to test the effectiveness of the new materials and technologies on reducing default outcomes and increasing deliberate outcomes. The project will aim to complete the developmental phase for each pilot in the first 6 to 12 months (year 1), and then the experimental phase for each pilot would be completed in the next 12 months (year 2).

II. Pilot Tests to Improve Correspondence Audits

Pilot 1: Plain Language Audit Notifications

Key Issue:
Taxpayers do not understand what documentation to provide because they do not understand current audit notices.

Strategy:
To address this barrier, this project will first develop a plain language audit notice and then conduct a randomized controlled trial to test if the simplified, plain language communication reduces nonresponses and default outcomes from audited taxpayers and increases deliberate outcomes.

Many correspondence audits are closed without any responses from taxpayers. These closures results in default disallowances of refundable credits and increases in taxes owed. However, these disallowances may be suboptimal outcomes for taxpayers and the IRS since recent research has highlighted that taxpayers may not understand correspondence audit notices. Specifically, taxpayers may not understand that they are under audit or how to respond to the audit. This project will collaborate with the IRS to design simplified, plain language audit notification letters to improve taxpayer engagement in the correspondence audit process. Furthermore, the project may seek input from focus groups and graphic designers to develop plain language communication.

The effectiveness of the simplified, plain-language audit notification letters will be evaluated using a low-cost randomized controlled trial (RCT). For example, the research would randomly assign some correspondence audits to a treatment group and a control group. The control group could follow the status quo (current) correspondence audit process and receive current notices. The treatment group would receive experimental simplified, plain language audit notification letters. The empirical analysis would test for differences in response rates and audit outcomes (full allowances, partial allowances, or disallowances) across the treatment and control groups and how these differences in response rates vary across various risk scores.

Pilot 2: Understanding Nonresponse and Noncompliance

Key Issue:
Many, if not most, correspondence audits do not yield responses from audited taxpayers. It is essential to know the extent to which nonresponse indicates taxpayer noncompliance versus taxpayers not being aware of being audited or not knowing how to respond.

Strategy:
To gain insights into nonresponse, this project proposes to randomly switch some correspondence audits to field/office audits and some field/office audits to correspondence audits. This will create 4 groups:

1. Taxpayers selected for correspondence audit under current selection criteria

2. Taxpayer who would have been selected for correspondence audit under current selection criteria but were now selected for field/office audits
3. Taxpayers who would have been selected for field/office audits but now receive correspondence audits
4. Taxpayers selected for field/office audits under current selection criteria

The analysis will compare response rates across groups (1) and (2). This comparison will indicate whether in-person field/office audits are more effective at notifying taxpayers that they are under audit and how they should proceed. For example, in-person field/office audits may use strategies to contact taxpayers beyond mailed notices, and this analysis will evaluate the effectiveness of these alternative contact strategies. Relatedly, audited taxpayers may be more responsive to in-person audits than correspondence audits, and the analysis will test this hypothesis. The analysis can examine differences by correspondence audit selection probabilities to understand if in-person field/office audits are similarly effective at increasing responses rates across higher and lower probabilities of correspondence audit selection.

Furthermore, the analysis will compare audit outcomes across groups (1) and (2). This will provide insights into the extent to which nonresponse indicates noncompliance versus inability to respond to correspondence audits. For example, if the field/office audits yield EITC allowances, this would indicate that some marginal nonresponders could have claimed the EITC appropriately. These insights could help guide strategies to reduce nonresponse.

Lastly, comparing response rates and audit outcomes across groups (3) and (4) will provide insights into whether some more costly field/office audits could be handled with less costly correspondence audits. This could provide insights into cost-savings strategies for the IRS.

In addition to (1) through (4) listed above, the project could aim to test "Enhanced communication strategies" such as multiple phone calls from an IRS examiner or LITC staff to taxpayers to clarify notifications and steps toward resolution. The project could also conduct interviews and focus groups with audited individuals to understand taxpayer impressions throughout the audit process.

Overall, this analysis will create a feedback loop between in-person field/office audits and correspondence audits, and this can yield insights to improve both tax enforcement processes.

Pilot 3: Referrals to LITCs and Virtual Audit Assistance

Key Issue:
Taxpayers do not understand where or how to submit documentation because they are not able to access representation to navigate or manage audit communications with the IRS.

Strategy:
To address this barrier, this project will develop plain language to inform audited taxpayers of potential audit assistance from Low Income Taxpayer Clinics (LITCs). Furthermore, the project would work with LITCs to create infrastructure so that audited taxpayers could set up

virtual appointments with LITC staff and securely upload necessary documentation. This infrastructure would allow more taxpayers to use LITCs to represent them with the IRS and help them navigate the correspondence audit process. The initial developmental phase would create this infrastructure, and then in the experimental phase of the research, the project would randomly select audited taxpayers to notify them about the LITCs and test if increased access to LITCs decreases default outcomes and increases response rates and possibly allowance rates. This notification about LITCs could be included in existing notices sent to taxpayers, or it could be included in a new notice sent to taxpayers.

Pilot 4: Post-Disallowance Educational Notices

Key Issue:
Audited taxpayers may not understand what they did incorrectly or what they should do to correctly file and claim benefits in the future.

Strategy:
To address this barrier, this project will develop a plain language, educational notice to send to audited taxpayers once their audits have been closed. The project team will collaborate with the IRS to develop plain-language post-audit educational notices. For example, the notices could explain EITC and CTC rules and requirements, explain IRS Form 8862 (Information to Claim Certain Credits After Disallowance), and explain how taxpayers can work with trusted, certified tax preparers.

After development of the educational notice, the project will experimentally test the effectiveness of the educational notice. Using taxpayers whose audits have been closed, the project will randomly select a treatment group and a control group. The control group will continue with current status quo procedures (no post-audit notices), while the treatment group will receive the experimental post-audit educational notices. The analysis will examine impacts of the post-audit communications on compliant tax filing, EITC claiming, and claiming of other tax credits.

Pilot 5: Understanding Impacts of Correspondence Audits

Key Issue:
The correspondence audit process may cause noncompliance and incomplete take-up.

Strategy:
To assess the impacts of the correspondence audit process on audited taxpayers, this project will randomly swap some current correspondence audits out (ie a "hold out" sample) and replace them with some randomly selected returns that would not have been selected. This will create 4 groups:

A. Taxpayers selected for correspondence audit under current selection criteria
B. Taxpayer who would have been selected for correspondence audit under current selection criteria but were held out

C. Taxpayers who would not have been selected for correspondence audit but were randomly swapped in
D. Taxpayers who would not have been selected for correspondence audit but were randomly not swapped in

To get at causal effects of correspondence audits for the audit population, the project will compare group (A) versus (B) and examine differences in tax outcomes such as responses to audits, disallowances, partial allowances, and full allowances, and tax filing, EITC participation, and earnings in subsequent years. To get at causal effects of correspondence audits for the non-audited population, the project will compare outcomes for group (3) versus (4). Furthermore, the project will analyze impacts of the correspondence audits and nonresponse rates by taxpayer characteristics and audit selection probabilities.

This analysis will provide insight into how correspondence audits are affecting taxpayer experiences and whether correspondence audits are causing noncompliance (for example, not filing and reporting self-employment income in future years) and incomplete take-up of tax benefits.

Pilot 6: Investigating Possible At-Filing Filters

Key Issue:
Use of single-issue correspondence audits could be reduced if additional at-filing filters could be developed.

Strategy:
Many correspondence audits are single-issue audits involving verification of self-employment income or verification of qualifying child eligibility. This project will collaborate with IRS staff to study possible creation of at-filing filters that could reduce the volume of these single-issue correspondence audits. The at-filing filters could prevent potentially noncompliant tax returns from being filed in the first place, so remaining correspondence audits could focus on more complicated multiple-issue audits, and some revenue could be protected by not issuing possibly erroneous refunds and then having to refer post-refund audits to costly collection efforts.

The overall goal of the project is to improve the IRS correspondence audit process. While the proposed strategies have been developed based on recent research, the project will also work closely with IRS collaborators to hear their additional ideas to refine the proposed ideas or design and test new ideas. The project will closely consider taxpayer and examiner experiences with the IRS correspondence audit process, and this could be formalized with taxpayer customer experience surveys and IRS staff surveys.

Pilot 7: Developing an Audit Working Group

Key Issue:

Many tax experts have insights into taxpayer experience and the correspondence audit process, and these insights could inform strategies for improvement.

Strategy:
Tax experts from the IRS, the US Treasury Office of Tax Analysis, academic institutions, and community organizations have an incredible wealth of knowledge on taxpayer experience, tax enforcement, data analysis, and implementation. This project will propose to create an Audit Working Group to have periodic meetings (eg once every 6 months) with a panel of selected experts in tax administration, benefits delivery, and communications, graphics design, and user experience to discuss results from pilot tests, progress on improvements in audit processes, and novel strategies for improving IRS audit processes. This panel will allow many experts to have a coherent collective voice to provide feedback to improve IRS audits rather than having many different one-off contacts with IRS and Treasury staff that can create confusing lines of communications.

Chairman SCHWEIKERT. Thank you to our witnesses.

Now we begin the fun part. We try to educate those of us sitting up here.

Ms.—and I apologize to everyone.

Ms. KOCIOLEK. Kociolek.

Chairman SCHWEIKERT. Kociolek. Maybe the single thickest 5 minutes I think we have ever had someone sitting there. But I want to walk through just a couple of things and get my head around it.

Are you familiar with RAAS, Research Applied Analytics and Statistics Division?

Ms. KOCIOLEK. I am not.

Chairman SCHWEIKERT. Okay. Apparently, they are the ones that are supposed to do certain data. They also do apparently data sharing agreements for researchers. Apparently right now, there are more than 50 researchers that have that type of access.

And part of my reason for this is, you know, I know the pop culture right now is to attack DOGE and those things, but the fact of the matter is the data we have says there are 50 researchers. How do you think groups on the left and the right write their, you know, reports on so and so are being picked on or so and so aren't paying enough? But we also have letters going back a couple of years—and you touched on this—that for those who do have access for research, that we probably need additional protocols for privacy and security, because it turns out right now from what we are finding in our own quick research, which took us a half an hour, that 50 researchers out there actually look like they have more access over history than the current DOGE process does. So that will be fun to dig into and figure out what is true and what is pop culture.

What if you—am I on track?

Ms. KOCIOLEK. So what I can say about access to sensitive systems, certainly there is an expectation that anybody collecting sensitive information, tax information, any kind of information——

Chairman SCHWEIKERT. My point was just are you familiar with the fact that we are coming up with over 50 different research groups that have access already.

Ms. KOCIOLEK. Yes. And there should be agreements in place, so that is what I was getting at. Any time there is someone with access to information, there are policies that are expected to be followed, yes.

Chairman SCHWEIKERT. Could I beg of you for probably all of us out here who have an interest in that, could you please just grab some of that and send it our direction.

Ms. KOCIOLEK. Absolutely.

Chairman SCHWEIKERT. And you made a comment that—was it in the 2022 audit that you almost weren't able to complete that? Could you put some more information around that?

Ms. KOCIOLEK. Yes. So on both the General Fund audit and on the consolidated financial statements audit of the U.S. Government, GAO is unable to express an opinion on the financial statements given various limitations in data available.

At the General Fund level, much of the information that is in the systems, like I said, details are maintained at agencies, and summary information is in some of the systems, and that prevents us

from having the detailed information that would allow us to provide an opinion on the financial statements and the line items there.

At the consolidated financial statement level, there are several reasons we are not able to give an opinion on those statements. One being challenges at the Department of Defense, and them being able to have good financial management systems and processes in place; the second being the ability of the government to eliminate the transactions between each other; and then the third being in the consolidation process.

So there are a variety of reasons that we are unable to give opinions on the statements, yes.

Chairman SCHWEIKERT. Okay. And for years I have been trying to get an AI audit of the Pentagon just because they failed now for 8 years. Now it turns out we should probably do the same with the IRS.

Mr. Ladwa, could your system solve GAO's problem?

Mr. LADWA. I think we would have to look at the intricacies without a resounding yes or no. I think there are sort of lots of complexities and processes between what I have just heard in order to do that.

I would say there are, you know, as I said, solutions that we provide that look at things like that to provide those——

Chairman SCHWEIKERT. Well, Ms. Olson pointed out something that I am surprised none of the rest of you did, 60 different sort of tracking systems for the individual taxpayer. You have done this now in other countries. If we reached out to you and said fix it, how would you deal with that?

Mr. LADWA. So I think there was a few conversations around this master file that I have read a little bit about and know a little bit about the architecture in terms of tracking and audit. I think if I was going to tackle it and think about, you know, how you solve this problem, it is about consolidation and understanding where the data is, how it is being stored, how it is being accessed. And my first thing would be understanding and moving away from sort of old archaic, custom-built file systems like this. That is the first to ensure that we have got consolidated taxpayer record.

Chairman SCHWEIKERT. And for those of us who are not very bright, would you build a mirror, run the systems, run them parallel, and then do a switchover? I mean, how do you do the migration and how quickly could migration happen?

Mr. LADWA. Yes. So I think the first and foremost is that—for example, the complexity of the master file system from what I understand has a lot of detailed information about the taxpayer, right, obligations, previous history, and various other sort of artifacts.

What I would do, you know, what is in my migration period, I would first start with a fresh level of thinking. So first I would understand what is important when we are administering the various taxes at this Federal level. That is needed for a transparent taxpayer journey and the efficiencies internally of the tax agency. Because there are solutions which basically consolidate and that you can deploy very, very quickly.

Then it becomes a question of historic. So do I need to look at the intricacies of what is in the master file now to bring it over? And I would essentially—mirroring is probably, I would say, a—it could be a consideration. I would say we would look at, if we were going to do this again from scratch, how would we do it rather than rely on, you know, how we have built things in the past.

Chairman SCHWEIKERT. Okay. Absolutely perfect.

A couple of others just because these are idiosyncrasies. So even with the stepped-up funding—and this is a little different, the facts I am holding here in my dataset and actually from a press release from the IRS itself—during the tax season, only 31 percent of the phone calls were actually being answered.

If I came to you today and said, I need you to design me a hyper accurate, hyper friendly—so my mom calls, bless her soul, but calls. An IRS chatbot stays on the phone, helps her fill out the form, maybe sends you a text message of the YouTube video of how to do the form, maybe a PDF if you don't have the form, instead of a world where only 31 percent of the phone calls are being answered. And then I have the whole statistics here of how many of the responses are actually not accurate on those calls.

How difficult would be that type of the outreach technologically?

Mr. LADWA. Chairman, I don't think it is that difficult. I don't think it has to be that——

Chairman SCHWEIKERT. Just stop right there. That was a brilliant answer. No, no, please go on, because this is a fixation because, first off, that is not right or left. It is just decency.

Mr. LADWA. Yeah. And I would like to take tax administration right down to its basics. Right? It is understanding what you need to populate and then populating it and processing it. So in order to help, you know, there are solutions that exist which do exactly those types of things. Right? So depending on the channel, you could absolutely, you know, guide and do it effectively as long as you know exactly who the taxpayer is and what they are trying to file based upon their previous history, or them as an individual. It is not that hard.

Chairman SCHWEIKERT. If I came to you—and this is one for anyone this would have comfort. Ms. Sewell and I have had this running conversation for years on—let's first just use certain core tiles, Earned Income Tax Credit populations. Past years they delayed it by 2 months because of the amount of fraud of duplicate, you know, tax forms are being put in, but that also ends up being a population now that will get multiple letters of inquiries, technically not audits, but please explain this to us.

We have had a data scientist in our office a couple of years ago who basically said if you just did a data match, you could wipe out the fraud because the quality—and it could be blinded public databases, commercial databases. If I came to you right now and said, I have a population here which qualifies under the law for an Earned Income Tax Credit, we want to get rid of the 2-month delay, but we want to eliminate the fake, the fraudulent tax forms being turned in trying to steal someone else's credit, do you do that through an AI algorithm, a data bounce off commercially available databases? How do you solve both of our problems, fixation on fraud, the morality of people getting something they are earned

faster? Walk me through real quickly how you solve both of our problems.

Mr. LADWA. That is a great question. We have got 2 hours, right?

So, first and foremost, Chairman, I think the understanding before we talk about technology, yes, technology exists to be able to use things like machine learning algorithms, configurable business rules to be able to detect battens, to understand who are our highest-risk customers, should refunds be made, things like receipt submissions in terms of extractions and understanding what someone is claiming is what they are due.

So I think, first and foremost, the technology is there. It exists. I think the question would be is what are the rules and what are the sort of legal and policies that allow us to configure those rules in order to quickly be able to identify those.

Chairman SCHWEIKERT. Right. My eccentricities have been dominating this far too long.

Ms. Sewell.

Ms. SEWELL. So my questions, my initial questions are to our managing director of GAO. And I really do want very simple yes or no because I only have 5 minutes and there are a lot of things I want to cover.

So my first question is that—well, it is really not really a question. It is yesterday in the New York Times five former Treasury secretaries wrote an op-ed entitled "Our Democracy is Under Siege."

Without objection, I would like to submit this article op-ed for the record.

Mrs. FISCHBACH [presiding]. Without objection.

[The information follows:]

The New York Times https://www.nytimes.com/2025/02/10/opinion/treasure-secretaries-doge-musk.html

GUEST ESSAY

Five Former Treasury Secretaries: Our Democracy Is Under Siege

Feb. 10, 2025

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By Robert E. Rubin, Lawrence H. Summers, Timothy F. Geithner, Jacob J. Lew and Janet L. Yellen
The writers are former Treasury secretaries.

When we had the honor of being sworn in as the 70th, 71st, 75th, 76th and 78th secretaries of the Treasury, we took an oath to support and defend the United States Constitution.

Our roles were multifaceted. We sought to develop sound policy to advance the president's agenda and represent the economic interests of the United States on the world stage. But in doing that, we recognized that our most fundamental responsibility was the faithful execution of the laws and Constitution of the United States.

