WRITTEN TESTIMONY OF
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SUBCOMMITTEE ON GOVERNMENT OPERATIONS
ON THE FILING SEASON AND IRS OPERATIONS
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INTRODUCTION

Chairman Connolly, Ranking Member Hice and Members of the Subcommittee, thank you for the opportunity to discuss the filing season and IRS operations.

Taxpayer service remains the most significant IRS priority, and we have implemented many new, innovative strategies in an effort to improve our overall level of service and processing of our unprecedented current and projected inventories. The pandemic presented the IRS with a confluence of novel and critical demands at a time when we lacked the stable, long-term funding needed to appropriately serve the American people. Given these significant challenges, although we may not have always gotten it right or supported the important priorities of some, our employees have worked extremely hard to respond as best we could to a never-ending string of compounding challenges.

I am pleased to report the 2022 filing season has gone well in terms of tax return processing and the operation of our information technology (IT) systems. Through April 8, the IRS processed more than 99 million individual federal tax returns and issued more than 70 million refunds totaling more than $222 billion. We worked diligently to open the filing season earlier this year than last, on January 24, 2022, compared to February 12, 2021. A detailed discussion of the filing season is provided later in this testimony.

While the filing season has presented no major disruptions or surprises, we know we have a great deal of work to do in many other areas of the IRS. The IRS continues to focus on working to reduce paper correspondence inventory and process paper tax returns from 2021 as well as improve our response to an unprecedented level of phone demand – situations that have been compounded by the pandemic and related issues. For example, in FY 2021, we received more than 15 million individual paper returns. We also had a significantly higher error rate on individual returns due in large part to challenges associated with reconciling funds received through important stimulus programs like Economic Impact Payments (EIPs). We received far more than 10 million returns where the taxpayer did not properly reconcile the two EIPs received in 2020 to the amount of the Recovery Rebate Credit (RRC) stated on their return filed in 2021. Similarly, more than 10 million individuals reported unemployment compensation on their return that was subject to the exclusion enacted during the 2021 filing season. In addition, millions of taxpayers elected to use 2019 rather than 2020 as the base year for determining their EITC (and the legislative change for that was enacted *after* our IT development for the 2021 filing season had been completed). Each of these returns required a manual review and resolution by an IRS employee.

We will continue to do our best as we face new challenges. Our workforce is strong and remains our most important resource, with substantially all of our employees engaged on a full-time basis. We have taken numerous steps to address these challenges, and we continue to look for other ways so that we can improve these operations and get healthy by the end of the year.

The IRS is serving more people and entities in a global environment than ever before, while handling new and bigger responsibilities. This was the case before the pandemic and has only increased since then. At the same time, we have experienced delays in updating our IT systems, which means the IRS and taxpayers must continue to use certain paper-based processes. This use of paper processes can result in significant delays, contributing to IRS inventories and limiting taxpayers' ability to know the status of their cases.

We are in this position because we have not had the sustained sufficient multi-year investment for IT modernization necessary to improve our technology and operating systems. I am here to tell you today that nothing is more important than having those resources in place to make it possible for us to appropriately serve the American people. Absent consistent, timely, multi-year funding we have largely been a paper-based organization operating in a digital world environment. In 2022, IRS employees should not be transcribing paper returns by hand. Taxpayers should not have to wait and wait on the phone—often to no avail. I want to better serve the American people—and so do the dedicated employees at the IRS. They will finally be able to do so if you, and your colleagues, provide us the stable, multi-year funding we need.

Like all federal agencies, the IRS is best able to accomplish our mission when we receive the resources necessary to do so. And that mission is vital to the functioning of our government: The fact that the IRS collects approximately $4.1 trillion in gross revenue per year, representing about 96 percent of the gross revenue of the U.S., clearly shows that the success of our nation is closely tied to the success of the IRS. The President's FY 2023 Budget proposal, which provides $14.1 billion for the IRS, will allow the agency to take important steps forward in improving taxpayer service, modernizing our systems and ensuring fairness in the tax system. But for the IRS to truly be able to deliver for the American people, it needs stable, multi-year funding to be in place to allow the agency to rebuild.

Over the course of the last decade, the IRS's budget has decreased by more than 15 percent in real terms. Because of this decrease, in FY 2021 we realized less than 79,000 full-time equivalents (FTEs), which is close to 1974 levels. Since 2010, IRS Enforcement FTEs have decreased by 30 percent, while the nation's real Gross Domestic Product has increased by 29 percent, and the filing population has increased by 14 percent. Over the next six years, we estimate we will need to hire 52,000 employees just to maintain our current levels. Every measure that is important to effective tax administration has suffered tremendously in recent years, with profound deficiencies resulting from underinvestment in human capital and information technology.