We were fortunate that during our tenures in office no effort was made to unlawfully undermine the nation's financial commitments. Regrettably, recent reporting gives substantial cause for concern that such efforts are underway today.

The nation's payment system has historically been operated by a very small group of nonpartisan career civil servants. In recent days, that norm has been upended, and the roles of these nonpartisan officials have been compromised by political actors from the so-called Department of Government Efficiency. One has been appointed fiscal assistant secretary — a post that for the prior eight decades had been reserved exclusively for civil servants to ensure impartiality and public confidence in the handling and payment of federal funds.

These political actors have not been subject to the same rigorous ethics rules as civil servants, and one has explicitly retained his role in a private company, creating at best the appearance of financial conflicts of interest. They lack training and experience to handle private, personal data — like Social Security numbers and bank account information. Their power subjects America's payments system and the highly sensitive data within it to the risk of exposure, potentially to our adversaries. And our critical infrastructure is at risk of failure if the code that underwrites it is not handled with due care. That is why a federal judge this past weekend blocked, at least temporarily, these individuals from the Treasury's payments system, noting the risk of "irreparable harm."

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While significant data privacy, cybersecurity and national security threats are gravely concerning, the constitutional issues are perhaps even more alarming. We take the extraordinary step of writing this piece because we are alarmed about the risks of arbitrary and capricious political control of federal payments, which would be unlawful and corrosive to our democracy.

A key component of the rule of law is the executive branch's commitment to respect Congress's power of the purse: The legislative branch has the sole authority to pass laws that determine where and how federal dollars should be spent.

The role of the Treasury Department — and of the executive branch more broadly — is not to make determinations about which promises of federal funding made by Congress it will keep, and which it will not. As Justice Brett Kavanaugh of the Supreme Court previously wrote, "Even the president does not have unilateral authority to refuse to spend the funds." Chief Justice John Roberts agrees: He wrote that "no area seems more clearly the province of Congress than the power of the purse."

During our collective 18 years at the helm of the Treasury, we never were asked to stop congressionally appropriated funds from being paid out in full. Not since the Nixon administration has this type of executive action been contemplated. At that time, the Supreme Court ruled unanimously that the president did not have the power to withhold federal funds that Congress had authorized.

The Trump administration may seek to change the law and alter what spending Congress appropriates, as administrations before it have done as well. And should the law change, it will be the role of the executive branch to execute those changes. But it is not for the Treasury Department or the administration to decide which of our congressionally approved commitments to fulfill and which to cast aside.

No Treasury secretary in his or her first weeks in office should be put in the position where it is necessary to reassure the nation and the world of the integrity of our payments system or our commitment to make good on our financial obligations.

Secretary Scott Bessent has had to do just that, and we were comforted to see the agency commit to Congress that any recent access to Treasury's payment systems "is not resulting in the suspension or rejection of any payment instructions submitted" to the federal government. When he has been asked — repeatedly — if Treasury has tried to block any federal payments, he has stated unequivocally that "we have not."

We hope this commitment stands. It is how the framers intended it when they designed a government with checks and balances that gave the executive branch a host of powers, but provided for elected members of Congress, and Congress alone,

the authority to levy taxes and spend federal funds.

Many people and entities depend on Treasury's faithful disbursement of federal funds: Social Security checks arrive each month. Veterans receive their benefits. Medicare providers are reimbursed. Federal workers, members of the military and businesses that provide goods and services to the government are all paid on time and in full. Holders of outstanding federal debt receive interest payments.

People often rely on these funds for survival, making any risk of their cutoff or delay existential. But even more than the importance of making good on particular commitments is the importance of making good on the principles that this country stands for. We have during our service in the Treasury Department faced moments of crisis, when the specter of an American default loomed. Any hint of the selective suspension of congressionally authorized payments will be a breach of trust and ultimately, a form of default. And our credibility, once lost, will prove difficult to regain.

Robert Rubin, Lawrence Summers, Timothy Geithner, Jacob Lew and Janet Yellen are former Treasury secretaries.

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Ms. SEWELL. In the op-ed the former Treasury secretaries noted that the Nation's payment systems have historically been operated by a very small group of nonpartisan career civil servants until recently when that norm was upended. They also express significant data privacy cybersecurity and national security threats with, quote, "political actors from the so-called Department of Government Efficiency being involved." I too am quite concerned about the privacy of my constituents and American taxpayers being accessed.

So, my question, yes or no, does GAO know what confidential tax or sensitive information was accessed and shared with DOGE? Yes, or no?

Ms. KOCIOLEK. No, we do not.

Ms. SEWELL. So, GAO does not know what was shared.

Please answer yes or no: Does GAO know who accessed the data or what code was rewritten?

Ms. KOCIOLEK. No. We have not done work on that.

Ms. SEWELL. So, I understand that there are audit laws that keep track of who accessed the payment systems. Can you answer yes or no, is it possible for management to override controls in place and delete those audit logs?

Ms. KOCIOLEK. Logs are designed to—I want to just mention the concept of segregation of duties. So when access is granted——

Ms. SEWELL. I just have a few minutes——

Ms. KOCIOLEK [continuing]. There have to be different people to do the audit logs.

Ms. SEWELL [continuing]. So yes or no, ma'am. You can say you don't know.

Ms. KOCIOLEK. Yeah, we can get back to you. Generally you would have someone separate from who creates the audit logs monitoring them.

Ms. SEWELL. So, Ms. Olson, please just answer yes or no. Is there confidential taxpayer information protected by section 6103 in the Treasury payment systems?

Ms. OLSON. Yes.

Ms. SEWELL. Do you know what confidential taxpayer information is in the Treasury payment systems? Yes, or no?

Ms. OLSON. Yes, at the very least.

Ms. SEWELL. So, Ms. Olson, I am very concerned that this DOGE and unelected folks have access to this payment information. As the previous national taxpayer advocate, do you share my concerns? And what do you think I should say to my constituents who are really afraid that their taxpayer information, their confidential private information is being exposed?

Now I do know that the managing director did say that there were—there may have been like 50 or so researchers, but they had contracts that specifically required them to keep that confidential private information confidential and private.

So, can you talk to us a little bit about that concern? And then I want to ask you, how do we address this with no budget, with no budget for the IRS to actually do what it is supposed to do? I think everyone on this panel has said a couple of things: first, that the IRS needs to be reformed; and secondly, that the IRS has an outdated technological technology system and we have to update it.

All of those things take cost, and I would like to know your concerns and how you would address them.

Ms. OLSON. Well, I am very concerned about anyone accessing confidential taxpayer information. I am a confidentiality hawk in that regard. And I think that if the law is followed, then the inappropriate people will not get access to that. There are criminal sanctions for improper inspection and disclosure. The issue is how do you detect that? And that is really something that not only is for GAO and the Inspector General to look at, but also Congress to make sure that——

Ms. SEWELL. I think the Inspector General—I think all of them have been summarily dismissed.

Ms. OLSON. Pardon?

Ms. SEWELL. I think the Inspector Generals have been summarily dismissed.

Ms. OLSON. Right, but that is their function to look at fraud, waste, and abuse.

I also think that there should be notification procedures, you know, where someone's information has been accessed improperly, and that would give someone the right, an individual, or any taxpayer, the right to sue in a private cause of action, either the Federal Government employee or an independent contractor or any person is what the law says. The problem is getting that disclosure, and that is what is serious right now. We don't know.

Ms. SEWELL. I am running out of time. I think what you are saying is we need more transparency in government and accountability in government. I think all of us agree that the IRS can do it more efficiently and more effectively, but I just want this committee to know we cannot do it when funds are frozen, and we are not getting access to the IRS to actually complete any of these tools.

I, like the chairman, do agree that certain populations I feel are targeted for audits. They are low-hanging fruit. They are people who literally don't make more than $50,000 a year. Using the Earned Income Tax Credit, they are able to decrease their liability, and that is fair. But why are they four times more likely to be audited than some complicated tax return?

Having said that, I look forward to working on this committee to address the concerns that have been laid out by all of our witnesses on the panel.

Thank you for your indulgence.

Mrs. FISCHBACH. Thank you very much.

And pursuant to committee practice, we will now move to 2-to-1 questioning, and I recognize Chairman Smith.

Chairman SMITH. Thank you, Madam Chair Fischbach. That is a great, great thing to say.

The Congressional Budget Office has a track record of wildly missing the mark when it comes to projecting economic and fiscal outcomes. In 2022, Democrats gave the IRS an $80 billion windfall that CBO initially projected would bring in $200 billion in revenue. Not surprisingly, the CBO has been proven wrong again on this point. The IRS has missed CBO's initial revenue projection from enhanced IRS resources by 56 percent, which adds up to billions of dollars.

Mr. Dublois, I was in the back office watching your testimony, and you were speaking my language because you are dead-on with the failures of Joint Tax and CBO because they work hand-in-glove when it comes to tax policy. They have proven to be wrong. Whether it is the Tax Cut and Jobs Act of 2017, or whether it was the Inflation Reduction Act, they were off by hundreds of billions and, in some cases, trillions of dollars in their scores. And if we as lawmakers have to make decisions based on CBO and Joint Tax's analysis, you bet it had better be right, and it hasn't been.

So, Mr. Dublois, as you know, part of today's hearing is focusing on the return on investment from the Inflation Reduction Act. Based on your previous research related to CBO projections and government funding, why do you think CBO has been so incorrect on their projections?

Mr. DUBLOIS. Well, thank you for the question, Chairman Smith.

I think you are exactly right. Specifically, regarding their accuracy on the Inflation Reduction Act and the enhanced enforcement efforts, I think it is pretty clear CBO dramatically overstated the efficiency of the IRS. It is readily apparent when considering the estimated ROI they had for the enhanced enforcement effort returns compared to the actual ROI, which is off by a factor of sixfold, just for fiscal year 2024. The actual ROI is less than one, meaning for every $1 in revenue gained through the enhanced enforcement efforts, the IRS has already spent more than $1 to gain that.

But consider today—and I know you have spoken to this in the past—under the CBO's broken model, if Congress were to rescind this slush fund to the IRS, they would assume that the deficit would increase. In reality, I think it is pretty clear that an $80 billion fund to the IRS isn't all that helpful towards deficit reduction, and the early results seem to suggest that.

I would add more broadly, as I mentioned in my testimony, I think CBO does contain an implicit bias of underestimating the costs of increasing the size of government and overstating the costs associated with tax relief. This is due to a number of factors, from incorrect assumptions about welfare enrollment, the pace of economic recoveries, organic revenue growth that is generated when you give substantial tax cuts to the middle class. And I think these errors reflect this implicit bias that requires on CBO's part some serious self-reflection in order to make sure we don't make the same mistakes again in the future.

Chairman SMITH. Thank you.

Mr. Sepp, first off, welcome back to the best committee in Congress.

Mr. SEPP. I agree.

Chairman SMITH. Thank you. This is why you are invited back. We appreciate you being here to share your expertise as it relates to the modernization efforts at the IRS.

We have read your organization's report which gave the IRS a D grade for modernization. Can you share with the committee more about the IRS's history of modernization efforts? And what is the biggest factor that led to giving the agency a D in their modernization efforts?

Mr. SEPP. Glad to do so.

The history of IRS modernization really dates back to the 1950s. There was an interesting headline in Time Magazine in 1962 that the IRS is developing a computerized system of taxpayer records that will frighten the living daylights out of taxpayers. Since then we have had various modernization programs under acronyms like ERP, TISM, TAS, TSR, all kinds of different modernization systems that have ballooned in costs dramatically, sometimes doubling in cost and falling behind.

We are witnessing that now with the replacement of the individual master file. Back in 2009, the IRS had projected that this project would take until 2028 to complete. What is the date now? It is still 2028. Did the infusion of funding from IRA have any impact on that? Were they falling behind and it is allowing them just barely to keep up? We don't really know that the because the metrics aren't adequate. That is one thing that went into the D grade in our report, and we brought copies of it along by my colleague, Debbie Jennings, who contributed very well to this testimony along with Demian Brady, but there are other elements in the overall grade of D.

The IRS actually did better in simplifying notices, letters, and forms, a B grade. I think that reflects some of what Nina had said, TIGTA is praising some of these modernization efforts. But in others, like I just said, progress and scanning technologies, customer service technologies, they are still not making the grade. We have got to help them do better.

Chairman SMITH. Thank you.

Any American who has spent one minute interacting with the IRS knows the agency desperately needs to be modernized. But the main goal behind modernization ought to be improving the taxpayer experience, not just giving an agency with a horrible track record of betraying the trust of taxpayers billions of more dollars in additional funds to hire more people and increase audits.

Mr. Ladwa, in your opinion as an expert in tax administration with nearly two decades of experience in modernizing tax agencies across the world, what can the IRS do to modernize its operations? And where does the IRS rank compared to other tax agencies when it comes to utilizing new technologies, such as artificial intelligence and machine learning?

Mr. LADWA. Thank you, Chairman. I also would like to be invited back.

I think we touched upon it in terms of if I first start with taxpayer experience, and I think in order to get the best taxpayer experience, I think we need transparency, and real-time transparency, not waiting to see once I have submitted a tax return what the amount I owe or am due is.

In order to do that, we have to start with modernizing the databases that hold these types of customer records, the taxpayer records. We call them customers in the U.K.

How does the IRS rank in terms of AI and modernization? In general, I think I have seen from working with different countries that the first real sort of journey that people go on is actually recognizing that they need to modernize. Some countries don't even recognize that they need to modernize. I am aware that there are

sort of AI prototypes and things going on, but I think in parallel to deploying tactical solutions on top of old architectures, I think there needs to be a real review, and my colleague next to me said the same thing, in terms of really holding how we move away from the old cobalt-based systems into newer technologies, as well as deploying AI capabilities that can help increase tax revenue.

Chairman SMITH. Thank you, Mr. Chair.

Chairman SCHWEIKERT. Thank you.

Mrs. Fischbach.

Mrs. FISCHBACH. Thank you very much.

And, Mr. Dublois, Chairman Smith kind of got at it and was mentioning some of the CBO's overestimating and some of the biases. And, you know, I was just wondering if maybe you could expand on some of those—getting at more of those biases? And what are some of the other biases that you think CBO has demonstrated, how do you think they shape those incorrect projections and recognizing them, I guess? So just looking maybe to drill down a little bit more on what we were having the discussion with Chairman Smith.

Mr. DUBLOIS. Sure. Happy to, Congresswoman. So a couple things. I think if you look over the last 15 years to some of the most substantial pieces of legislation that had been placed before Congress, whether it is 2009 stimulus bill, the Affordable Care Act, the Inflation Reduction Act, we see an error rate that is alarming because it means that Congress is not being equipped with the information that they need to make accurate decisions at the time they are voting on legislation, because the actual costs associated with that legislation differs so substantially from the fiscal reality that occurs.

And as I alluded to in my testimony, what is most concerning to me, is that those errors frequently tend to be on the side of a fiscal mistake that underestimates the cost of new or increased government programs and overestimates the costs associated with tax relief. We have seen it time and time again with legislation after legislation.

Now, if I were the CBO, I would be thinking, How can we adjust some of our assumptions about things like the IRS is our ally? How can we not make the same mistake that we did about welfare benefits when we looked at the post-2009 recession economic recovery, and it came out to be record slow? What can we do to make sure we don't make those mistakes again?

I would hope those conversations are happening at the CBO's level. But I am concerned that they are not. And I am concerned that even the baseline itself that Congress uses from—that CBO uses to inform Congress is itself containing flaws that will continue to lead Congress down a road towards making inaccurate decisions because it is based on inaccurate information.

Mrs. FISCHBACH. And maybe without going into it too much——

Mr. DUBLOIS. Sure.

Mrs. FISCHBACH [continuing]. Do you think that Congress needs to take action to make some of those things happen that you are——

Mr. DUBLOIS. Yeah, I think—two things, first, I would like scores with somewhat of a grain of salt, number one. Number two, I think Congress should seriously look at amending requirements about how the baseline is constructed, and also, think about viewing it differently. I mean, I have briefly alluded my testimony to whether we look at a current law current or policy baseline. This shouldn't be controversial, it should be bipartisan. When the Bush tax cuts were up for expiration in the early 2010s, it was the Obama administration who was advocating for a current policy baseline.

I think considering the current policy baseline in light of conversations around reconciliation is the right way to go, and yet, CBO is continuing to use a current law baseline. So I think we need to have those conversations, and Congress should play a very important role in that.

Ms. FISCHBACH. Thank you very much.

And, Mr. Sepp, Chairman Smith did kind of get at modernization a little more broadly. And I wanted to ask you, you know, a little bit about the direct file return. And, you know, the Inflation Reduction Act contained $15 million for them to study the feasibility and cost of establishing the direct file program. Yet, the Biden administration overstepped its authority and created the pilot program which cost the IRS around $129 million without congressional approval.

You know, do you agree that Congress did not authorize the establishment of the direct file program in the IRA?

Mr. SEPP. Yeah, I would agree with that.

Mrs. FISCHBACH. And the IRS had previously indicated that they are considering expanding the program. Given the over-$900 per filer they spent in 2024, do you think this would provide a good return on investment for taxpayers?

Mr. SEPP. No, because there are other imperatives that the IRS could be using these resources for. Let's pick a number. It is between $114 million, which is what the IRS set aside first year of direct file, and $250 million to run the system a year. That is the high-end projection. Let's take a middle one at 200 million a year for a direct file going forward. Over a 10-year period of time, $2 billion.

Now, the service has said that it needs an additional $3 billion for modernization outside of what was given in IRA. Shift it out of direct file, and you are two-thirds of the way there in meeting that. Or take a look at low-income tax clinics and the Voluntary Income Tax Assistance Program, the Elderly Tax Counseling Program combined, that is about $80 million a year. You could more than double the funding for those organizations which serve moderate- and low-income taxpayers rather than direct file. I mean, those are choices Congress should be considering right now.

Mrs. FISCHBACH. Thank you very much. And thank you all for being here. And I yield back.

Chairman SCHWEIKERT. Thank you, Mrs. Fischbach.

Ms. Chu.