Although the IRS appreciates the $675 million increase to our budget in the FY 2022 Omnibus, sufficient funding remains a constraint to addressing the current paper inventory and supporting our IT operations adequately. For example, this year's funding left our Operations Support account, the account that funds all of the hiring, rent, laptops, and telecom for taxpayer services and enforcement employees, $100 million short of our inflationary cost increases. Without shifting the funds to the appropriate accounts, we are left depleting resources from one less-visible program to pay for another essential program, which causes us to slow or stop work on updates to our systems that must be modernized to provide digital services that citizens expect from us. Mandatory multi-year, consistent funding would help us deliver meaningful services to taxpayers, conduct critical enforcement initiatives and support long-term modernization efforts to improve both service and compliance for the nation.

When we are confronted with long-term Continuing Resolutions (CRs), we typically freeze nearly all external hiring. We take this action to ensure we have funds to pay all employees, including any applicable pay raises. Last fall, we increased staffing despite the CR, hiring at risk without the funding in place to support these positions, but assuming future resources would be provided by the eventual enactment of the FY 2022 appropriation, to help address our inventory. The full fiscal year 2022 President's Budget request would have allowed us to maintain current staffing levels and fund 4,200 additional full-time equivalent employees. The Omnibus increased our Taxpayer Services account by $193 million from FY 2021, which covered the inflationary increases in Taxpayer Services (what we refer to as "maintaining current levels"), and about 42 percent of our requested program increases. We will now be required to use other funding sources to cover our remaining needs, including requesting an inter-appropriation transfer, redirecting user fees, and realigning American Rescue Plan (ARP) funds. Although the Omnibus reflects an important down payment on the necessary investments in the IRS, it is far, far from what the dedicated IRS employees need to serve the American people they way they deserve.

Even with appropriate funding, the IRS continues to experience significant challenges recruiting talent to support the critical work the agency does for taxpayers and our nation, particularly in the current labor market. With our limited funding, we have been hard at work to do all we can to bring talent on board. For example, we have major processing center operations in Austin, TX, Kansas City, MO, and Ogden, UT, where we are working to attract eligible applicants for more than 5,000 vacant positions. We have been holding both in-person and virtual job fairs in Austin, TX, Kansas City, MO, and Ogden, UT where, using recently received Direct Hiring Authority (DHA), we have been able to make more than 2,500 conditional offers at the conclusion of the interviews.

IRS employees want to do more to help taxpayers. We want to be able to answer the phones and respond to questions. We want to be ready, whenever crisis hits, to deliver economic relief quickly — as our employees demonstrated repeatedly during the current pandemic, working long hours to deliver crucial programs. During this challenging period, the IRS has been operating in an “all-hands-on deck” approach, leaving nothing off the table for consideration to improve overall service.

Our employees continue to expend every effort to balance the confluence of multiple, unprecedented demands − including successfully starting the current filing season and working our inventory of unprocessed tax returns, as well as looking for additional ways to minimize burden for taxpayers, tax professionals and businesses. We will continue to rapidly adapt to changing circumstances when appropriate to do so. We remain committed to ensuring the tax system is administered fairly and impartially and that every American receives the nature and quality of services they deserve.

EFFECTS OF THE COVID-19 PANDEMIC AND THE IRS RESPONSE

This unprecedented pandemic illustrates the significant role that the IRS plays in the overall health of our country. We have been called to provide economic relief during this national crisis while also fulfilling our routine responsibilities of tax administration. The IRS’s response to COVID-19 includes issuing more than $1.5 trillion in combined historic economic relief and individual refunds over the past two years. This effort shows the level of dedication of our workforce and illustrates how important the IRS is to the functioning of our government and the success of the nation.

IRS employees have worked hard since March 2020 to implement major provisions of the Coronavirus Aid, Relief and Economic Security (CARES) Act, ARP and other COVID-related relief legislation. This work included delivering more than $800 billion in EIPs to help Americans cope with the financial effects of COVID-19 – which involved creating the internal processes to accomplish this effort. The Treasury Inspector General for Tax Administration (TIGTA) noted in a report released March 21, 2022, that the IRS computed the correct payment amount for more than 99 percent of the 175 million payments issued for the third round of EIPs. Our work also included delivering (and creating the internal processes for) more than 200 million advance payments of the Child Tax Credit totaling $93 billion that were made to eligible families between July and December of last year.