Ms. CHU. Ms. Olson, thank you for your 18 years of service as our country's national taxpayer advocate. You know the system inside out. And one of your accomplishments as taxpayer advocate

was working with the IRS to adopt the Taxpayer Bill of Rights to more clearly articulate taxpayers' rights to the public and the IRS.

And one of those 10 rights is the right to confidentiality in which it says: Taxpayers have the right to expect that any information they provide to the IRS will not be disclosed unless authorized by the taxpayer or by law. Taxpayers have the right to expect the IRS to investigate and take appropriate action against its employees, return preparers, and others who wrongfully use or disclose taxpayer return information.

Well, taxpayers entrust the IRS with their most sensitive information, and Congress has gone to great lengths to ensure that it be kept safe and treated with respect. In fact, you asked us to imagine what would happen to that trust and to voluntary compliance if taxpayers' confidential information is inspected or disclosed by actors outside of the you—IRS.

And yet, we have Elon Musk, so-called Department of Government Efficiency, which has gained access to the Treasury's Bureau of Fiscal Service, the sensitive payment system responsible for paying out more than $6 trillion in benefits, tax refunds, Treasury bonds, and other payments each year. And what that means is that unvetted, unaccountable billionaires and their staff could access People's Social Security numbers, bank information, and tax returns, which are protected under Section 6103 of the Tax Code.

Can you specify the types of confidential taxpayer information that is in the payment system that is endangered through this action? And also, can you imagine for us what the consequences are to the voluntary system of taxpayer compliance with this action?

Ms. OLSON. Well, the very, very basic information that is available is the taxpayer's name, the taxpayer's identity, the amount—their address, their Social Security number, the amount of the refund, the type of tax that the refund relates to, the type of—the year, if BFS is levying—is issuing a levy or doing an offset, you have all of that information, what the total debt is, et cetera.

This is very personal information and can be very damaging to taxpayers. The fact that there is debt that you have is something that is closely guarded, unless the IRS has decided to file a notice of federal tax lien, and that is a very considered opinion, you know, a considered decision.

Ms. CHU. And I want you to imagine what would happen to taxpayer compliance.

Ms. OLSON. Well, I personally believe that confidentiality is core why taxpayers agree to send in and self-assess. Let me repeat, self-assess their tax liabilities on the 1040, or whatever income tax return they are using. And if they believe that that information is widely disseminated throughout other Federal agencies or State agencies or local agencies, then this will actually be a bar to people. It will chill people reporting information.

Ms. CHU. Ms. Olson, the Trump administration sent an email to almost all Federal employees, including IRS employees about a so-called deferred resignation. But in reality, this was an attempt to pressure and corner civil servants into quitting.

What impact will that have on taxpayers who rely on the IRS? And will these coerced job cuts and firings even save the taxpayers money?

Ms. OLSON. Well, I am concerned about the IRS workforce and my former employees. And I think what I said in my testimony that in order to do true modernization, you have to retain the people who have institutional knowledge while you are bringing on more people. And trying to just willy nilly disappear people or get them to retire means that you will very likely get the most talented people leaving because they can find their places in the private sector.

So what you have done is a brain drain from the IRS which will mean that modernization will not occur with that knowledge. Outside contractor cannot bring that internal knowledge of tax administration and the tax system, no matter how talented they are.

Ms. CHU. And will it save us money?

Ms. OLSON. I doubt it, in the long run.

Ms. CHU. Thank you. I yield back.

Chairman SCHWEIKERT. Ms. Van Duyne.

Ms. VAN DUYNE. Ms. Olson, do you have any evidence that confidential taxpayer data has actually been illegally accessed or illegally disclosed?

Ms. OLSON. As GAO has said, we have not seen that. That is part of the problem there is no transparency——

Ms. VAN DUYNE. So we have absolutely seen no evidence that that has happened, even though we heard it today? Except for the fact that we actually had existing IRS policies that allowed security measures to fail that prevented an employee from un-authorizing access in leaking the tax returns of Donald Trump, and approximately 76 other individuals way before we ever even saw Elon Musk take an interest in this. We do know that that happened.

Ms. OLSON. You know what, I know that IRS employees are trained from day one about——

Ms. VAN DUYNE. But we do know——

Ms. OLSON [continuing]. Confidentiality and information.

Ms. VAN DUYNE. I am going to take my time back, Ms. Olson, thank you very much. Ms. Olson, thank you very much.

But in stark contrast, you know, Elon Musk's approach to this is about transparency. It is about open systems. And we say, "transparency in government," it doesn't mean that were allowing rogue employees to weaponize confidential records. It actually means creating systems where access is properly monitored, security logged, and justified with clear oversight.

The IRS scandal demonstrates what happens when unaccountable bureaucrats control private citizen data with very little transparency or consequences. Musk's vision by contrast—and he has been very clear about this, as is President Trump's vision—it represents a future where government efficiency is achieved through technological safeguards, open auditing mechanisms, and a commitment to individual privacy.

So as much as we have heard all of these things about an unelected member of our community having access, we have seen what has happened when unelected bureaucrats have access, and we have seen thousands of information on taxpayers, I would argue, on Republican or highly conservative members of our society have been leaked. That is a fact, that has happened.

Ms. OLSON. May I respond?

Ms. VAN DUYNE. I actually have a statement I would like to make, but if you want to respond in writing later on, I would appreciate that.

But I do want to get back to the point of this entire hearing, which I would hope that both sides would want to do that. In conversations with north Texans, I have repeatedly heard complaints regarding the IRS' poor system delays. Their poor customer service and lack of responsiveness in transparency. Ironically, we continue to hear claims that the IRS just needs more funding to improve. But the fact is that when the government agency was given a significantly larger budget, it doubled its employee count. Customer service actually declined. But harassment of law-abiding American taxpayers increased.

And rather than focusing on improving the core functions of the IRS, the previous administration spent their time and our money creating misguided and expensive pet projects like the new direct file scheme. In its 2024 annual report to Congress, the National Taxpayer Advocate found that it took the IRS almost two years to resolve identity theft cases and issue refunds to victims.

The advocate noted that, quote: These delays impacted nearly half a million taxpayers and were even worse than the delays seen in fiscal year 2023. The delays were deemed unconscionable by the taxpayer advocate, and I could not agree more.

In addition to egregious delays in the process that ERTC claims, delays in the processing of regular tax returns have hurt people across our country, especially small businesses and their most basic operations of the IRS. It must be modernized to better serve and protect small businesses. I think that is exactly where you see the focus of this administration.

Mr. Sepp, would you agree that IRS should focus on congressionally mandated functions before working on questionable initiatives, like the direct file program?

Mr. SEPP. Absolutely it should. There are many priorities that should be in the front of the line here, and touching on this cybersecurity question, which we haven't really explored in detail, GAO has warned that the IRS lacks an oversight structure to protect taxpayer data from cyber as well as internal threats since 2018.

And so how do we approach that comprehensively? I think it is a first-things-first kind of operation. We have to look at individual master file, business master file, cybersecurity, and devote the resources there.

Ms. VAN DUYNE. Thank you very much.

And, Mr. Dublois, as is mentioned, CBO failed to accurately project the amount of revenue that IRA funding would bring into the IRS, suggesting that perhaps the funding was not properly used on enhanced enforcement efforts in this instance.

What can be done to improve the IRS' return on investment? And it is really enhanced enforcement efforts, or is it something else?

Mr. DUBLOIS. Thank you, Congresswoman, for the question. I would say doubling down on the enforcement efforts would be a mistake. That is what caused the mess, so to speak. And I think evaluating the fundamental assumption that these enforcement efforts are a good idea is something that we need to do. It is not just

bad fiscal estimates and a poor ROI, it is the reality that these collection efforts are going to hit middle-class Americans.

So collectively, I think Congress needs to reevaluate this $80 billion venture, realize it was a mistake that shouldn't be repeated, but also relieve the IRS of that funding, and engage in better activities in the first place.

Ms. VAN DUYNE. Thank you very much. I yield back.

Chairman SCHWEIKERT. Ms. Malliotakis.

Ms. MALLIOTAKIS. Thank you, Mr. Chairman. I want to use my time to highlight a real critical problem that has been facing my constituents, and that is the issue of stolen IRS checks. This has cost my constituents alone millions of dollars. And in 2022, there was $4.7 billion that was purposed for IRS business system modernization.

The IRS' need for information technology modernization is critical with the potential to reallocate IRA funds from enforcement to IT improvements, the key priority of the newly established Department of Government Efficiency.

The IRS plays a critical role in ensuring taxpayers receive their hard-earned refunds securely and efficiently. However, outdated IT infrastructure and delivery systems have left many vulnerable to fraud and stolen tax reimbursement checks.

In my district alone, 377 cases of stolen checks totaling $5 million—$5,399,808 to be exact. Nationally, it has been reported that the IRS—that for IRS checks alone, approximately, 40,000 checks have been stolen in 2024, up from just 100 in 2022.

So, obviously, we are going backwards, despite the funding that was put in place for IT modernization. The numbers are getting worse. The value stolen has been approximately $1 billion as well as the hardship and stress that the intended recipients had to ensure as they seek to get their checks.

Modernizing these systems is no longer optional. It is necessary to protect taxpayers, enhance efficiency, and reduce fraud. And we know the fraudsters are always ahead of the game. Right, they are two steps ahead.

By investing in secured digital payment options, real-time tracking, and enhanced verification measures the IRS can better safeguard taxpayer funds and restore trust in the system. It is time for meaningful upgrades to ensure the agency meets the demands of the 21st century and prevents financial harm to American taxpayers.

I was pleased to learn that the Bureau of the Fiscal Service recently launched a pilot program to leverage existing technology and services offered by the U.S. Postal Service to track the transmittal of checks. And I also recently introduced the Recovery of Stolen Checks Act with my colleagues Congresswoman Terri Sewell and Congressman David Kustoff. It is bipartisan legislation. It is common sense. And it would allow taxpayers who have had tax refunds stolen in the mail to receive a replacement check, via direct deposit, which believe it or not has been incredibly difficult to get the IRS to move people to direct deposit so they don't become victims again. And my legislation will fix that.

So the IRS' failure to modernize and adapt has led to a significant rise in stolen checks and billions and dollars in fraud. But de-

spite these ongoing issues, the agency still lacks the ability to offer taxpayers that direct deposit option when their checks are stolen.

And so I will start with, I guess, Mr. Ladwa, but I am happy to anyone who wants to chime in. Based on your experience working with these tax agencies from around the world, can you speak to the impact that modernizing will have on preventing fraud and abuse? And if you have any particular example of an effort that has led to secured tax refunds.

Mr. LADWA. Thank you, Congresswoman. So I think it is an interesting—listening to, you know, the inherent problem we have this fraud here, especially when it comes to checks.

So, first thing I will say with my experience is that around the world I have seen that tax agencies are phasing out checks more and more often to move to digital-based solutions, right, which essentially can speed up the refund prices in a matter of, like, sort of minutes or seconds with real-time sort of the digital payments that happen or requests for refunds.

Technologies exist, which allow us using things like machine learning to categorize taxpayers, high-risk taxpayers based upon previous behaviors, for example. So we know that if someone is requesting a refund, what is the sort of profile based upon prior submissions, based upon prior behavioral patterns. Have we sent them an enforcement letter before, or some type of debt collection letter? Should we be having a human being audit this person before a refund can be sent? So that is the first thing I will say.

In regards to specific references, I can get back to your staff in regards to——

Ms. MALLIOTAKIS. Mr. Sepp, I saw you nodding your head. Do you have anything you would like to add there.

Ms. OLSON. If I might add something?

Ms. MALLIOTAKIS. I would like for both of you to comment if time allows. Just a minute.

Mr. SEPP. Let me just add, there is a parallel experience going on right now in development of farm bill reauthorization. Food stamp fraud is a real problem.

Ms. MALLIOTAKIS. Also——

Mr. SEPP. And there are electronic payment solutions being discussed there. So you probably have some great synergy with members who are crafting that bill.

The other thing I would like to point out, Mr. Ladwa's experience and that of many other private sector individuals can and should be harnessed through something like the IRS Oversight Board that was created in the 1998 bill. It was tailor-made to bring private sector expertise to problems like these.

Chairman SCHWEIKERT. Ms. Olson, just within seconds.

Ms. OLSON. Yes, I was just going to say for decades I have recommended that Treasury creates a debit card similar to what you have in Social Security where people don't have bank accounts, they are unbanked, but they get their Social Security payments direct deposited on a debit card has been negotiated by the U.S. Government. And that is another solution to avoid some of these lost checks.

Chairman SCHWEIKERT. Thank you. Good. Thank you.

Ms. DelBene.

Ms. DELBENE. Thank you, Mr. Chairman. And I want to thank all our witnesses for being with us here today.

At the direction of President Trump, Elon Musk and the DOGE, they have gained access to Americans' most sensitive, personal data. President Trump and Elon Musk have clearly no respect for the rule of law. We have seen the IG fired, employees fired for disagreeing.

In fact, I would like to insert this article into the record titled: The U.S. Treasury Claimed DOGE Technologist Didn't Have Right Access—when he actually did.

Mr. Chairman.

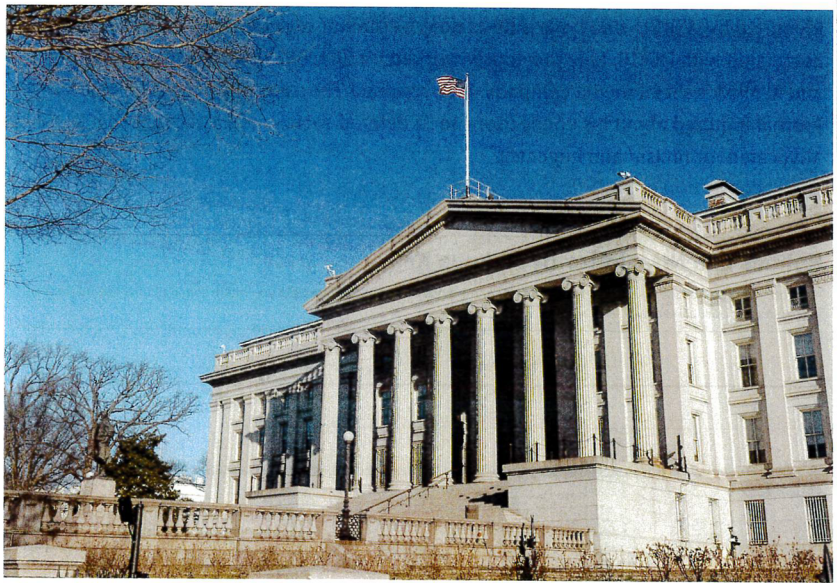
Chairman SCHWEIKERT. Without objection.

[The information follows:]

VITTORIA ELLIOTT LEAH FEIGEN TIM MARCHMAN POLITICS FEB 6, 2025 6:55 PM

The US Treasury Claimed DOGE Technologist Didn't Have 'Write Access' When He Actually Did

Sources tell WIRED that the ability of DOGE's Marko Elez to alter code controlling trillions in federal spending was rescinded days after US Treasury and White House officials said it didn't exist.



PHOTOGRAPH: RICHARD SHARROCKS/GETTY IMAGES

SAVE

US Treasury Department and White House officials have repeatedly denied that technologists associated with Elon Musk's so-called Department of Government Efficiency (DOGE) had the ability to rewrite the code of the payment system through which the vast majority of federal spending flows. WIRED reporting shows, however, that at the time these statements were made, a DOGE operative did in fact have write access. Not only that, but sources tell WIRED that at least one note was added to Treasury records indicating that he no longer had write access before senior IT staff stated it was actually rescinded.

Marko Elez, a 25-year-old DOGE technologist, was recently installed at the Treasury Department as a special government employee. One of a number of young men identified by WIRED who have little to no government experience but are currently associated with DOGE, Elez previously worked for SpaceX, Musk's space company, and X, Musk's social media company. Elez resigned Thursday after The Wall Street Journal inquired about his connections to "a deleted social-media account that advocated for racism and eugenics."

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As WIRED has reported, Elez was granted privileges including the ability to not just read but write code on two of the most sensitive systems in the US government: the Payment Automation Manager (PAM) and Secure Payment System (SPS) at the Bureau of the Fiscal Service (BFS), an agency that according to Treasury records paid out $5.45 trillion in fiscal year 2024. Reporting from Talking Points Memo confirmed that Treasury employees were concerned that Elez had already made "extensive changes" to code within the Treasury system. The payments processed by BFS include federal tax returns, Social Security benefits, Supplemental Security Income benefits, and veteran's pay.

Over the last week, the nuts and bolts of DOGE's access to the Treasury has been at the center of an escalating crisis.

On January 31, David Lebryk, the most senior career civil servant in the Treasury, announced he would retire; he had been placed on administrative leave after refusing to give Musk's DOGE team access to the federal payment system. The next morning, sources tell WIRED, Elez was granted read and write access to PAM and SPS.

On February 3, Politico reported that Treasury Secretary Scott Bessent told Republican lawmakers in the House Financial Services Committee that Musk and DOGE didn't have control over key Treasury systems. The same day, The New York Times reported that Karoline Leavitt, the White House press secretary, said that DOGE's access was "read-only."

Got a Tip?

Are you a current or former employee at the Treasury or Bureau of the Fiscal Service? Or other government tech worker? We'd like to hear from you. Using a nonwork phone or computer, contact the reporters securely on Signal at velliott88.18, dmehro.89, leahfeiger.86, and timmarchman.01.

The significance of this is that the ability to alter the code on these systems would in theory give a DOGE technologist—and, by extension, Musk, President Donald Trump, or other actors—the capability to, among other things, illegally cut off Congressionally authorized payments to specific individuals or entities. (CNN reported on Thursday that Musk associates had demanded that Treasury pause authorized payments to USAID, precipitating Lebryk's resignation.)

On February 4, WIRED reported that Elez did, in fact, have admin access to PAM and SPS. Talking Points Memo reported later that day that Elez had "made extensive changes to the code base for these critical payment systems." In a letter that same day that did not mention Musk or DOGE, Treasury official Jonathan Blum wrote to Senator Ron Wyden of Oregon, "Currently, Treasury staff members working with Tom Krause, a Treasury employee, will have read-only to the coded data of the Fiscal Service's payment systems." (Krause is the top DOGE operative at Treasury and CEO of Cloud Software Group.) The letter did not say what kind of access the staff members actually had.
Sources tell WIRED that by afternoon of the next day, February 5, Elez's access had been changed to "read-only" from both read and code-writing privileges.

That same day, a federal judge granted an order to temporarily restrict DOGE staffers from accessing and changing Treasury payment system information, following a lawsuit alleging the Treasury Department provided "Elon Musk or other individuals associated with DOGE" with access to the payment systems, and that this access violated federal privacy laws. The order specifically provided a carve-out for two individuals: Krause and Elez. At a court hearing later that day, Department of Justice lawyer Bradley Humphreys asserted that the order said their access would be "read-only."

"It's a distinction without a difference," a source told WIRED. Referring specifically to the PAM, through which $4.7 trillion flowed in fiscal year 2024, they said Elez should not have had "access to this almost $5 trillion payment flow, even if it's 'read-only.' None of this should be happening."

The Treasury Department did not immediately respond to a request for comment. Elez did not immediately respond to a request for comment. The White House and Musk did not immediately respond to requests for comment.

"People will be held accountable for the crimes they're committing in this coup attempt," Wyden tells WIRED. "I'm not letting up on my investigation of what these Musk hatchet men are up to."

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Ms. DELBENE. Thank you.

Elon Musk has called for the impeachment of the judge who blocked DOGE's access to Treasury's database and has called for the President to defy judicial court orders. This is unprecedented, it is dangerous, and it is illegal. Five former Treasury Secretaries wrote about the dangers of providing unfettered access to our Nation's payment systems to political actors, like Elon Musk and his team.

Ms. Olson, thank you for all of your service. I wondered if you could talk about what events during the Nixon administration led to the major reform of what is now Section 6103, and what are the parallels between the events of nearly 50 years ago and those being taken by the Trump administration today? Your mic.

Ms. OLSON. Before I do, I would like to correct the record that Craig Littlejohn was not an IRS employee. He was in fact an IRS contractor. And he is serving time in jail for his unlawful leaking of individual taxpayer return and return information. So it was not the IRS employees who leaked that.

Regarding 1970s, what happened was that prior to 1976 and the Tax Reform Act of 1976, the President controlled the decision-making as far as who had access to return and return information. So the Department of Agriculture asked for all return information and returns on all American farmers. And that triggered Congress to be very concerned. What were you doing with this information? Why were you getting this information?

At the same time, there was concern about the White House using return information, both to target enemies, but also, to inquire and interfere with audits of allies of the White House. So that politicization of return information led Congress to flip so that whereas before 1976, the President and the executive branch controlled who had access to that information. 6103 says very clearly that return information is confidential—returns and return information is confidential, and it is not to be shared except by statute, namely, where Congress describes where and now it is going to be shared and subject to what limitation.

Ms. DELBENE. Thank you. Can you speak to the importance of Treasury maintaining the disbursement of congressionally unauthorized payments and the risks of breaching a fundamental trust and suspending those funds?

Ms. OLSON. Well, I just think this is very personal information. And if we are asking people to come in and give us their financial information so we don't have to spend billions of dollars seeking it and tracking people down, then it is very important that they know that that information is held closely to the government's chest and not shared willy-nilly around agencies. Only for specific purposes that Congress has authorized.

Ms. DELBENE. And, finally, how did the actions of the DOGE, the Department of Government Efficiency and Elon Musk threaten the fundamental rights of taxpayers? And how does that impact the efficiency of our tax system?

Ms. OLSON. Well, see that is very hard to answer because we don't know what they are doing. So we don't if what they are doing is actually pursuant to some—at a illegally authorized exception, or it is not. And that is where we have to have greater transparency

on this. And I think the question marks are creating uncertainty and concern among taxpayers about how their information is being used and who is getting it. And that will erode trust in the tax system.

Ms. DELBENE. And in the absence of an Inspector General to provide accountability, who is going to provide that?

Ms. OLSON. I don't know. If you find out your information has been improperly accessed, you have access to the courts to be able to sue. And if it is by a third party, it is subject to punitive damages.

Ms. DELBENE. And that is after the effect?

Ms. OLSON. That is after the effect. And for the taxpayers who Craig Littlejohn unconscionably exposed their information, that is small comfort.

Ms. DELBENE. So, if we want transparency, one should have an unbiased Inspector General. Two, Congress needs to have a knowledge of what is going on. And then you ask to be approved.

Ms. OLSON. That is the Inspector General's task to attack fraud, waste, and abuse. And in the tax agency, they particularly look at violations of 6103. It is their job to investigate that.

Ms. DELBENE. It is unfortunate that there is not bipartisan consensus on that. Thank you so much. I yield back, Mr. Chairman.

Ms. MALLIOTAKIS [presiding]. Thank you. And the chair recognizes Mr. Yakym from Indiana.

Mr. YAKYM. Thank you, Madam Chair. And thank you to our witnesses for being here today.

Ms. Olson, Mr. Littlejohn was an IRS contractor that stole the tax returns for thousands of Americans, including President Trump. He pled guilty to, do you know how many counts of unauthorized disclosure of tax return?

Ms. OLSON. I don't know. I understand maybe 70-some odd.

Mr. YAKYM. One count. One count he pled guilty on.

And we prosecute, by the way, for serial killers. We don't prosecute them just on one count. We go after everything. But on this one, we went after truly ultimately one count.

There are 5,000 IRS contractors today that have access to confidential taxpayer data.

Ms. Olson, do you know if the IRS has closed all of the vulnerabilities that allowed Mr. Littlejohn to steal this information?

Ms. OLSON. I don't know that. I do know in preparing for this hearing that I found an Inspector General report that reported this summer that the IRS had not retrieved laptops, et cetera, from contractors or limited their access, and I am very concerned about that.

Mr. YAKYM. In short, the answer is no. The IRS has not closed the vulnerabilities that allowed Mr. Littlejohn——

Ms. OLSON. Well, I can't answer that question because I don't know what vulnerabilities there were that Littlejohn accessed.

Mr. YAKYM. I am giving you the answer. The answer is no.

So the largest wholesale theft of confidential taxpayer information—we had just one charge. How many years is he doing in prison? Do we know the answer to that?

Ms. OLSON. Under 724—I forget the statute. But under the statute, you can only get up to 5 years in prison. And it doesn't matter how many returns you have accessed. So that is something Congress should look at.

Mr. YAKYM. I completely I agree.

Ms. OLSON. Then maybe make that statute per return or per access.

Mr. YAKYM. That is absolutely something that we should look at. The Biden administration prosecutors argue that just the one count covered Mr. Littlejohns multitude of thefts. And he leaked confidential tax and returns to two news outlets. Do you know, are those news outlets authorized to view confidential tax information on those thousands of Americans?

Ms. OLSON. No, they are not.

Mr. YAKYM. All right. So as far as we know, do the outlets still have ongoing access to the thousands of confidential tax returns that were stolen earlier?

Ms. OLSON. I don't know that.

Mr. YAKYM. Thanks. So my colleagues are talking about the sanctity of tax returns while whistling past the graveyard of the largest theft of tax returns in history by Mr. Littlejohn.

He stole thousands of confidential tax returns, including President Trump's tax returns, from our fellow Americans, but he has been labeled as a quote, unquote, "public hero" by left-wing groups because of whose tax returns he actually stole and leaked.

Ms. Olson, in your testimony, you know that the IRS' progress in improving its level of service since the passage of the Inflation Reduction Act. The taxpayer advocate found that during the 2024 filing season, the IRS achieved an 88-percent level of service with an average answer speed of three minutes. Does that mean that 88 percent of all taxpayer calls to the IRS were answered in three minutes?

Ms. OLSON. No, this is part of the problem with that measure. What that measure does is it measures how many calls that were routed by the phone tree system to a live assister were answered. What it doesn't mean is how many calls overall actually were routed to a live assister out of all the calls. And that is where you get to 32 percent. Only 32 percent of the calls were routed to a live assister.

Mr. YAKYM. Indeed, because this level of service only counts for 10 million calls out of the nearly 40 million it received. It does not include taxpayers calling with other questions——

Ms. OLSON. Right.

Mr. YAKYM [continuing]. Like tax law questions, compliance issues, identify-theft issues, collection matters, nor does it count the calls routed, as you said, to an automated to a live assistant.

So when you tally all that up, we are talking about only 32 percent. So, when Janet Yellen, President Biden's Treasury Secretary, promised, quote: "The vast majority of callers will be connected to live assisters." That was not true necessarily, was it?

Ms. OLSON. Well, not when you count all the calls. That is correct.

Mr. YAKYM. So when something up, by quoting the taxpayer advocate one more time, the Biden IRS, quote: Add allocated re-

sources to hit ambitious but arbitrary goals that mean less than meets the eye, and consequently, have required the IRS to neglect calls to other telephone lines and work streams like paper correspondence.

The pomp and pageantry surrounding the Inflation Reduction Act's improvements to the IRS customer service is, I think, of a bit if a mirage. It is like looking at Sunday's Super Bowl result and saying, "Well, yeah, you know but Patrick Mahomes, he threw for 257 yards, I think, a bit of a mirage." It is like looking at Sunday's Superbowl result and saying, "Well, yeah, you know, but Patrick Mahomes, he threw for 257 yards, but Jalen Hurts only threw for 221."

So sometimes the underlying stats don't only always tell the real and actual story of the game. And with that Mr. Chairman, I yield back.

Chairman SCHWEIKERT. I was wondering how long it was going to be before someone did a Super Bowl reference.

Mr. Miller.

Mr. MILLER of Ohio. Thank you, Mr. Chairman. And thank you to our witnesses for their time and testimony today. We are here to discuss the importance of ensuring taxpayer dollars yield a real return when invested in IRS modernization efforts.

The need for a modernized IRS is clear and urgent as we have heard today. Taxpayers deserve an agency that keeps up with the times, operates efficiently, and acts as a responsible fiduciary of the American people's money, which is, I believe, what the IRS was intended to do.

Modernization isn't just about convenience, it is about safeguarding taxpayer information and delivering a better customer service experience to the American people. They are entitled to this.

We know that deploying new, efficient, and secure digital tools could save the Federal Government billions of dollars. Unfortunately, the IRS has struggled to deliver these intended outcomes and rather than investing in new and more secured technologies, which is somewhat puzzling to me, and we will get into it—the agency continues to utilize decades-old systems, which only make sensitive taxpayer more vulnerable.

Mr. Sepp, by now, we are all well aware of the legacy system of the IRS. Not only does the IRS continue to utilize hundreds of old and obsolete systems, including fax machines to store and analyze and transfer sensitive taxpayer information. But the IRS also fails even to attempt to improve these systems. And let's be real. It looks like I just graduated from high school 2 days ago. I haven't even seen a fax machine out in the wild. I mean, anyone here that is working in technology or innovation in business and technology, or even for the public, you know, government to operate off for the American people, I don't even know what a fax machine looks like. Excuse me. It is confounding to me. And I understand that to a certain extent, you may say it is more secure because of a phone line. But I am not buying it anymore. It is 1960s technology. I was born in 1988. We need to do better.

Going back, Mr. Sepp, can you speak to the risk associated with continuing to use or failing to maintain or update these legacy IT

systems, especially considering the sensitive and private taxpayer information that is stored on them?

Mr. SEPP. There is a huge risk. It is not only a 6103 risk with disclosure being in play, but accidental data breaches that could be massive. I mean, how many other agencies have one billion, billion individuals on their master file? I mean, that would rival Social Security, if not exceed it.

And again, GAO has said since 2018 those systems are vulnerable. If we don't devote the resources to that kind of security, and we continue to worry about fax machines and keeping them up, we are headed for a major disaster.

And I would just point out, we still don't have a clear idea of the milestones that the IRS intends to make with modernization, and whether they're keeping them.

Paperless processing initiative is one of them. By this year, the Service is supposed to have all, all paper tax forms digitized. I don't know. Maybe someone on the panel knows had they met the 100 percent goal yet?

Mr. MILLER of Ohio. We know the answer to that one.

Mr. SEPP. You do?

Mr. MILLER of Ohio. Well, I would speculate. So I shouldn't say we know the answer. But I would speculate that we know the answer to that. And throughout all these conversations, I would think to truly believe the IRS would do something to meet somewhere in the middle amicably between a fax machine and where we are today in 2025, which I think is pretty reasonable that there is some other system that could be put in place that would be a lot more safe, secure, and protective of the American people's sensitive information as we are talking about here today.

And you know what? This is where I see a need for an outside individual to look at something like the IRS to make sure it is running more efficient and responsible for the American people, as we still have fax machines that are still in an agency, which is 1960s technology, which confounds me up and down.

You know what? I'm glad for Mr. Musk, and I am glad that he is doing what he is doing with the federal government to clean this nonsense up, and to make it more secure and more safe for the American people.

Mr. Ladwa, I am going do my best to squeeze this one in. If not, we will try. I will just go right to the question.

Can you provide us a real-world example of tax agency utilizing AI and how this technology can help improve operations and efficiency?

Mr. LADWA. Sure, Congressman. So I am bound by some privacy agreements for my customers. But I can certainly get back to you and your staff in terms of references and maybe even contacts to said tax agency. But let me answer your question on how they are doing it.

So we talked a lot about AI. AI is lots of different things, not just a chat box. So one of the use cases we have is embedded machine learning. So embedded AI, which doesn't essentially leave to go outside of a sort of consolidated system, which is owned by the government, for example. And we are using things like predictions of taxpayer behavior, so we can be more empathetic to the taxpayers who

can't pay, and a lot stricter with higher enforcement for the taxpayers who basically are not willing to pay or are trying to do some unfortunate activity. And we have got examples of that. As I said in my statement, five percent returns on investment.

Mr. MILLER of Ohio. Thank you, Mr. Ladwa.

Chairman SCHWEIKERT. The gentleman from New York.

Mr. SUOZZI. Mr. Chairman, I first want to register my objection to the idea of two Republicans to every one Democrat, considering we have the same number of people when we started this hearing. I know it is in your power and purview to do that, but I find it offensive.

Let me just first start by saying, you know, we really got to work together to try and solve the problems that we have here instead of fighting with each other. So, I want to just try and get some basic questions answered.

There is a thing called the tax gap. How much money is owed to the IRS, and how much is collected by the IRS? And the IRS, in 2022, projected that there is $696 billion that was owed that was not paid.

I wanted to ask each of the witnesses: Do you agree that there is a tax gap? And do you agree it is as big as $696 billion?

Mr. Dublois.

Mr. DUBLOIS. I think there is a tax gap. I am not sure it is that large. And I don't think that the methods employed during the Inflation Reduction Act were the appropriate measures.

Mr. SUOZZI. Okay. But I am just asking. Do you think there is a tax gap of—do you have any idea of the magnitude of it.

Mr. DUBLOIS. I don't, I don't.

Mr. SUOZZI. Is it hundreds of billions of dollars?

Mr. DUBLOIS. I don't have an idea.

Mr. SUOZZI. Is it hundreds of billions of dollars?

Mr. DUBLOIS. I don't have an idea of the magnitude.

Mr. SUOZZI. Okay. Mr. Sepp.

Mr. SEPP. Yes and no.

Mr. SUOZZI. Yes, you think there is a tax gap; you don't think it is $690 billion?

Mr. SEPP. Correct.

Mr. SUOZZI. How much do you think it is? Do you have any sense of that?

Mr. SEPP. Less than half that. When you account for currently noncollectible tax debts and estimates that cannot possibly account for things when the IRS——

Mr. SUOZZI. But $350 billion.

Mr. SEPP. Or less.

Mr. SUOZZI. Mr. Ladwa, do you have any sense of this?

Mr. LADWA. I would say, yes, there is a tax gap. It is probably inappropriate of me from being from the United Kingdom to comment on the U.S. tax gap.

Mr. SUOZZI. Okay. Ms. Kociolek.

Ms. KOCIOLEK. Yes, GAO has reported on the tax gap, and we can get back to you with the details on the specifics.

Mr. SUOZZI. Ms. Olson.

Ms. OLSON. Yes, there is a tax gap. I think there are whole portions of it that can be accurately estimated. I think the hardest

part is the unreported income. You don't know what you don't know.

Mr. SUOZZI. Do you think it is as high as $696 billion?

Ms. OLSON. It could be $400 billion.

Mr. SUOZZI. Okay. So, hundreds of billions of dollars.

Okay. So what's the best way for us to get that money? I need quick answers from people. What's the best way for us to collect that money?

Ms. OLSON. So it is a combination of doing audits and collection, but also taxpayer service. And if I may just talk about return on investment for a minute——

Mr. SUOZZI. No, no, no. I don't want to hear it. Ms. Kociolek, what is the best way for us to collect that money?

Ms. KOCIOLEK. I can get back to you on that. I think we do have——

Mr. SUOZZI. Mr. Ladwa, what is the best way for us to collect that money?

Mr. LADWA. Understand who is filing late, who is paying late, and why they are paying late.

Mr. SUOZZI. Mr. Sepp.

Mr. SEPP. Taxpayer service and modernization come first.

Mr. SUOZZI. And that includes the technology that Miller was referring to. We got this crazy outdated system.

Mr. SEPP. Yes.

Mr. SUOZZI. Mr. Dublois.

Mr. DUBLOIS. I would wholeheartedly agree with Mr. Sepp's answer on that, modernization and taxpayer services.

Mr. SUOZZI. Okay. People who come to work for the Federal Government, if you are a cabinet official, you have to go to these big hearings, a lot of people have to go through background checks, a lot of people have to go through security checks, if they get a security clearance. What kind of background checks or transparency into the background of Mr. Musk or the people that are working for him has been done? Do you know, Mr. Dublois.

Mr. DUBLOIS. I don't know the background checks. I know President Trump had an electoral mandate to create the——

Mr. SUOZZI. No, no, no, I understand that. He has an electoral manager to hire cabinet officials——

Mr. DUBLOIS. Sure.