Congress provided critical help to support our ability to implement the third round of EIPs and the advance CTC payments by appropriating $1.86 billion in supplemental funding for the agency under the ARP. These funds represent important three-year funding (expiring FY 2023) and have provided, and will continue to provide, critical assistance in our effort to better serve taxpayers. As of April 12, 2022, the IRS has obligated $928 million of the total; we are continuing to use the funds over the remaining two years of the expenditure window provided by Congress in ways that are intended to maximize taxpayer service, including responding to taxpayer questions about EIPs and advance CTC payments. As identified in our ARP Spending Projections provided to Congress in February 2022, these funds are allowing us to help taxpayers efficiently obtain the payments they are rightfully due, with additional frontline staffing, systems and technology improvements to create safe and secure platforms, and with investments in long-term modernization enhancements that will pave the way for long-needed system improvements going forward.

For both the third round of EIPs and the advance CTC payments, the IRS made an extensive effort to ensure we reached as many people as possible who might be eligible for these benefits. We worked with thousands of community groups, non-profits, associations, education groups and anyone else with connections to people with children to share critical information about EIPs, the CTC and other important benefits. As noted above, we are continuing to work this filing season to ensure that anyone eligible who did not receive an EIP understands they can claim the RRC on their return, and we continue reminding recipients of the advance CTC of the need to reconcile those amounts on their returns.

Reducing inventory of paper returns and correspondence

The combination of the pandemic, new tax laws and numerous other factors led to an unprecedented amount of unprocessed tax returns and correspondence remaining in the IRS inventory during 2021.

The IRS pursued significant actions during the 2021 filing season to address the return and correspondence inventory. But due to resource issues and numerous unique factors tied to new legislation and the pandemic, we have entered the 2022 filing season with a significant inventory of unprocessed returns and correspondence and, to date, the inability to meet our hiring goals. We must continue pursuing innovative strategies to fulfill our commitment to return inventories to a healthy level before entering the 2023 filing season.

To reduce the current and projected inventory, we are taking aggressive actions that include:

- **Surge Teams**. We presently have more Customer Service Representatives (CSRs) onboard than ever before. We have retained temporary CSRs on a permanent basis to concentrate on the inventories. We took this risk in the context of an uncertain funding environment, hoping the annual appropriation process would deliver funding; however, this effort has not been sufficient to reduce the current and projected inventories The IRS is deploying surge teams, which are groups of employees across the agency organized to temporarily assist with urgent issues. For example, we temporarily moved approximately 900 employees with previous relevant experience back into key areas from other organizations. In addition to this accounts management surge team, which is now in place, we have assembled a similar surge team for our submission processing area with 700 employees who started on this critical work this month.
- **Direct Hire Authority (DHA**). Working with Treasury, the Office of Personnel Management, and the National Treasury Employees Union, the IRS recently secured direct hiring authority for a total of 10,000 positions – 5,000 employees with the goal of onboarding them in the next several months, as well as an additional 5,000 new hires to be made over the course of the next year. Congress also helpfully provided hiring flexibilities in this month's Omnibus to further expedite hiring in critical positions. Due to the challenges of hiring during the pandemic and competition from other employers for the same talent, this environment is an exceptionally difficult one for hiring. DHA may improve our ability to be competitive in cities where these employees are most needed. We are extremely hopeful to satisfy our hiring goal over the coming months. Also, for the first time, we have partnered with the Military Spouse Employment Program and are engaging contractors while aggressively pursuing our hiring goals. We are grateful for the specific direct hiring authority language included in the recent Omnibus (Consolidated Appropriations Act, FY22) that will enable us to bring talent on-board more swiftly in needed locations.
- **Mandatory Overtime**. We have implemented mandatory overtime and are offering authorized overtime to certain employees to help with the reduction in inventory, and we are doing so for the first time in certain functions.
- **Increased access to online self-service tools.** Over the last six months, more than 10 million individuals have created their individual online account through IRS.gov. Reducing call volumes through increased online service allows us to devote more resources to the inventories.
- **EIP/CTC letters.** We sent more than 250 million letters to help taxpayers match IRS records to prevent delays in processing. IRS Letter 6475, *Your Third Economic Impact Payment,* and IRS Letter 6419, *2021 Advance Child Tax Credit*, set forth the amounts that individuals received in 2021. Individuals can also verify these amounts by accessing their individual online account through IRS.gov. Given that more than 10 million returns failed to properly reconcile two EIP payments received in 2020 on their returns filed during the 2021 filing season, it is critical that individuals (and

their preparers) verify the possibly six to eight payments received in 2021 before submission of a 2021 return this year.

- **Innovating to expedite case closures**. We are employing new tools to help IRS employees review and process tax returns that include errors and manual reviews, a piece that is already helping taxpayers receive refunds quicker in 2022. These efforts have already demonstrated positive results.
- **Expanded Saturday openings of certain Taxpayer Assistance Centers (TACs)** to assist taxpayers this filing season in more than 90 cities around the country. TACs provide important front line, in-person taxpayer assistance. We maintain 358 TACs but, due to attrition and resource limitations, 39 are presently not staffed on a full-time basis (24 TACs presently provide a virtual service delivery alternative to an in-person visit). All staffed TACs offer appointments as well as the ability to walk in.
- **Enhanced the EITC Assistant tool** on IRS.gov to make it more user friendly for individuals to determine their potential eligibility (intended to reduce resources being dedicated to erroneous EITC claims). This important tool serves taxpayers and reduces erroneous claims, freeing up resources to help process our inventories.
- **VITA/TCE.** We are also continuing to notify taxpayers about "Free Tax Return Preparation for Qualifying Taxpayers" by encouraging use of the IRS's Volunteer Income Tax Assistance (VITA) and Tax Counseling for the Elderly (TCE) programs, which offer free basic tax return preparation to qualified individuals.
- **Created and expanded self-service portals** for taxpayers to implement an Online Payment Agreement, request payment transcripts, request an Identity Protection Personal Identification Number (IP PIN), update their personal information, etc. These efforts reduce call volume, which releases resources to help process our inventories.
- **Expanded "Customer Callback"** to approximately 70 percent of our toll-free telephone demand. During FY 2022, we have offered this option to more than 5.3 million taxpayers with an acceptance rate exceeding 57 percent. We estimate this feature has saved taxpayers more than 1.7 million hours.
- **Implemented Online Live Assistance**, **Voice Bots and Chat Bots (in English and Spanish)** to better enable taxpayers to interact with IRS. Online Live Assistance leverages limited employee resources allowing a single employee to respond to multiple taxpayers at a time. Our Advance CTC Voice Bot launched February 18, 2022 (delivered 6-8 weeks ahead of schedule) and handles the top 27 Advance CTC topics (English only at present, but the Spanish version is coming soon) to assist callers who need help reconciling the credits on their 2021 tax return. The IRS, in recent weeks, has deployed Voice and Chat Bots in English and Spanish for phone lines that assist taxpayers with tax payment issues or understanding an IRS notice they may have received. In addition to the payment lines, Voice Bots help people calling the EIP toll-free line, providing general procedural responses to the most frequently asked questions. Voice Bots are software

powered by artificial intelligence (AI) that allow a caller to navigate an interactive voice response (IVR) system with their voice, generally using natural language. Chat Bots simulate human conversation through web-based text interaction, also using AI-powered software to respond to natural language prompts. Taxpayers who request to speak with a CSR are placed in queue for English or Spanish telephone assistance. These efforts reduce call volume, releasing resources to help process our inventories.
- **Reduced the percentage of our outdated hardware** from more than 60 percent a few years ago to approximately 10 percent at present. Funding provided by Congress has allowed us to pursue these efforts, reducing the risk associated with an interruption to our delivery of meaningful services.

These steps are making a difference. Refunds for tax returns and amended tax returns in the inventory continue to flow out to taxpayers. We continue to consider and pursue additional relief measures while balancing the many other demands for our time and limited resources.

We also instituted additional relief measures for taxpayers, such as:
- On January 27, we announced the suspension of notices in situations where we have credited taxpayers for payments but have no record of the tax return being filed. Given that in some situations the return is still waiting to be processed, suspending this notice will help avoid confusion.
- On February 9, we announced the suspension of more than a dozen additional notices, including automated collection notices normally issued when a taxpayer owes additional tax or has no record of filing a tax return. As a result, we have now suspended all known notices that are associated with unprocessed original return inventory. Specifically, any notices that are still being sent to taxpayers are associated with ongoing programs and services that are not associated with the unprocessed returns. Note that many other IRS notices are statutorily required to be issued within a certain timeframe to be legally valid.

We are evaluating penalty relief options; however, we must also determine if systemic programming changes or manual intervention are required for the considered relief. Manual intervention would require re-direction of resources from processing original returns and amended tax returns, which complicates this area.