Mr. SUOZZI [continuing]. But they have to go through hearings and things like—Mr. Sepp, do you know how these people are vetted?

Mr. SEPP. No.

Mr. SUOZZI. Mr. Ladwa, do you know how they are vetted?

Mr. LADWA. No.

Mr. SUOZZI. Ms. Kociolek, do you know how they are vetted?

Ms. KOCIOLEK. We have not looked at these specific individuals.

Mr. SUOZZI. Ms. Olson, do you know how they were vetted?

Ms. OLSON. No.

Mr. SUOZZI. What kind of access does Mr. Musk and his team have? What kind of changes have they been making to the computer programs? How many of those changes to computer programs are permanent? And how will that affect people going forward?

Mr. Dublois, what is he doing?
Mr. DUBLOIS. I don't know what he is doing——
Mr. SUOZZI. You don't know. Okay.
Mr. Sepp, do you know what he is doing?
Mr. SEPP. No.
Mr. SUOZZI. Mr. Ladwa, do you know what he is doing?
Mr. LADWA. It would inappropriate for me to comment.
Mr. SUOZZI. Ms. Kociolek, do you know what he is doing?
Ms. KOCIOLEK. We have not looked at that.
Mr. SUOZZI. Ms. Olson.
Ms. OLSON. No.

Mr. SUOZZI. Does anybody here know what they are doing? Does anybody here know what kind of keystrokes changes they are making and they are permanent? Does anybody know what their backgrounds are? Does anybody know what they are doing with the information that they have and how they are using it?

And I agree with my colleagues who noted before that Mr. Littlejohn, who disclosed this information as a criminal and deserves to be in jail, and I am happy that he has been prosecuted. And anybody who has violated 6103, that takes private data and shares it with other people should be prosecuted to the full extent of the law.

We in Congress have an obligation as an equal branch of government to monitor what is going on right now. We are all for finding cost efficiencies. I know Mr. Bean, for example, has the DOGE Committee. That is a great thing for us to look for efficiencies, to root out waste, fraud, and abuse. But there is a thing, a pesky thing called the United States Constitution, and it has the responsibilities of the United States Congress and the oversight and power of the purse. I yield back, Mr. Chairman. Thank you.

Chairman SCHWEIKERT. Mr. Bean.

Mr. BEAN. Thank you very much, Mr. Chairman. Good morning to you. And good morning, Ways and Means Committee. I know there are many members of the minority party that want to create a scandal out of President Trump's desire to know how many improper payments our government sends out each year. And as the co-chair of the House DOGE Caucus, I just want to take just one little tiny moment and set the record straight. Business as unusual is no longer acceptable. President Trump campaigned on changing Washington, and that is exactly what he is doing.

President Trump is head of the federal government, and Secretary Bessent is in charge of the Treasury Department. If President Trump and Secretary Bessent want to open the books on Treasury payment systems, that is their prerogative. And we encourage him to do so, subject to applicable legal rules.

After review and sign-off by career Treasury Department attorneys, Secretary Bessent gave read-only access to two Treasury department officials subject to safeguards that will prevent them from making changes to the payment system. Elon Musk himself does not have access to the system. Neither he nor DOGE have the power to cut off Social Security checks, Medicare benefits, or tax refunds.

To clear up other issues, Elon Musk is a federal employee, special government employee. And he currently holds a top-secret security clearance that was granted by President Biden in 2022.

The U.S. DOGE service is a dually created organization within the executive office of the President, and there is simply no evidence to suggest that Secretary Bessent or DOGE has compromised taxpayer privacy or broken any law.

If you are doing what is right, you welcome audits. You welcome the sunshine. You welcome to open the books, and you want the world to see what you are doing. But if not, if not, what do you do? You criticize the messenger. You criticize the auditor. So it doesn't make any sense to me why this is such an issue. The American taxpayer is dancing in the street and saying finally. Finally, somebody is auditing the books that had been hidden in the shadows far too long.

Ms. Kociolek, is there any evidence at all that confidential taxpayer data has been illegally accessed or illegally disclosed?

Ms. KOCIOLEK. We have not done any work to identify that that has occurred.

Mr. BEAN. In short, and no, there is no evidence, there is no evidence. So there is smoke, and there is accusations, but no evidence. So let's talk modernization.

Mr. Dublois, Mr. Sepp, Mr. Ladwa, the IRS has been given a D on the grade of modernization. Is the D the correct grade? Is that fair that they have been given a D?

Mr. DUBLOIS. In our report card, which Debbie Jennings and my colleague, Demian Brady, contributed to, we think it is a fair grade.

Mr. BEAN. It is a fair grade. But wait a minute. We are using technology in your testimony, Mr. Sepp. You said we are using technology from the sixties. From the sixties. Wouldn't a grade of F be more appropriate?

Mr. SEPP. That was the overall grade based on a B in form design, a C in other gadgets.

Mr. BEAN. So it is still a low grade, we agree, Mr. Ladwa. You see it the world over. You see foreign nations' IRS's. Is it just us, or is everybody stuck in the sixties? Or is it just the United States IRS tax collection?

Mr. LADWA. And there are other countries, but a lot of them have already started their modernization some time ago.

Mr. BEAN. Okay. Very good.

Mr. Dublois, why? Why is the IRS stuck in the decade of rotary phones and black and white televisions that were 3 feet wide.

Mr. DUBLOIS. Well, I think—it is a great question, Congressman—and I think that is the question that the folks over at DOGE and Mr. Musk want to answer, which is why they are rightly turning a microscope under this agency that comes with an electoral mandate from President Trump. There was a pullout this morning, I saw it coming in, that DOGE has a net approval rating well outside the margin of error. As a taxpayer, I am glad we are getting scrutiny on that.

Mr. BEAN. Amen.

Mr. DUBLOIS. And I would add that there have been a lot of comments about unelected individuals having access to informa-

tion. The entirety of the Internal Revenue Service is unelected. I welcome a microscope on that type of expenditure.

Mr. BEAN. Amen. And you like me, like any taxpayer is ready to do a dance in the street. Finally, finally, they are getting some accountability. But I just can't understand why the IRS is not going forward. It can't be money. We gave them $80 billion, and they doubled down on more fax machines in the same technology that has got us here.

So, Mr. Chairman, thank you for the hearing on modernization. Let's get to it. I yield back.

Chairman SCHWEIKERT. Mr. Moran.

Mr. MORAN. Thank you, Mr. Chairman. I want to thank all of you for taking the time today and be here and testify about the importance of making sure that the U.S. Government is working for her citizens and putting them first.

We have all heard about the negative effects of the $80 million that was given to the IRS through the Inflation Reduction Act, and what that negativity has done on Americans. But I want to focus on how this increased funding to the IRS exacerbated external as well as internal threats.

If you go back last year, at the end of last year, the U.S. Treasury Department experienced more than one cybersecurity breach by the Chinese Government and the sensitive U.S. financial information. In these breaches, Chinese hackers stole thousands of documents. We still don't know exactly the impact these breaches have had on our national security. But if it involves China, I think everybody in this panel would agree, it is not good. Not good at all.

The breach comes amid a number of cybersecurity breaches all over the country due to outdated cybersecurity infrastructure that has proven to be vulnerable to foreign operatives on a number of occasions. While these threats are growing, the IRS is spending more federal funding on targeting American taxpayers through enforcement than it is on improving cybersecurity and modernization to protect the American taxpayer. It is amazing to me.

The IRS directed $4.75 billion of the $80 billion it received from the IRA towards system modernization. That is puny. To put that in comparison, the agency spent $45.64 billion on increasing informant efforts against American taxpayers, mainly the middle class.

In August of 2024, the U.S. Treasury Inspector General for tax administration released a report stating that the IRS had made little to no progress on implementing safeguards for Americans making less than $400,000 a year, even though they continued to jack up their enforcement efforts against those very individuals. That puts Americans in the crosshair, and leaves China out of the crosshair, when they need to be in the crosshair.

I find this unfortunate and very ironic given the inability of the IRS simply to answer questions and respond to my constituents. I hear from them every day that they send an inquiry. My taxpayer sends back information, and the IRS will not respond timely and will not provide information.

Mr. Ladwa, could you explain the ways you have seen other modernized countries throughout the world ramp up cybersecurity efforts within their tax and revenue systems to thwart potential

threats, particularly from adversarial nations like China and Russia?

Mr. LADWA. Thank you, Congressman. What I will say without going into the details of cybersecurity is that these commercially available solutions in terms of infrastructure, in terms of application access and stuff, which essentially has and has taxpayer records and taxpayer information are battle-tested and are created specifically for cybersecurity attack by spending private sector companies spend like millions, hundreds of millions of pounds ensuring that we are preventative against these types of measures.

Mr. MORAN. Yeah, does anybody on the panel—if you do, raise your hand. Does anybody think we need to be spending more money of the money allocated to the IRS toward enforcement against American taxpayers, or should we be doing it more towards enforcement and protection against cybersecurity threats of China?

I think everybody on the panel would say we need to protect the American taxpayer, we need to put more into cybersecurity threats and protecting our American taxpayer data than we should about enforcing these mechanisms against the American taxpayers. Do you guys agree with that? Does anybody disagree with that?

Ms. Olson, do you disagree that we need to be doing more for cybersecurity efforts——

Ms. OLSON. I absolutely agree. And I wanted to make a point about the IRA funding. That right now, it is limited—it is in different budget categories. And so the IRS is limited with how much it can move from the enforcement category to modernization.

Mr. MORAN. So that means we should probably go back and prioritize where that money goes. Would you agree with that? And the priority should be first to protect the American taxpayer and their data from cybersecurity threats by Russia and China instead of going after them on these bogus enforcement actions. Would you agree with that?

Ms. OLSON. Well, I don't think they are bogus enforcement actions. But I think you need to protect them from cybersecurity checks.

Mr. MORAN. And that should be our number one priority on the use of the money and reallocated towards that. Would the rest of the panel agree on that? I see the heads bobbing up and down.

Mr. Sepp, considering our focus on modernization and innovation, what are some of the ways we may not have touched on yet to think that the IRS, that you think the IRS could do to make it more efficiently work for the American taxpayer?

Mr. SEPP. Certainly improving customer service measurements is important, as my colleague, Demian Brady, has pointed out. Also, the quality of the advice. You know, if you managed to get through to a live assister, there are 130 topics that are considered out of scope. If you ask a question, that is a problem. We also need to be looking at other states, not just other countries when it comes to improving and modernizing tax systems. A member of the Electronic Tax Administration Advisory Committee was from Missouri. He was at one of our panel presentations, describing how Missouri strove for and largely attained a 100 percent phone service level. And they were very good at it.

Mr. MORAN. Thank you for that. My time is up. I will end by saying this: Taxpayers, in my opinion, are the client, not the target. Mr. Chairman, I yield back.

Chairman SCHWEIKERT. Thank you. Mr. Doggett.

Mr. DOGGETT. Mr. Chairman, you know my respect for you and understanding of your interest in the topics that are here today. But I don't see how we can explore some of these topics and ignore what is going on with the rampage through our government that Mr. Musk and Mr. Trump are engaged in at present. These are not normal times.

My understanding was that Speaker Johnson committed to holding a hearing today before our committee on DOGES, as I call it, or DOGE unprecedented access to sensitive information. Where is the DOGE representative here today? I agree fully with the comments that our colleague just made from the—as head of the DOGE caucus he tells us about if you don't have anything to hide, let the sun shine in. Well, where is the sun shining in on DOGE today?

We have had our witnesses questioned by Republican members as to whether they know anything about whether sensitive information has been out there or whether any improper use has been made of this data. Of course they don't know. Because it has all been hidden from them and from the world.

What we do know is that DOGE really deserves the name dodge because it is dodging the law, dodging accountability, dodging this Congress. And a Federal judge has determined that there is irreparable harm from what they have been doing and has enjoined them from doing what they have been doing and from—has asked that they return the documents that they took.

But there is no one here today to explain there has been no accountability. We don't know how many people. We don't know whether they had any background clearance. We don't know what use they have made. Though there have been claims made today and prior to today that they were read-only, there is plenty of evidence that it went far beyond reading and has been used to cut off funds.

Mr. Musk has never been elected to anything, and yet through his minions, his musketeers, he has been afforded access to the most confidential information on every American citizen, information about Social Security, about healthcare, about bank accounts, about tax returns. Return information that is so sensitive that if you expose it improperly you can go to prison for 5 years.

The safeguards on this abusive use of this information are lacking. Now, there was reference to the Inspector General. Would that we had an Inspector General, but remember that as a part of insulating himself from any independent accountability, the watchdog over at the Treasury Department was fired by President Trump, along with 17 other inspectors who had the responsibility of safeguarding the public interest and looking for waste, fraud, and abuse.

The former career official, 35 years at the Treasury Department, a nonpartisan guardian of our privacy, he was pushed aside because he had the audacity to question this 25-year-old Musk minion coming in and going through the records of every American.

This is highly sensitive and confidential information. What we do know—and we don't know much about this 25-year-old, but we know that he recently boasted that, quote, "For the record, I was racist, before it was cool," and urge that we, quote, "normalize Indian hate, as he denigrated Indian Americans."

That is the kind of person that has been assigned the ability to look at the record of every single one of us, and it cannot be at all clear as to what misuse and abuse of those records may be made.

At the same time, within the last 48 hours, the Vice President sent up a trial balloon, and Mr. Elon Musk joined in. Perhaps they don't even need to follow the judge who said that there had been such harm caused by what they have already done.

Mr. Musk contends that anyone who disagrees with him is a, quote, corrupt judge. And so he put that brand on the judge who found irreparable harm. And Mr. Vance has suggested that maybe they don't need to follow court orders. Well, they do.

There was a vote in the last election for a change, and we should honor that as we did. We were never the election deniers. But defending the Constitution and the laws of the United States are vital, and respecting the independence of this body and of the courts is vital. And that is what is in question today. And what is not being addressed adequately in this hearing as the big dodge has taken place on DOGE. I yield back.

Chairman SCHWEIKERT. Thank you very much. The chair now recognizes the gentleman from the great State of California, Representative Thompson.

Mr. THOMPSON. Thank you, Mr. Chairman. I want to thank everyone on the panel today.

I waived on today's subcommittee. I am not on this subcommittee, but when I heard the topic, I was sure to waive on because at home, my phone is ringing off the hook in all of my district offices, in my Capital office. When I go home on the weekend, people stop me on the street, in the supermarket, and talk to me at events because they are very concerned about this chaos that we are seeing in Washington, D.C., especially as it pertains to this unprecedented access to our Nation's taxpayers' data. They are concerned. So, I assumed that that is what we were going to be talking about today and we have. Thank you to my Democratic colleagues for bringing this up, but this is something that deserves the oversight of this committee.

And I know that Ways and Means Republicans care deeply about taxpayer privacy, given that every one of them who are on the committee last year cosponsored and voted for our chairman's bill to increase the criminal penalties for unauthorized disclosure of data when our committee marked it up last May.

And let me be clear, I don't know how anybody could think that anyone on this side of the aisle is cheering the illegal activities of Mr. Little john. I think he is a criminal. He is where he belongs. He is in jail, and that is where he should stay.

But when we took that bill up, we had near-unanimous support for the bill. And the fact that this committee recognized that this crime is serious is evident by the fact in that bill we increased the fine from $5,000 to $250,000, and we increased the prison sentence up to 10 years rather than 5.

So, given how important this issue is to all of the members of this committee, and to our constituents, it only makes sense we carefully investigate the credible allegations that Mr. Musk and his DOGE folks violated Federal law by gaining access to taxpayer data. This unlawful disclosure of millions of Americans' most sensitive data is just flat wrong. It is so wrong, in fact, that a Federal judge has ordered those who are prohibited from accessing this data to immediately destroy all copies.

I would like to enter for the record a copy of that judge's opinion.

[The information follows:]

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

STATE OF NEW YORK; STATE OF ARIZONA, STATE OF CALIFORNIA, STATE OF COLORADO, STATE OF CONNECTICUT, STATE OF DELAWARE, STATE OF HAWAII, STATE OF ILLINOIS, STATE OF MAINE, STATE OF MARYLAND, COMMONWEALTH OF MASSACHUSETTS, STATE OF MINNESOTA, STATE OF NEVADA, STATE OF NEW JERSEY, STATE OF NORTH CAROLINA, STATE OF OREGON, STATE OF RHODE ISLAND, STATE OF VERMONT, and STATE OF WISCONSIN, Plaintiffs, -v- DONALD J. TRUMP, IN HIS OFFICIAL CAPACITY AS PRESIDENT OF THE UNITED STATES; U.S. DEPARTMENT OF THE TREASURY; and SCOTT BESSENT, IN HIS OFFICIAL CAPACITY AS SECRETARY OF U.S. DEPARTMENT OF THE TREASURY, Defendants.	25 Civ. 1144 (JAV) ORDER

PAUL A. ENGELMAYER, District Judge:

This Court, sitting in its Part I capacity, this evening received an application for a temporary restraining order filed by the Attorneys General of the 19 States identified as plaintiffs above. The States' lawsuit challenges a new policy by the United States Department of the Treasury, at the direction of the President and the Secretary of the Treasury, which, as alleged, expands access to the payment systems of the Bureau of Fiscal Services (BFS) to political appointees and "special government employees." The States contend that this policy, *inter alia*, violates the Administrative Procedure Act ("APA"), 5 U.S.C. §§ 551 *et seq*., in multiple respects; exceeds the statutory authority of the Department of the Treasury; violates the separation of

powers doctrine; and violates the Take Care Clause of the United States Constitution. The States seek declaratory and injunctive relief. Later this evening, upon the States' successful filing of their submissions, this matter was assigned on a permanent basis to the Hon. Jeannette A. Vargas, United States District Judge.