Other taxpayer assistance offerings

Important Update Information Available at IRS.gov. The IRS workforce is working hard to reduce current and projected inventories, meet taxpayers' continuing needs and provide relief or assistance whenever possible. We have issued various announcements available on IRS.gov outlining important steps we're taking this filing season to assist taxpayers with the aim of reducing current and projected future inventories. On February 14, we issued a news release titled, "IRS launches resource page on IRS.gov with latest details and information for taxpayers during filing season," (IR-2022-32, February 14, 2022) with a link to this important resource page ("Help for taxpayers and tax professionals: Special filing season alerts").

The IRS is continuing to assess other changes and system modifications to assist taxpayers on an array of issues. We have redeployed and reallocated resources throughout the IRS and have implemented innovative strategies in an ongoing effort to provide a meaningful reduction in our inventories. As we make additional adjustments, we will continue to make information available to taxpayers throughout the filing season and beyond.

Important Steps for Current Filers to Get Their Refund as Quickly as Possible. To prevent future inventory problems, the IRS has also worked diligently to encourage people to take extra precautions this year so they can get their refund quickly and avoid processing delays. For this filing season, refunds on error-free electronically filed returns continue to be processed within approximately 21 days. Requesting direct deposit accelerates receipt of the refund by the taxpayer. *There are three important steps people can take to get their refund as quickly as possible:*

- *File electronically;*
- *File an accurate return (verify amounts reflected as received for the EIP and advance CTC payments), and;*
- *Request a direct deposit of their refund.*

These steps are critical to accelerating delivery of the refunds people deserve and the IRS employees want to get out as quickly as possible. We have engaged in extensive outreach with community-based and professional organizations to reduce the otherwise manual review of returns that fail to reconcile these amounts. We're also encouraging taxpayers with questions to turn first to online resources, since we anticipate a continued high call volume again this year.

Responding to unprecedented demand for phone assistance

The IRS provides phone service to individuals, businesses, tax professionals and tax-exempt entities. We have specialty lines for the hearing impaired, identity theft victims, the taxpayer protection program, and for making appointments at our TACs. We also offer over-the-phone translation services in 350 languages.

Taxpayer Service Remains Our Top Priority. The long-term erosion of our budget has depleted every function of the IRS. Even though our Wage & Investment division - which is where the current and projected inventories exist - remains the *most well-staffed function of the entire IRS*, it is well below the levels necessary to deliver the service we aspire to achieve. We have implemented several approaches to reducing current and projected inventories and reducing call volumes which allows us to devote more resources to the inventories.

Our customer service representatives (CSRs) operate from 10 main campus sites and 14 smaller satellite locations across all mainland United States time zones, plus Puerto Rico. The CSRs work 7 a.m. to 7 p.m. shifts staggered nationally according to time zones. When we temporarily closed most of our facilities in March 2020 to protect employees from COVID-19, our IT operation worked rapidly – within weeks – to provide our CSRs with laptops, related equipment and training so they could work remotely in a virtual environment.

Against that backdrop, IRS phone operations have faced an unusually challenging environment over the past year, with an unprecedented level of phone assistance demand. *In 2021, we answered four million more taxpayer calls than the year before but had a lower level of service than prior years because demand was so high. In the first half of 2021 alone, we received more than 199 million calls – about 400 percent more calls than we get in an average year.* For comparison, we received a total of 42 million calls in all of 2018, 40 million calls in 2019, and 55 million calls in 2020. On March 15, 2021, we received 8.6 million calls on just that one day, which is an average of about 1,500 calls per second. The high call volume has significantly hampered our ability to manage telephone demand.

At the same time, the average duration of each call has also increased due to the complexity of COVID-related tax law changes and because taxpayers have personally endured a great deal throughout the pandemic. Our average time per call was 12 minutes for calendar year 2019. Thus far in 2022 (through February 26) the average time per call is 16 minutes. Spending more time on each call to provide the needed customer service limits the CSRs' ability to handle more calls during a shift.

We attempted to ease these challenges by starting the CSR hiring process for the 2021 filing season months earlier than normal. We repeated this approach for the 2022 filing season. During the pandemic, we transitioned into an entirely virtual recruiting and onboarding process for new employees to speed up the process. While we were able to hire an additional 3,800 CSRs, clerks and other support staff for the 2021 filing season, it was short of our goal of 5,000. While we did slightly better thus far in the 2022 filing season, we still have been able to hire just 4,131 of our overall goal of 5,000. The pandemic caused significant hiring challenges, including low applicant pools in some locations, delays in fingerprinting due to closed facilities, and delays in processing applicants virtually. And we routinely find ourselves being able to offer candidates significantly less than what the private sector can. We are trying innovative training approaches to get new CSRs ready to work the phones in less than the usual 14-week timeframe. Working with NTEU, OPM and Congressional Appropriators, we are also thrilled to have secured direct hire authority, discussed previously, which will allow us to be more successful in recruiting top talent by increasing the speed with which new employees can be onboarded.