The Court has reviewed the affirmation of Colleen K. Faherty, dated February 7, 2025, in support of the States' motion for a temporary restraining order, the States' memorandum of law in support of that motion, the States' motion for a temporary restraining order, dated February 7, 2025, and the Complaint. The Court's firm assessment is that, for the reasons stated by the States, they will face irreparable harm in the absence of injunctive relief. *See Winter v. Nat. Res. Def. Council, Inc.*, 555 U.S. 7, 20 (2008). That is both because of the risk that the new policy presents of the disclosure of sensitive and confidential information and the heightened risk that the systems in question will be more vulnerable than before to hacking. The Court's further assessment is that, again for the reasons given by the States, the States have shown a likelihood of success on the merits of their claims, with the States' statutory claims presenting as particularly strong. The Court's further assessment is that the balance of the equities, for the reasons stated by the States, favors the entry of emergency relief.

The Court accordingly:

ORDERS that the defendants show cause before the Hon. Jeannette A. Vargas, at Courtroom 14C, United States Courthouse, 500 Pearl Street, New York, New York, at 2 p.m. on Friday, February 14, 2025, why an order should not be issued pursuant to Rule 65 of the Federal Rules of Civil Procedure preliminarily enjoining the defendants during the pendency of this action from granting to political appointees, special government employees, and any government employee detailed from an agency outside the Treasury Department access to Treasury

Department payment systems or any other data maintained by the Treasury Department containing personally identifiable information; and further

ORDERS that, sufficient reason having been shown therefor, pending the hearing of the States' application for a preliminary injunction, pursuant to Rule 65 of the Federal Rules of Civil Procedure, the defendants are (i) restrained from granting access to any Treasury Department payment record, payment systems, or any other data systems maintained by the Treasury Department containing personally identifiable information and/or confidential financial information of payees, other than to civil servants with a need for access to perform their job duties within the Bureau of Fiscal Services who have passed all background checks and security clearances and taken all information security training called for in federal statutes and Treasury Department regulations; (ii) restrained from granting access to all political appointees, special government employees, and government employees detailed from an agency outside the Treasury Department, to any Treasury Department payment record, payment systems, or any other data systems maintained by the Treasury Department containing personally identifiable information and/or confidential financial information of payees; and (iii) ordered to direct any person prohibited above from having access to such information, records and systems but who has had access to such information, records, and systems since January 20, 2025, to immediately destroy any and all copies of material downloaded from the Treasury Department's records and systems, if any; and further

ORDERS that any opposition submission by defendants be filed by 5 p.m. on Tuesday, February 11, 2025; and that any reply by the States be filed by 5 p.m. on Thursday, February 13, 2025; and further

ORDERS that personal service of a copy of this order and the States' above-described affidavit, memorandum of law, and Complaint, be filed upon the defendants or their counsel on or before February 8, 2025, by 12 noon; and that the States forthwith serve these materials by email on Government counsel Bradley Humphreys and Jeffrey Oestericher, whom the Court understands have independently been emailed the States' filings; and further

ORDERS that plaintiffs post security in the amount of $10,000 prior to Friday, February 14, 2025, at 2 p.m.

SO ORDERED.

Paul A. Engelmayer

PAUL A. ENGELMAYER
United States District Judge,
sitting in Part I

Dated: February 8, 2025
New York, New York

Mr. BEAN [presiding]. Without objection.

Mr. THOMPSON. So, it is troubling today to hear my Republican colleagues being so silent on this, obviously, serious issue that is before us and is troubling our constituents.

So, Ms. Olson, as a former United States taxpayer advocate, you were responsible for assisting millions of taxpayers. In your time at the IRS, was it ever imaginable that an outside billionaire would be given access to the sensitive information of millions of American taxpayers that you advocated on behalf of?

Ms. OLSON. I will have to say that Commissioner Rossotti was a billionaire, but he divested himself of his holdings that would create any conflict of interest.

Mr. THOMPSON. And he was the commissioner. He wasn't somebody brought in from the outside because they were a big campaign donator.

Ms. OLSON. Exactly. And under his statutory duties, it was his duty to administer the Internal Revenue laws of this country.

Mr. THOMPSON. And if you were the current taxpayer advocate, what message would you send to the IRS commissioner?

Ms. OLSON. Oh, I would be saying that he needs to be very careful about who is getting in and looking at this and that everything needs to be cleared through the statutes, that their access is under a congressionally mandated or required, you know, access, grant of access to the return information.

Mr. THOMPSON. Thank you.

I agree with my Republican colleagues that we need to be working with the IRS to bring them up to speed and bring them up into the time and make sure that they are working effectively and efficiently for our constituents. But isn't it true, Ms. Olson, that the IRS has been woefully underfunded for years in being able to address these needed upgrades?

Ms. OLSON. Yes.

Mr. BEAN. Ms. Olson, be quick in answering. Quick.

Ms. OLSON. Yes.

Mr. THOMPSON. Thank you. I yield back.

Mr. BEAN. Very good. Thank you very much.

Let's go to the great State of Illinois. Representatives Davis, you are recognized.

Mr. DAVIS. Thank you very much, Mr. Chairman. And I also want to thank all of the witnesses.

You know, I was surprised that this hearing was framed as highlighting the lack of return on investment on the critical funding given to the Internal Revenue Service. Frankly, the only way that statement is true is if acting president Musk gives his millionaire buddies who cheated on their taxes, back the $1 billion in revenue that the Biden IRS collected. And sadly, I have a concern that he may do just that.

President Trump allowed the biggest Federal data breach in history when he allowed Elon Musk and his hackers to steal Americans' extremely private financial and health information from the Treasury Department. We don't know if Mr. Musk will illegally stop one's Social Security tax on Medicare payments. We don't know if he'll sell our Social Security numbers or bank account in-

formation to the highest bidder, or delay government contract payments or grants to his competitors, the people he dislikes.

Ms. Olson, given statements made by this administration that it can decide unilaterally to stop funds to people or organizations that it does not think deserves certain funds, can you please talk about the power of the Internal Revenue Service to levy taxpayer accounts and to use the Treasury Offset Program? If this administration decided it didn't think certain Americans or entities deserved certain funds, could the IRS freeze funds from Americans' bank accounts?

I am asking whether it is legal or ethical to take Americans' money like this, but could the IRS or Treasury freeze funds from someone's bank account, or subject them to Treasury offset if it wanted to?

Typically, we learn about improper access of taxpayer data from the IRS policing itself. If the IRS ignores its responsibility to oversee fair tax policy administration, I believe the only way we will know that the Trump historic data breach of people's private financial or health information is when those individually affected people notice the harm.

So, Ms. Olson, could you speak about the importance of confidentiality at the IRS and Treasury, and why these orders and memos undermining that confidentiality are so, so dangerous to the American public?

Ms. OLSON. So in response to your question about could the IRS or Bureau of Fiscal Service retrieve funds from people's bank accounts, I would think that mechanically they would be able to. Is it legal? They would need to have a basis in law. They would need to do an assessment. They would need to identify an improper payment. And if the law allowed them to do it, then they could do that. And I think those legal authorities are limited and have due process protections.

I would also say that as our colleague from GAO has said, that internally, it is the agencies that decide what is a fraudulent payment or a legitimate payment, and they send that over to BFS. BFS then issues that payment. It has its own fraud detection by looking at the death master file or if someone is incarcerated or something like that, and whether that is an improper payment. But the agencies themselves are the ones that execute the improper payments.

The problem is if someone has access to all of that information and overrides all of those checks and balances that are built into the system, and that is what we don't know is, are those checks and balances being overridden or are they not? And that creates great uncertainty in the American populace.

Mr. DAVIS. Thank you very much.

And I yield back, Mr. Chairman.

Mr. BEAN. Thank you very much.

Let's go to the great Commonwealth of Virginia where Representative Beyer is standing by. Representative Beyer, you are recognized.

Mr. BEYER. Mr. Chairman, thank you for your enthusiasm.

I thank all of you very much for sitting in with us. And I want to make the point that I think everyone on the Ways and Means Committee strongly agrees with the need to modernize.

I would like to point out that in the 24 years of this millennia, 12 years led by Republican Presidents, 12 years by Democratic Presidents, it is not a good idea for us to blame this on one party or the other. I fact, I think our primary argument about putting the $80 billion in for IRS was to modernize, was to bring us to the 21st century.

I know SAP has some wonderful ideas about what to do. I don't think you are going to do that for free. I have been around politics for a long time and seen technology companies try to modernize things, sometimes successfully. Sometimes they get halfway through and walk away leaving the government with the debt. So, I know you would never do that, but we are going to have to spend money to make this modernization happen.

Ms. Olson, you noted in your testimony that section 6103 of the Internal Revenue Code provides taxpayers with the right to confidentiality once they file their returns with the IRS. And there are only a handful of circumstances in which it is lawful for government officials to disclose or even view a taxpayer's return or information found on a return.

With that in mind, I would like to ask you a hypothetical question. If an unqualified nonIRS political appointee were granted access to the Bureau of Fiscal Services payment system and they inspect confidential taxpayer information for political purposes not authorized by law, could that be a crime?

Ms. OLSON. If it is not authorized by law, it would be a crime, in my opinion.

Mr. BEYER. Could it also be a crime for this individual to share private taxpayer information gleaned from rummaging around the Fiscal Service's payment system with his boss an unelected, unconfirmed billionaire?

Ms. OLSON. It would be a crime to share it, to disclose it, yes, to people who do not have authorization to receive it.

Mr. BEYER. And, finally, what are the penalties for violating section 6103? And is there a statute of limitation?

Ms. OLSON. So under 7214, the penalties as we have discussed earlier, it can be a fine up to $10,000, and then also up to 5 years imprisonment, or both. And it is the normal statute of limitation for criminal offenses, 6 years; 3 years from the occurrence, and then in certain aggravated instances, 6 years.

Mr. BEYER. Thank you very much.

So, if I am understanding that correctly, this individual would be subject to criminal prosecution 6 years after the end of this current administration or 6 years after the offense?

Ms. OLSON. It could be if it involved fraud of some sort.

Mr. BEYER. Thank you.

Mr. Chairman, I am almost done.

But, Mr. Dublois, I was fascinated by your testimony, and I intend to send it to the Congressional Budget Office, because I would love to see the other side of the equation. I am not accusing you of cherry-picking data but just based if that is the only thing I

heard, I would be horrified. I would love to hear what the other side is and the defenses.

Once again, this is a nonpolitical organization. You may believe that they have a leftist bias, but I think I have been here 10 years and mostly my Republican friends use their data as often as we do to justify the things that they do.

Mr. DUBLOIS. Well, if I could respond to that, Congressman.

Mr. BEYER. Sure.

Mr. DUBLOIS. And I appreciate that, and I would welcome to hear CBO's response to that.

I think looking at the evidence over the last 15 years, it is concerning, and we are—I can shine a little bit of light on something that we are going to be releasing in the next week regarding a research paper matching OPM data for a wide number of government agencies, including CBO, with voter files that demonstrates throughout the bureaucracy an imbalanced Federal bureaucracy. It demonstrates that the civil servants, especially in higher ranking positions, aren't nonpartisan as is often thrown around. They do have a partisan affiliation that leans to the left side of the political spectrum. And I think when you see that reflected in scores that dramatically wind up being substantially wrong years afterwards and it tends to lean again and again on one side favoring one side of the side of growing government being underestimated, the side of providing tax relief being overestimated in terms of cost, that is a cause for concern. And I would hope the CBO would have some good answers as to why that might be the case.

Mr. BEYER. I think that would be—let me interrupt too——

Mr. DUBLOIS. Yeah.

Mr. BEYER [continuing]. If I may, just because we are running out of time, but that would be fascinating. I am looking forward to reading that. My very first response is what a huge difference in commitment to public service based on the party that you align with, your willingness to take a smaller salary in order to serve the public. And that may well be true.

With that, I yield back.

Mr. BEAN. Thank you very much.

Let's go to the Silver State, better known to the great State of Nevada. Representative Horsford, you are recognized.

Mr. HORSFORD. Thank you, Mr. Chairman, and to the ranking member, Ms. Sewell, for holding this hearing.

I really have to follow up on the last statements and the question from my colleague to the witness, because it actually goes to my biggest concern that we are not addressing today, which is a data breach, the largest data breach in U.S. history that is happening right now under this administration's watch, and there is absolutely nothing that the Republicans in the House are doing to protect the American people from a data breach.

And if the witness is saying that you have matched employees' information from OPM, Office of Personnel Management, with data files, voting files in order to determine their political affiliation, in order to reach certain conclusions about what? Their civil service? I am not asking you a question. You already explained your position, and I'll be looking forward to the report.

But this is the concern, Mr. Chairman. Why are we not addressing the major issue, which is the largest data breach in U.S. history that is impacting all of our constituents, not Democrats, not Republicans, not Independents, all Americans.

Instead of worrying about the harm a data leak on the Internal Revenue Service could mean for the American people and making that the center of this hearing, this administration has instead asked the IRS to deputize their employees to assist other agencies, including ICE, in their enforcement. All the while, my constituents, and yours too, Mr. Chairman, our constituents' taxpayer data is less safe, and we are not addressing that. Yet, under Internal Revenue Code 7803, it provides that taxpayers have the right to confidentiality. It was Chairman Smith who rightfully noted that it is this protection that should be afforded every citizen. This fundamental right has been reinforced time and again by several Congresses and administrations, including by the Taxpayer FIRST Act which I supported in 2019, and tightened protections for section 6103.

The American people trust our civil service to meet their needs, not the billionaire class, and I don't want to know people's political affiliation. When people call my office, I don't ask them what party they belong to. I ask them what they need, and how my office can help support them.

Ms. Olson, I would like to focus on your testimony. You note that the IRS holds information spanning from family and business relationships, financial dealings, employment, investments, and medical and educational information. I agree that the effectiveness of our tax system is dependent on taxpayers' trust that the information that they voluntarily provide to the IRS will be held confidential.

Can you explain what would happen to that system if there was widespread disclosure of this information?

Ms. OLSON. I think that people would stop disclosing information on their returns. They would also be calling you, you know, yelling about this, but I think it would really erode the voluntary compliance system that our tax administration is based on.

Mr. HORSFORD. And the fact that an unelected billionaire, the richest person in the world, and his hackers have now broken into the agencies and taken this information illegally puts who at risk?

Ms. OLSON. Well, I don't know what they are doing, but if someone is accessing IRS information, or tax return and return information without authorization under the statute, it is undermining that right to confidentiality, and that will chill taxpayers' willingness to participate in the tax system and voluntarily disclose their information.

Mr. HORSFORD. And this is the fundamental issue. At a time when we already have tax evasion occurring by the very wealthy, meanwhile my constituents to try and qualify for the Earned Income Tax Credit get audited at a higher rate, the disproportion affects working people, but yet, we are going to not protect their information. It is fundamentally wrong, and this should be the priority of this committee and every other committee until it is resolved. It is not authorized. It is illegal. Elon Musk and his hackers

have caused the largest data breach in U.S. history, and they need to be held accountable now.

I yield back.

Mr. BEAN. Thank you very much.

We are nearing the end of our committee. We have had a great day. It has been brought up three times, and that is the overwhelming support this committee is giving the Taxpayer Data Protection Act. It was overwhelmingly supported by this committee. We have talked about it several times. It is stuck in the Senate right now. So members are encouraged to reach out to their Senator and say let's get that Data Protection Act for the taxpayers.

Witnesses, you did a great job. Thank you so much. You will always have this day to say this was the day I went before Congress and testified. It is your own time. It is your own dime. We appreciate you very much.

Members are reminded that they have 2 weeks from today to submit written questions to be answered later in writing. Maybe you will have homework. Those questions and your answers will be made part of the formal hearing record.

With that, the subcommittee stands adjourned.

Have a great day.

[Whereupon, at 12:23 p.m., the subcommittee was adjourned.]

PUBLIC SUBMISSIONS FOR THE RECORD



WRITTEN STATEMENT

OF

THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

SUBMITTED FOR THE RECORD OF THE

FEBRUARY 11, 2025

HEARING OF

THE UNITED STATES HOUSE OF REPRESENTATIVES
COMMITTEE ON WAYS AND MEANS
SUBCOMMITTEE ON OVERSIGHT

ON

IRS RETURN ON INVESTMENT AND THE NEED FOR MODERNIZATION

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INTRODUCTION

The American Institute of CPAs (AICPA) appreciates the opportunity to provide written testimony to the Subcommittee on Oversight to address the need for the Internal Revenue Service (IRS) to continue to improve its modernization efforts. Although the IRS has made progress in enhancing taxpayer services[1] and modernizing processing operations,[2] the IRS must continue those efforts and update its antiquated technology infrastructure, employ tax professionals to address the lack of guidance on technical issues, and streamline the taxpayer's and tax professional's ability to communicate with the IRS in a timely and effective manner.

In the interest of good tax policy and effective tax administration,[3] the AICPA offers the following recommendations[4] regarding modernizing the IRS through enhanced technology infrastructure, improved IRS taxpayer service, and IRS governance and oversight. Collectively, these recommendations would improve the taxpayer experience and streamline the tax administration system into an organization that can be respected by all taxpaying Americans. Furthermore, any effort to modernize the IRS and its technology infrastructure should build on the foundation established by the Report of the National Commission on Restructuring the IRS ("Restructuring Commission"), especially considering the similarities between the condition of the IRS today and the circumstances that motivated the creation of the Restructuring Commission. [5]

AICPA PROPOSALS

1. Modernization & IRS Taxpayer Service

Congress and the Administration should determine the appropriate level of service desired and needed by taxpayers. Agreed-upon and transparent measures of success are necessary to improve both customer service and voluntary compliance. In recent years, the IRS has shown improvement in services offered to taxpayers. This improvement is a good step in the right direction and progress needs to continue. To continue its modernization efforts, we recommend redistributing the funding provided by the Inflation Reduction Act[6] to a more balanced approach.

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[1] In enacting the Inflation Reduction Act, Congress appropriated approximately $79.4 billion to the IRS. Pub. L. No. 117-169. The Fiscal Responsibility Act of 2023 rescinded about $1.4 billion of the $79.4 billion, and the Further Consolidated Appropriations Act of 2024 rescinded an additional $20.2 billion of the $79.4 billion. Pub. L. No. 118-5; Pub. L. No. 118-47. The Continuing Appropriations and Extensions Act of 2025 and the American Relief Act of 2025 prevents the IRS from spending an additional $20.2 billion of the $79.4 billion through March 14, 2025. Pub. L. No. 118-83; Pub. L. No. 118-158.