UPDATE ON THE 2022 FILING SEASON

The IRS successfully opened the 2022 tax season on January 24 – two weeks earlier than the year before – giving taxpayers more time to file returns and delivering more than 1 million refunds in the first days of processing. Getting underway in January has given taxpayers as much time as possible to meet the federal tax filing deadline, which this year was April 18 for most taxpayers.

Due to many factors, the 2022 tax filing season has been a complex and challenging one for taxpayers, tax professionals and for the IRS as well. During this tax season, taxpayers faced a number of issues resulting from critical tax law changes that took place in 2021, as well as ongoing challenges related to the pandemic. Our dedicated workforce has done everything it can to prepare for the April 18 deadline, and our focus has been on simplifying the taxpayer filing experience by streamlining the process, answering as many questions as possible and reducing the inventories mentioned earlier in this testimony.

Our system that allows electronic filing of returns, Modernized eFile (MeF), took a major step forward this filing season. We made the latest in a series of changes that over time have made MeF more efficient, standardized and robust. This latest change expanded the availability of MeF so that our external partners who transmit returns electronically can access the system 24 hours a day, seven days a week. This upgrade is a win not only for the transmitters and ultimately taxpayers, but also for the IRS, because it allows us to perform MeF maintenance during the week, enabling more rapid deployment of critical updates.

Providing help to navigate a challenging filing season

We believe the filing season has gone the smoothest for taxpayers who file electronically, file accurate tax returns and request direct deposit of their refund.

In fact, filing electronically with direct deposit has been more important than ever this year, given the additional complexities on many returns, such as those who were eligible for an EIP but did not receive it and are now claiming the RRC, as well as those who need to reconcile advance CTC payments on their return.

During the filing season we have worked to ensure families who added a dependent – such as a child, a parent, a nephew or niece, or a grandchild – on their 2021 income tax return who was not listed as a dependent on their 2020 income tax return to know they may be eligible to receive a 2021 RRC of up to $1,400 for this dependent. Additionally, all eligible taxpayers with qualifying children born or welcomed through adoption or foster care in 2021 have been encouraged to claim the CTC – worth up to $3,600 per child– on their 2021 tax return.

Another important credit we've been highlighting is the Child and Dependent Care

Credit, which was expanded for 2021. This means that more taxpayers will qualify this year than ever before, and the credit will be worth more. We've been working to remind people who pay expenses for the care of a qualifying person while working or looking for work that they may qualify for this important tax credit. Depending on their income, taxpayers can get a credit worth 50 percent of their qualifying child care expenses. For tax year 2021, the maximum eligible expense for this credit is $8,000 for one qualifying person and $16,000 for two or more.

We realize that taxpayers who are still waiting for their 2020 return to be processed may be wondering whether they should wait to file their 2021 return. Our message to these individuals has been to file their 2021 return when they are ready. If a taxpayer is electronically filing their 2021 tax return and we have not yet processed their 2020 tax return, they should validate their 2021 electronic tax return by entering $0 (zero dollars) as their prior year adjusted gross income (AGI). If a taxpayer used the Non-filer Sign Up tool in 2021 to register for advance CTC payments or an EIP, they will instead enter $1 as their prior year AGI.

Given that incredibly high call volume has continued again this tax season, we understand the filing experience has been more difficult for taxpayers who need to interact with us. But we continue to make improvements and are confident this work will have us trending in the right direction. We are also encouraging taxpayers with questions to turn first to online resources. This area has been a huge focus for the IRS, and critical tools are available that people may overlook. These options range from the Where's My Refund online tool to several other automated tools now available through the Online Account on IRS.gov. For many, there are ways to get help without calling.

Improving service to diverse communities

Amid the challenges posed for the agency by the pandemic and new tax law changes, the IRS has continued to focus on improving service to diverse communities. An important way we serve these taxpayers is by communicating with them in their most comfortable language. We are committed to enhancing the experience of all taxpayers, including those who have limited English proficiency. We know that these taxpayers respond to our efforts – as just one example, there were nearly 90 million visits to non-English pages on IRS.gov last year. Already this year, through April 10, there have been about 17.7 million visits to non-English pages.

Since 2021, the IRS has taken important steps to further improve the amount of service we offer in multiple languages:

- Provided the Form 1040 in Spanish during the 2021 filing season for the first time.
- Gave taxpayers the opportunity to indicate on new Schedule LEP (Limited English Proficiency) whether they want to be contacted by us in a language other than English. This schedule, filed with the 1040, allows taxpayers to

select one of 20 languages in which to receive communications from the IRS. During Calendar Year (CY) 2021, the IRS received approximately 326,000 Schedule LEPs.
- Made Publication 1, *Your Rights as a Taxpayer*, available in 20 languages.
- Issued a new, streamlined version of Publication 17, *Your Federal Income Tax*, that is available in seven languages.

These efforts continue this year. We've completed conversion of 34 Spanish notice inserts to Braille, text, audio and large print as of January. We also recently converted Form 1040 and its main schedules, as well as Form 1040 NR, Form 1040 SR, Form W-4 and six publications, into Spanish Braille, text, and large print. We continue working to increase our communications and outreach materials – including information shared on social media channels – into additional languages. To ensure that taxpayers can easily provide their preferences in this area, we also released new Form 9000, *Alternative Media Preference*, this filing season. This form allows taxpayers to tell us they want to receive notices in Braille, large print, audio, or text, and can be filed alone or with the 1040.

While those steps are all important, the IRS is continuing to do more to enhance the taxpayer experience for those who are more comfortable using a language other than English. We are, for example:
- Pursuing efforts to translate website applications for these taxpayers. We have already identified 17 of the most frequently used applications for translation into additional languages.
- Exploring opportunities to employ machine translation to help us add more multilingual content. This is a significant challenge, given how complex many tax terms are. We will need to carefully evaluate automated translation tools, so we anticipate this effort will be ongoing for several years.

UPDATE ON MODERNIZATION EFFORTS

One of my highest priorities as Commissioner is ensuring the agency's IT infrastructure remains on a path toward modernization. Modernization is vital to all our core functions: successfully delivering the annual tax filing season, ensuring the health of the nation's tax system and supporting the federal government's financial strength. Today, we do not have the steady, consistent multiyear funding to support these efforts the way we need to in order to deliver appropriately for the American people.

We have long sought levels of funding that would enable necessary IT investments. As noted above, absent consistent, timely, multi-year funding we have largely been a paper-based organization operating in a digital environment. It is difficult to modernize a significant IT portfolio to improve processing and delivery of important taxpayer services when constantly funded through a CR.

Until recently, we were operating under a CR for FY 2022. This year's Omnibus (P.L. 117-103) represents the largest funding increase for the agency in two decades. But the agency's needs are much deeper. Unfortunately, because our budget has fallen so significantly in real terms over the course of the last decade, we have lost foundational staff at the agency and need to rebuild. From a modernization perspective, many of our priorities, including upgrading the Individual Master File, one of the oldest IT systems in the federal government, are multi-year efforts. This situation means we have not been able to invest in modernizing and integrating our technological infrastructure, which processes the more than 160 million returns we anticipate receiving this year. The situation also affects other important interests of tax administration. Modernized technology would significantly improve the ability of the IRS to respond to a crisis, pandemic-related or otherwise.

Since the initial release of our Modernization Plan in 2019, our operations and infrastructure have changed significantly. We have received only limited funding for our efforts: from FY 2019 through FY 2021, we received only 57 percent of the planned Business Systems Modernization funding. But within the funding received, we have delivered critical technology improvements and at the same time responded to unprecedented demand due to the pandemic. We accelerated the development of our digital services. We expanded customer callback availability on our toll-free telephone lines. We created new web applications such as "Get My Payment" to track EIPs. We also created the Child Tax Credit Update Portal to help people manage advance CTC payments, a first-of-its-kind endeavor. And in another milestone, we also achieved the long-time goal of making it possible for individuals to e-file their amended tax return.

Another example of modernization at work involved creating a tool last year to help eliminate several steps in the process an IRS employee is required to do to reconcile RRC discrepancies between the two EIPs that were made in 2020 and what the taxpayer reported on their tax return. Prior to the automation, an employee could reconcile about 100 returns per day. Once we completed the modernization improvement, the employee can now process 600 per day. Not only does this improvement speed up the ability for the taxpayer to receive their refund, but it also avoids adding further to the backlog of inventory.