[2] GAO, 2024 Tax Filing: IRS Improved Live Service and Began to Modernize Some Operations, but Timeliness Issues Persist, January 30,202.5

[3] AICPA, Guiding principles of good tax policy: A framework for evaluating tax proposals, 2025.

[4] For additional information see AICPA letter, "Ensuring a Modern-Functioning IRS for the 21st Century," April 3, 2017. The recommendations offered are in collaboration with other professional organizations and former Service executives.

[5] IRS Restructuring and Reform Act of 1998, Pub. L. No. 105-206.

[6] In enacting the Inflation Reduction Act, Congress appropriated approximately $79.4 billion to the IRS. Pub. L. No. 117-169. The Fiscal Responsibility Act of 2023 rescinded about $1.4 billion of the $79.4 billion, and the Further Consolidated Appropriations Act of 2024 rescinded an additional $20.2 billion of the $79.4 billion. Pub. L. No. 118-5; Pub. L. No. 118-47. The Continuing Appropriations and Extensions Act of 2025 and the American Relief Act of 2025 prevents the IRS from spending an additional $20.2 billion of the $79.4 billion through March 14, 2025. Pub. L. No. 118-83; Pub. L. No. 118-158.

Additionally, the AICPA supports various proposals to improve the taxpayer experience and IRS functions. We applaud the committee's recent approval of H.R. 998, *the Internal Revenue Service Math and Taxpayer Help Act*, sponsored by Rep. Randy Feenstra (IA-4) and Rep. Brad Schneider (IL-10), and H.R. 1152, *the Electronic Filing and Payment Fairness Act*, sponsored by Rep. Darin LaHood (IL-16), Rep. Suzan DelBene (WA-1), Rep. Randy Feenstra (IA-4), Rep. Brad Schneider (IL-10), Rep. Brian Fitzpatrick (PA-1) and Rep. Jimmy Panetta (CA-19). Furthermore, the recently released discussion draft titled "the Taxpayer Assistance and Service Act" would also be a significant step towards improving IRS services and reducing tax administrative burdens on taxpayers and practitioners, including many critical tax provisions for which AICPA has previously advocated. For example, the legislation would require the IRS to scan and digitize tax returns and correspondence, to establish a dashboard informing taxpayers of backlogs and wait times, to extend the mailbox rule to electronic submissions, to improve "math error" notices, to establish a failure-to-pay penalty safe harbor for individuals, and to allow governors to request disaster declarations. All of these improvements would establish a firm foundation that would help simplify laborious tax filing processes, allow taxpayers to better meet their tax obligations, and develop a fair, transparent, and streamlined tax system focused on the taxpayer experience.

To instill trust in the tax administration system, we recommend taxpayer service goals based on the following two guiding principles:

- The IRS should only initiate contact with a taxpayer if the IRS is prepared to devote the resources necessary for a proper and timely resolution of the matter.

- Customer satisfaction must be a goal in every interaction the IRS has with taxpayers, including enforcement actions. Taxpayers expect quality service in all interactions with the IRS, including taxpayer assistance, filing tax returns, paying taxes, and examination and collection actions. [7]

Moreover, dedicated IRS practitioner services are also needed to meet the needs of taxpayers. Over fifty percent of taxpayers file their returns through a practitioner, regardless, practitioner services are not coordinated in a manner that enables practitioners to timely access critical information (e.g., their clients' account status or the availability of dispute resolution opportunities). Nor do the current teams or processes systematically solicit, gather, or evaluate practitioner feedback. Enhancing the relationship between the IRS and practitioners would benefit both the IRS and the millions of taxpayers served by the practitioner community.

Resources necessary. Congress should **determine the appropriate level of service and compliance** they want the IRS to provide and then **dedicate necessary resources for the agency to meet those goals**.

To enable the IRS to achieve the improvements required for a 21st century tax administration system, the IRS needs a modern technological infrastructure. Currently, the IRS has the two oldest information systems in the federal government making the information technology

[7] Verbatim quote of the two guiding principles, The National Commission of Restructuring the Internal Revenue Service, *A Vision for a New IRS, Report of the National Commission on Restructuring the Internal Revenue Service*, June 25, 1997, page 23.

functions one of the biggest constraints overall for the IRS.[8] Additionally, the IRS has approximately 60 case management systems that are not able to communicate or interact with each other, which often leaves IRS employees without all the necessary information to resolve a taxpayer's matter.[9] Without modern infrastructure, the IRS is unable to timely and efficiently meet the needs of taxpayers and practitioners. The IRS has initiated steps to develop a single, streamlined interface called Taxpayer 360 to resolve some of these issues, which would centralize taxpayer data and, therefore, allow IRS employees to more quickly access taxpayer information and resolve taxpayer matters. However, **the appropriate resources must be allocated for the IRS to implement this type of modernized and efficient system**.

Furthermore, appropriate hiring, adequate training, skillful management, and the necessary technological tools and enhancements are essential for the IRS to satisfy its obligations and responsibilities to taxpayers. The leaders of the IRS must have the experience and skills to motivate their workforce and lead them to the realization of the desired vision. Organizational alignment from Congress, the Commissioner, and through the ranks of the IRS, is necessary to delivering the promised goals.

Customer satisfaction. Measurement tools are required to achieve customer satisfaction goals, including fairness in enforcement. The IRS made significant progress in measuring taxpayers' opinions in the years following the issuance of the Restructuring Commission. Although the IRS has re-initiated customer satisfaction surveys, a recent report from the Treasury Inspector General for Tax Administration (TIGTA) found that the IRS could more effectively utilize customer satisfaction surveys to assess IRS performance and improve the taxpayer experience.[10] We recommend that **customer satisfaction surveys** continue as an appropriate success measure to gauge performance at all levels within the IRS. Furthermore, the surveys should be considered when formulating any appropriate corrective action(s) or undertaking modernization efforts or process improvements. Congress should utilize the survey results during the oversight and appropriations processes to ensure the agency is continually meeting the needs of taxpayers.

A service-focused approach, with taxpayer education and satisfaction in mind, will require the IRS to consider the needs of both tax practitioners and unrepresented taxpayers, and the varying methods, including technology, needed to interact with them.

IRS Dedicated Practitioner Services. When implementing dedicated practitioner services, the IRS should solicit practitioner feedback on a periodically scheduled basis, which will allow the IRS to rationalize and enhance the many current, disparate practitioner-impacting programs, processes, and tools. Moreover, by centralizing these programs and tools, IRS employees would have a **consolidated approach to timely resolving issues.** This coordination of and improved access to information would prevent unnecessary delays and inefficiencies (e.g., requiring practitioners to submit the same information multiple times to multiple IRS employees). Finally, to ensure success of the dedicated practitioner services, it is essential for these services to **approximate comparable private sector services** and allow practitioners to resolve account issues for their clients in a timely and efficient manner.

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[8] National Taxpayer Advocate, *Annual Report to Congress 2024*, 2024, Preface, page iii.
[9] *Id., Preface, page iv.*
[10] TIGTA, Ref. No. 2024-100-053, Customer Satisfaction Survey Results Are Not Used Effectively to Improve Taxpayer Services (Sept. 18, 2024).

The IRS should continue to advance the development of a robust and enhanced tax professional account (i.e., Tax Pro Account), with a centralized login system, as part of the IRS's **online portal with account access to *all* of their clients' information** (both individual and business accounts) where the practitioner has a valid power of attorney (POA) on file. This comprehensive and agile platform should also protect users' identities and their data, detect threats, and immediately respond to potential security breaches.

This advancement would provide significant benefits to our tax administration system. Tax practitioners would have greater visibility into their clients' filing and payment obligations and would be better equipped to assist and guide their clients on various tax matters. This greater visibility would thereby allow for quicker resolution of tax matters and allow the IRS to reallocate resources to higher priority tax issues.

Additionally, Tax Pro Account should permit the IRS to communicate directly to practitioners the information necessary to improve taxpayer awareness and allow **practitioner correspondence** with timely acknowledgement of receipt. Such communication and correspondence capabilities should extend to any tax matter prescribed by the POA and disclosure authorizations.

The IRS should also provide practitioners with a **robust practitioner priority hotline** (or hotlines) with higher-skilled employees. These employees should have the experience and training to understand and address more complex technical and procedural issues. This expertise would allow the IRS to focus its training on a particular technical area allowing designated employees to resemble its counterparts in the private sector. The IRS should also consider hiring experienced people, such as graduate students or retired practitioners seeking part-time or seasonal employment.

Finally, the IRS should assign **customer service representatives** (also known as a single point of contact) to each geographic area to address unusual or complex issues that practitioners were unable to resolve through the priority hotlines. We recommend allocating the number of representatives based on the number of practitioners in a specific geographic area.

2. IRS Governance & Oversight

As practitioners with vast experience working with the IRS, we have incorporated the lessons learned from the Restructuring Commission and outline below governance and oversight recommendations to shape the agency of the future that everyone desires.

Governance Objectives. Successful governance of the IRS will include strong leadership, accountability, and transparent policies working collectively towards needed change. In order to hold the IRS accountable, the agency's governance, management, and oversight structure must:[11]

[11] The National Commission of Restructuring the Internal Revenue Service, *A Vision for a New IRS, Report of the National Commission on Restructuring the Internal Revenue Service*, June 25, 1997, page 8.

- Develop and maintain a shared vision among all personnel and stakeholders with continuity;
- Set and maintain consistent priorities and strategic direction;
- Impose accountability on senior management;
- Develop appropriate and transparent measures of success;
- Ensure that the budget and technology support priorities and strategic direction; and
- Coordinate oversight and identify problems at an early stage.

Congressional Oversight. Congressional oversight is a critical process in ensuring executive branch compliance with laws, evaluating performance, and providing the transparency necessary to maintain the public's trust. We recommend **re-establishing the annual joint hearing review**[12] to focus on the following priorities: (1) strategic and business plans; (2) taxpayer service and compliance; (3) technology and modernization; and (4) filing season.

As once required by former section 8022(3)(C),[13] the Joint Committee on Taxation should provide a **bi-annual report on the overall state of the Federal tax system**. Prior to the repeal of former section 8022(3)(C), it stipulated that the report was *only required if the necessary resources are appropriated* to carry out the requirement. We believe that reinstating the requirement to furnish such a report would contribute to stability at the IRS and assist the agency in achieving its mission. Therefore, we urge Congress to revive former section 8022(3)(C) and former section 8021(f) and **appropriate the necessary funds for the report**.

IRS Oversight Board. The IRS Oversight Board was intended to provide experience, independence, and stability to assist the IRS in moving forward in a focused direction. However, the board received criticism for being "ineffective" and "missing in action" in achieving its stated mission,[14] and suspended operations due to an insufficient number of members to constitute a quorum.

We recommend that Congress require a Government Accountability Office (GAO) **review to determine whether this private sector board** is an essential component to providing the trust and continuity that will allow the IRS to become a respected, service-oriented organization. If the GAO determines that the IRS Oversight Board should renew operations, the GAO could provide recommendations to ensure the board has sufficient authority to: (1) hold the IRS accountable for successfully fulfilling its mission; (2) oversee the implementation of key recommendations from advisory groups; (3) ensure the IRS remains independent and non-partisan; and (4) confirm that the IRS focuses efforts and resources on long-term objectives aligned with providing effective and efficient tax administration, while enforcing tax laws with integrity and fairness.

Human Resources. Congress should enable and encourage the IRS to utilize the full range of available authorities to **hire and compensate qualified and experienced professionals** from

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[12] Pub. L. No. 105-206, sec. 4002, expanded IRC section 8022(3)(C) regarding reporting by the Joint Committee on Taxation. Pub. L. No. 108-311 modified IRC section 8022(3)(C) by removing the specifics required for the annual report and eliminating the joint review after 2004 (also see former IRC section 8021(f)). Pub. L. No. 115-141 then repealed IRC section 8022(3)(C) and IRC section 8021(f). A statutory change is needed to reinstate the required joint review.

[13] Unless otherwise indicated, hereinafter, all section references are to the Internal Revenue Code of 1986, as amended, or to the Treasury Regulations promulgated thereunder.

[14] Morningstar, Inc., *The IRS Has No Independent Oversight This Tax Season*, April 18, 2016.

the private sector, as needed, to improve the Service's ability to meet its mission. Qualified and experienced professionals are critical for an effective IRS, including efficiently processing returns, modernizing outdated and siloed databases, improving and automating IRS systems, and issuing essential guidance to clarify uncertain or unsettled tax issues. It is also crucial for the IRS to designate a senior-level executive dedicated to overseeing and collaborating with the practitioner community in creating and enhancing dedicated practitioner services (see discussion below).

CONCLUDING REMARKS

The AICPA appreciates this opportunity to submit a statement for the record. We look forward to working with the Subcommittee as you continue to improve the taxpayer experience with the IRS.

The AICPA is the world's largest member association representing the accounting profession, with more than 400,000 members in the United States and worldwide, and a history of serving the public interest since 1887. Our members advise clients on federal, state, and international tax matters and prepare income and other tax returns for millions of Americans. Our members provide services to individuals, not-for-profit organizations, small and medium-sized businesses, as well as America's largest businesses.

Arnold Ventures Statement for the Record
Ways and Means Oversight Subcommittee Hearing:
"IRS Return on Investment and the Need for Modernization"
February 11, 2025

The Honorable David Schweikert
Chairman, Oversight Subcommittee
Committee on Ways and Means
United States House of Representatives
Washington, DC 20515

The Honorable Terri Sewell
Ranking Member, Oversight Subcommittee
Committee on Ways and Means
United States House of Representatives
Washington, DC 20515

Dear Chairman Schweikert, Ranking Member Sewell, and Members of the Subcommittee:

Arnold Ventures appreciates the opportunity to submit this statement for the record in relation to the Subcommittee's February 11, 2025 hearing, "IRS Return on Investment and the Need for Modernization."

Arnold Ventures is a philanthropy dedicated to investing in evidence-based policy solutions that maximize opportunity and minimize injustice. Our work within the public finance sector aims to advance tax and budget policies that promote both fiscal sustainability for governments—especially at the federal level—and economic opportunity, mobility, and security for Americans.

We support research and policy development to help understand and address dysfunctional tax administration. One symptom of this dysfunction is the nation's persistently large tax gap, which is as high as $428 billion annually according to the Internal Revenue Service's estimation.[i]

To help the IRS address this longstanding issue and ensure that individuals and businesses receive the support they need from the agency to determine their legal tax obligations, Congress initiated tens of billions in new funding for the agency in the 2022 Inflation Reduction Act. These funds were intended to kickstart a once-in-a-generation modernization effort. Progress in deploying those resources, however, has been disappointingly slow. A September 30, 2024 report from the Treasury Inspector General for Tax Administration indicates that the IRS has spent just $6.9 billion of the $57.8 billion available to it, with $2 billion of that used to backfill ordinary operations rather than going to transformational investments.[ii]

Congress should work to ensure the IRS is focused on leveraging this modernization funding into high-impact projects which stand to significantly improve the tax administration environment. For example, one of the IRS's most pressing challenges is its antiquated IT infrastructure. Many of its

core systems rely on decades-old technology, making them increasingly difficult to maintain while contributing to bureaucratic delays. Upgrading to modern architecture could speed processing and allow the agency to better focus its audit activity.

Improving IRS customer service must also be a key focus of modernization.[iii] During recent filing seasons, taxpayers have faced significant hurdles in obtaining timely assistance, whether through telephone support, correspondence processing, or in-person interactions. Improved digital tools, expanded online self-service options, and better-trained personnel can alleviate these issues.

Modernization efforts must be paired with greater transparency and accountability; the IRS should not be given a blank check to spend tens of billions without results. Congress should ensure the agency sets clear, measurable goals and demonstrates real progress in updating its systems. Sufficient oversight—including regular hearings where the agency provides updates against their performance benchmarks—can help to ensure taxpayer dollars are used responsibly and efficiently.

Oversight from this Subcommittee is crucial to ensuring the IRS accelerates the deployment of IRA dollars and targets them to areas of highest impact. The agency must modernize its core functions to improve taxpayer services, increase efficiency, and uphold the integrity of our tax administration system through smarter, more efficient audits.[iv] This entails upgrading critical infrastructure, such as the Individual Master File and Business Master File. These necessary improvements may not generate flashy headlines, but they are essential to ensuring a fair and functional tax system.

At the end of the day, the IRS exists to serve the American people, not the other way around. By ensuring that IRS reform prioritizes core system upgrades, taxpayer service, and operational efficiency, Congress can build a tax administration system that is fairer, more responsive, and truly accountable to the American people.[v]

We at Arnold Ventures applaud the Subcommittee's efforts to hold the agency accountable for delivering meaningful improvements to taxpayers and look forward to partnering with the Subcommittee to ensure the agency stewards taxpayer dollars with the highest level of integrity.

Sincerely,

Andrew Moylan
Vice President of Public Finance
Arnold Ventures

Anna Tyger
Public Finance Manager
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[i] "The tax gap," Internal Revenue Service, last updated December 30, 2024.
[ii] "Quarterly Snapshot: The IRS's Inflation Reduction Act Spending Through June 30, 2024," Treasury Inspector General for Tax Administration, Report Number 2024-IE-R020, September 30, 2024.
[iii] For recommendations around improving customer service, see Bryan Hickman and Joe Bishop-Henchman, "Call to Action: Crafting a New Taxpayer Service Experience," Taxpayers For IRS Transformation, May 2024; and for more information see "Tax Chat! With the Center for Taxpayer Rights on Voluntary Tax Compliance," YouTube, uploaded by the Center for Taxpayer Rights, June 25, 2023.
[iv] For recommendations around modernizing IRS systems, see Bryan Hickman and Pete Sepp, "From Lag to Leap: A Roadmap for Successful IRS Modernization," Taxpayers For IRS Transformation, June 5, 2024; and for more information see "Tax Chat! Transforming Tax Administration – IRS IT Challenges," YouTube, uploaded by the Center for Taxpayer Rights, May 3, 2023.
[v] For recommendations around strengthening taxpayer rights, see Bryan Hickman and Pete Sepp, "Shaping a Future of Fairness: Proposals to Safeguard and Strengthen Taxpayer Rights," Taxpayers for IRS Transformation, June 2024; and for more information see "Tax Chat!: Transforming Tax Administration – IRS Independent Office of Appeals & the US Tax Court," YouTube, uploaded by the Center for Taxpayer Rights, November 26, 2023.

SMALL BUSINESS
FOR AMERICA'S FUTURE



STATEMENT FOR THE RECORD

Subcommittee Hearing on IRS Return on Investment and the Need for Modernization
By Anne Zimmerman, CPA Co-Chair, Small Business for America's Future, Owner Zimmerman & Co. CPAs, Cincinnati, OH

February 11, 2025

Chairman Schweikert, Ranking Member Chu, and members of the Subcommittee, thank you for the opportunity to submit testimony regarding the return on investment from IRS modernization funding and its impact on America's small businesses.

As a practicing CPA in Cincinnati, Ohio with 10 employees for over three decades and Co-Chair of Small Business for America's Future, a national coalition of small business owners and leaders advocating for policy solutions that promote an inclusive economy, I bring both practical experience serving small businesses and a broader perspective on tax administration. I respectfully disagree with the premise of this hearing that IRS modernization funding lacks return on investment. The evidence demonstrates the opposite.

Recent Results Demonstrate Clear Return on Investment

The IRS has recovered $4.7 billion in back taxes and proceeds from enforcement efforts in 2024 alone, according to the agency. This includes $1.3 billion from high-income taxpayers who had simply failed to pay their tax obligations. These results demonstrate that providing the IRS with proper resources generates significant returns for American taxpayers.

The agency's focused enforcement efforts on wealthy tax evaders have recovered $520 million from fewer than 1,000 millionaires and billionaires. This represents money that otherwise would have gone uncollected, shifting the burden away from taxpayers who are complying with their tax obligations, including small businesses.

Improved Service Benefits Small Businesses

As a CPA serving small businesses, I've witnessed firsthand the improvement in IRS service levels since it received increased funding to modernize under the Inflation Reduction Act. According to the IRS, the level of service on its main phone lines reached more than 88% during the 2024 filing season with taxpayers waiting, on average, around three minutes for help on the IRS main phone lines. This is down from 28 minutes in the 2022 filing. For small business owners who can't afford teams of tax lawyers, being able to get questions answered quickly makes a genuine difference to their bottom line.

I have experienced these improvements firsthand in my practice. Prior to the IRS modernization funding, attempting to reach the agency was often futile, resulting in prolonged resolution times and increased costs for our clients. Now, my team and I consistently connect with IRS agents and efficiently resolve client issues. For example, just last week, I resolved a payment misallocation issue in a single phone call that, before the funding increase, would have required multiple written correspondences and potentially a year or more to address. This enhanced efficiency not only reduced my client's professional service fees but also eliminated the prolonged anxiety and uncertainty that previously accompanied such tax matters.

The agency has also opened or reopened 54 Taxpayer Assistance Centers in Washington, Wisconsin, and Pennsylvania since November 2024. It is also expanding hours at nearly 250 locations during filing season. This increased accessibility is crucial for small business owners who often need in-person assistance with complex tax matters.

The small business community overwhelmingly recognizes the value of these improvements. A recent survey conducted by Small Business for America's Future found that 92% of small business owners support IRS modernization efforts. This remarkable level of support reflects a clear understanding among Main Street entrepreneurs that an efficient, well-resourced IRS is essential for creating a tax system that works for businesses of all sizes, not just those who can afford teams of tax lawyers and accountants

Technology Modernization is Critical

The IRS is still operating with some systems dating back to the 1960s including one of its systems that uses programming that was built around the same time as NASA"s Apollo missions. Small businesses need and deserve a tax administrator with modern technology. We can't expect efficient service or effective enforcement using systems older than most of our employees.

Leveling the Playing Field

Unlike large corporations with teams of tax professionals who can find and exploit every loophole, small businesses need straightforward answers and reliable service. The IRS is now using advanced analytics and artificial intelligence to examine potential noncompliance among the largest corporations and partnerships. As of December 2024, they had open audits of 76 of the largest partnerships, averaging over $10 billion in assets each.

The U.S. Treasury has directed that none of the enforcement funding would increase audit rates for small businesses or households making under $400,000 annually. This commitment ensures that enhanced enforcement capabilities focus on sophisticated tax evasion by large corporations and high-net-worth individuals, helping level the playing field for small businesses.

Cost of Cutting Modernization Funding

Rescinding modernization funding would cost more than it saves. The Congressional Budget Office estimates that an additional $20 billion cut in IRS funds would result in $66 billion in lost

revenue — a net loss of $46 billion to taxpayers. The Government Accountability Office found that every hour spent auditing the returns of the most affluent taxpayers finds $13,000 in unpaid taxes.

Recommendations

1. Maintain full funding for IRS modernization to ensure completion of critical technology upgrades
2. Continue emphasis on improving small business services and support
3. Preserve the commitment to not increase audit rates on small businesses
4. Support efforts to ensure wealthy individuals and large corporations pay their fair share

Conclusion

As a small business advocate and tax professional, I urge this committee to look at the clear evidence of return on investment from IRS modernization funding. This isn't just about numbers — it's about fundamental fairness in our tax system. Small businesses form the backbone of local economies, creating jobs and strengthening communities. We need a modern, efficient IRS that provides helpful, quality service to hardworking small business owners, while ensuring that wealthy individuals and large corporations — who prosper thanks to our strong workforce, public infrastructure, and stable markets — contribute their fair share to sustain and strengthen the very system that enables their success.

I would welcome the opportunity to provide additional perspective or answer any questions the Subcommittee may have.

Thank you for your consideration of this important issue.

Anne Zimmerman
Co Chair
Small Business For America's Future

Comments for the Record
The U.S. House of Representatives
The Committee on Ways and Means
The Subcommittee on Oversight
Hearing on IRS Return on Investment and the Need for Modernization
Tuesday, February 11, 2025, 10 A.M.

Michael Bindner
The Center for Fiscal Equity

Chairman Schweikert and Ranking Member Sewelll, thank you for the opportunity to provide comments to the Subcommittee as the new Congress begins. We believe that the best IRS is no IRS. The second attachment demonstrates who will collect which taxes when this occurs.

Please see the first attachment for the latest version of our tax reform proposals, beginning with how the proposed rates are synergistic. Note that we propose ending corporate income taxes and reporting of business income on personal income taxes. We replace these with consumer paid goods and services and employer paid subtraction value added taxes.

The income tax for individuals with wage, dividend and salary income under $100,000 would be eliminated. A surtax on employer paid subtraction value added taxes would be paid by employers, but filing of individual income tax would not occur until $500,000 of salary, interest paid and dividend income. Spousal income would not be included in this levy.

We propose ending the capital gains tax on short and long term income and full repeal of the inheritance (death) tax with an asset value added tax. There are two debates in tax policy: how we tax salaries and how we tax assets (returns, gains and inheritances). Shoving too much into the Personal Income Tax mainly benefits the wealthy because it subsidizes losses by allowing investors to not pay tax on higher salaries with malice aforethought. **TAX TRANSACTIONS, NOT PEOPLE!**

Ending the machinery of self-reporting of asset returns also puts an end to the Quixotic campaign to enact a wealth tax. To replace revenue loss due to the ending of the personal income tax (for all but the wealthiest workers and celebrities), enact a Goods and Services Tax. A GST is inescapable. Those escapees who are of most concern are not waiters or those who receive refundable tax subsidies. It is those who use tax loopholes and borrowing against their paper wealth to avoid paying taxes.

For example, if an unnamed billionaire or billionaires borrow against their wealth to go into space, creating such assets would be taxable under a GST or an asset VAT. When the Masters of the Universe on Wall Street borrow against their assets to avoid taxation, having to pay a consumption tax on their spending ends the tax advantage of gaming the system.

This also applies to inheritors. No "Death Tax" is necessary beyond marking the sale of inherited assets to market value (with sales to qualified ESOPs tax free). Those who inherit large cash fortunes will pay the GST when they spend the money or Asset VAT when they invest it. No special estate tax is required and no life insurance policy or retirement account inheritance rules will be of any use in tax avoidance.

Tax avoidance is a myth sold by insurance and investment brokers. In reality, explicit and implicit value added taxes are already in force. Individuals and firms that collect retail sales taxes receive a rebate for taxes paid in their federal income taxes. This is an intergovernmental VAT. Tax withheld by employers for the income and payroll taxes of their labor force is an implicit VAT. A goods and services tax simply makes these taxes visible.

Should the tax reform proposed here pass, there is no need for an IRS to exist, save to do data matching integrity. States and the Customs Service would collect credit invoice taxes, states would collect subtraction VAT, the SEC would collect the asset VAT and the Bureau of the Public Debt would collect income taxes or sell tax-prepayment bonds. See the second attachment for details on this.

Until tax reform occurs, IRS Statistics on Income tax tables should be adjusted for inflation to get a better idea of the distribution of income. Between $50,000 and $100,000, there should be five groups. Between $100,000 and $200,000, there should at least be four so that the border between the fourth and fifth quintiles can be more adequately expressed. Every tax wonk in the nation will appreciate this.

Thank you, again, for the opportunity to add our comments to the debate. Please contact us if we can be of any assistance or contribute direct testimony.

Attachment - Tax Reform, Center for Fiscal Equity, March 10, 2023

Synergy: The President's Budget for 2024 proposes a 25% minimum tax on high incomes. Because most high income households make their money on capital gains, rather than salaries, an asset value added tax replacing capital gains taxes (both long and short term) would be set to that rate. The top rate for a subtraction VAT surtax on high incomes (wages, dividends and interest paid) would be set to 25%, as would the top rate for income surtaxes paid by very high income earners. Surtaxes collected by businesses would begin for any individual payee receiving $75,000 from any source at a 6.25% rate and top out at 25% at all such income over $375,000. At $450,000, individuals would pay an additional 6.25% on the next $75,000 with brackets increasing until a top rate of 25% on income over $750,000. This structure assures that no one games the system by changing how income is earned to lower their tax burden.

Individual payroll taxes. A floor of $20,000 would be instituted for paying these taxes, with a ceiling of $75,000. This lower ceiling reduces the amount of benefits received in retirement for higher income individuals. The logic of the $20,000 floor reflects full time work at a $10 per hour minimum wage offered by the Republican caucus in response to proposals for a $15 wage. The majority needs to take the deal. Doing so in relation to a floor on contributions makes adopting the minimum wage germane in the Senate for purposes of Reconciliation. The rate would be set at 6.25%.

Employer payroll taxes. Unless taxes are diverted to a personal retirement account holding voting and preferred stock in the employer, the employer levy would be replaced by a goods and receipts tax of 6.25%. Every worker who meets a minimum hour threshold would be credited for having paid into the system, regardless of wage level. All employees would be credited on an equal dollar basis, rather than as a match to their individual payroll tax. The tax rate would be adjusted to assure adequacy of benefits for all program beneficiaries.

High income Surtaxes. As above, taxes would be collected on all individual income taxes from salaries, income and dividends, which exclude business taxes filed separately, starting at $400,00 per year. This tax will fund net interest on the debt (which will no longer be rolled over into new borrowing), redemption of the Social Security Trust Fund, strategic, sea and non-continental U.S. military deployments, veterans' health benefits as the result of battlefield injuries, including mental health and addiction and eventual debt reduction.

Asset Value-Added Tax (A-VAT). A replacement for capital gains taxes and the estate tax. It will apply to asset sales, exercised options, inherited and gifted assets and the profits from short sales. Tax payments for option exercises, IPOs, inherited, gifted and donated assets will be marked to market, with prior tax payments for that asset eliminated so that the seller gets no benefit from them. In this perspective, it is the owner's increase in value that is taxed. As with any sale of liquid or real assets, sales to a qualified broad-based Employee Stock Ownership Plan will be tax free. These taxes will fund the same spending items as high income and subtraction VAT surtaxes. There will be no requirement to hold assets for a year to use this rate. This also implies that this tax will be levied on all eligible transactions.

The 3.8% ACA-SM tax will be repealed as a separate tax, with health care funding coming through a subtraction value added tax levied on all employment and other gross profit. The 25% rate is meant to be a permanent compromise, as above. Any changes to this rate would be used to adjust subtraction VAT surtax and high income surtax rates accordingly. This rate would be negotiated on a world-wide basis to prevent venue seeking for stock trading.

Subtraction Value-Added Tax (S-VAT). Corporate income taxes and collection of business and farm income taxes will be replaced by this tax, which is an employer paid Net Business Receipts Tax. S-VAT is a vehicle for tax benefits, including

- Health insurance or direct care, including veterans' health care for non-battlefield injuries and long term care.
- Employer paid educational costs in lieu of taxes are provided as either employee-directed contributions to the public or private unionized school of their choice or direct tuition payments for employee children or for workers (including ESL and remedial skills). Wages will be paid to students to meet opportunity costs.
- Most importantly, a refundable child tax credit at median income levels (with inflation adjustments) distributed with pay.

Subsistence level benefits force the poor into servile labor. Wages and benefits must be high enough to provide justice and human dignity. This allows the ending of state administered subsidy programs and discourages abortions, and as such enactment must be scored as a must pass in voting rankings by pro-life organizations (and feminist organizations as well). To assure child subsidies are distributed, S-VAT will not be border adjustable.

As above, S-VAT surtaxes are collected on all income distributed over $75,000, with a beginning rate of 6.25%. replace income tax levies collected on the first surtaxes in the same range. Some will use corporations to avoid these taxes, but that corporation would then pay all invoice and subtraction VAT payments (which would distribute tax benefits). Distributions from such corporations will be considered salary, not dividends.

Invoice Value-Added Tax (I-VAT) Border adjustable taxes will appear on purchase invoices. The rate varies according to what is being financed. If Medicare for All does not contain offsets for employers who fund their own medical personnel or for personal retirement accounts, both of which would otherwise be funded by an S-VAT, then they would be funded by the I-VAT to take advantage of border adjustability.

I-VAT forces everyone, from the working poor to the beneficiaries of inherited wealth, to pay taxes and share in the cost of government. As part of enactment, gross wages will be reduced to take into account the shift to S-VAT and I-VAT, however net income will be increased by the same percentage as the I-VAT. Inherited assets will be taxed under A-VAT when sold. Any inherited cash, or funds borrowed against the value of shares, will face the I-VAT when sold or the A-VAT if invested.

I-VAT will fund domestic discretionary spending, equal dollar employer OASI contributions, and non-nuclear, non-deployed military spending, possibly on a regional basis. Regional I-VAT would both require a constitutional amendment to change the requirement that all excises be national and to discourage unnecessary spending, especially when allocated for electoral reasons rather than program needs. The latter could also be funded by the asset VAT (decreasing the rate by from 19.25% to 13%).

Carbon Added Tax (C-AT). A Carbon tax with receipt visibility, which allows comparison shopping based on carbon content, even if it means a more expensive item with lower carbon is purchased. C-AT would also replace fuel taxes. It will fund transportation costs, including mass transit, and research into alternative fuels. This tax would not be border adjustable unless it is in other nations, however in this case the imposition of this tax at the border will be noted, with the U.S. tax applied to the overseas base.

Attachment - Tax Administration, Treasury Budget, February 12, 2020

Shifting to a single system for all business taxation, particularly enacting invoice value added taxes to collect revenue and employer-based subtraction value added taxes to distribute benefits to workers will end the need for filing for most, if not all, households. Any remaining high salary surtax would be free of any deductions and credits and could as easily be collected by enacting higher tiers to a subtraction VAT.

Subtraction VAT collection will closely duplicate the collection of payroll and income taxes – as well as employment taxes – but without households having to file an annual reconciliation except to verify the number of dependents receiving benefits.

Tax reform will simplify tax administration on all levels. Firms will submit electronic receipts for I-VAT and C-VAT credit, leaving a compliance trail. S-VAT payments to providers, wages and child credits to verify that what is paid and what is claimed match and that children are not double credited from separate employers.

A-VAT transactions are recorded by brokers, employers for option exercise and closing agents for real property. With ADP, reporting burdens are equal to those in any VAT system for I-VAT and A-VAT and current payroll and income tax reporting by employers.

Employees with children will annually verify information provided by employers and IRS, responding by a postcard if reports do not match, triggering collection actions. The cliché will thus be made real.

High salary employees who use corporations to reduce salary surtax and pay I-VAT & S-VAT for personal staff. Distributions from such corporations to owners are considered salary, not dividends.

Transaction based A-VAT payments end the complexity and tax avoidance experienced with income tax collection. Tax units with income under $84,000 or only one employer need not file high salary surtax returns. Separate gift and inheritance tax returns will no longer be required.

State governments will collect federal and state I-VAT, C-VAT, S-VAT payments, audit collection systems, real property A-VAT and conduct enforcement actions. IRS collects individual payroll and salary surtax payments, performs electronic data matching and receive payments and ADP data from states. SEC collects A-VAT receipts.

I-VAT gives all citizens the responsibility to fund the government. C-VAT invoices encourage lower carbon consumption, mass transit, research and infrastructure development. A-VAT taxation will slow market volatility and encourage employee ownership, while preserving family businesses and farms. Very little IRS Administration will be required once reform is fully implemented. All IRS employees could fit in a bathtub with room for Grover Norquist.

Contact Sheet

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The Committee on Ways and Means
The Subcommittee on Oversight
Hearing on IRS Return on Investment and the Need for Modernization
Tuesday, February 11, 2025, 10 A.M.

All submissions must include a list of all clients, persons and/or organizations on whose behalf the witness appears:

This testimony is not submitted on behalf of any client, person or organization other than the Center itself, which is so far unfunded by any donations.