We continue to investigate new ways of doing business to optimize the important work of IRS employees and improve the taxpayer experience; for example, we hope to be able to scan in a paper form and file it electronically later this summer, which will help us identify the potential for this approach to be used for other forms in the future. We are also looking into our ability to leverage an approach that we call Scanning-as-a-Service, where we may be able to significantly increase the availability of digital images for IRS employees to use to perform their work without owning and maintaining expensive equipment or paying to store the paper records. Both efforts seem straightforward on the surface, and although we are cautiously optimistic of their progress to date, it is important to note that they are not a sure thing, and a significant amount of work remains to confirm the viability of these pilots, as well as their ability to scale to other use cases.

In addition to the above, we continue taking steps to safeguard taxpayer data while modernizing platforms to improve taxpayers' experiences. Investments in cybersecurity are essential. In 2017, IRS was experiencing just over 1 million cyberattacks per day. Today, we sustain more than 1.5 billion attacks each year. While IRS network defenses mitigate threats and keep our core tax processing systems secure, we must continue to advance our cyber capabilities, so we stay one step ahead of the bad actors who are attacking IRS systems.

IRS Online Account

An important focus of our efforts has been the development of IRS Online Account, which allows taxpayers to interact with us online and perform various types of transactions in a secure environment. For example, they can view their payment history, make a payment online or request previous years' tax information. Since the initial launch of IRS Online Account in 2016, we helped taxpayers securely access the information and services they need, with more than 23 million sessions and 8.37 million new users in FY 2021. We are continually working to expand the transactions taxpayers can conduct through the online account.

In July of last year, we launched a new online feature that allows individual taxpayers to authorize their tax practitioner to represent them before the IRS with a Power of Attorney (POA), and to view their tax accounts with a Tax Information Authorization (TIA). Tax professionals can go to the Tax Pro Account on IRS.gov to digitally initiate POAs and TIAs. Over time, we will continue building functionality so that other transactions involving tax professionals can be completed online in a secure digital environment.

As we expand our digital options, security is always an important consideration. For that reason, in February we announced steps to change the way taxpayers authenticate their identities when signing on to their online accounts. Specifically, we began transitioning away from using a third-party service for facial recognition. The IRS is working closely with partners across government to roll out Login.Gov as an authentication tool for us. The General Services Administration is currently working with the IRS to achieve the security standards and scale required of Login.Gov, with the goal of moving toward introducing this option later this year.

EFFORTS TO IMPROVE TAX COMPLIANCE

The IRS remains committed to doing everything we can, with our limited resources, to track down those who willfully refuse to fulfill their tax obligations or who commit tax fraud. We want to maintain a strong, visible, robust tax enforcement presence to appropriately support taxpayers who comply voluntarily. When taxpayers file their returns, they should feel confident others are doing the right thing too.

Our efforts to ensure compliance with the tax laws cover a broad range of groups – individuals, small businesses, tax-exempt organizations and large entities. In our challenging resource environment, large entities are of particular concern because this group includes very sophisticated taxpayers – major U.S. corporations, multinational companies and complex multi-tiered partnerships – all of which require us to have highly trained, highly skilled enforcement personnel with special accounting and tax law skills, who can understand the issues raised by these returns, root out instances of noncompliance and litigate issues where necessary.

We will continue emphasizing a number of special areas in our enforcement activities. This strategy includes keeping a focus on high-income taxpayers engaged in offshore noncompliance, failure to file, unreported and improperly reported virtual currency transactions and abusive tax shelters, such as syndicated conservation easements and micro-captive insurance shelters, as well as monetized installment sales and Malta pension abuses.

In this challenging environment, the IRS continues working to improve coordination of enforcement activities across the agency. In fact, the IRS's Office of Fraud Enforcement (OFE), which we created in March 2020, is actively encouraging and ensuring this coordination across the IRS, promoting compliance, strengthening the IRS' response to fraud and working to mitigate emerging threats. The Office of Promoter Investigations (OPI), created last year, is helping us better identify issues that involve abusive tax shelters as well as individuals promoting abusive tax transactions.

It is vital that we improve our ability to identify and deter promoters, and that we do so more quickly – before they are able to widely market their transactions, as we have seen with syndicated conservation easements and micro-captive insurance. We are seeing many aggressive transactions being promoted on social media and the internet, and we continually work to identify and evaluate potentially abusive trends and transactions to determine whether they need further enforcement actions. I have challenged OPI to lead our efforts against not only those who promote abusive tax avoidance transactions we know about, but to find the transactions that are being concocted today, and to coordinate our efforts to stop those promoters quickly and efficiently.

Recent accomplishments

We have made progress in a number of enforcement areas. For example, over the past two years, we have shifted significant examination resources and technology to increase our focus on high-income and high-wealth taxpayers. As a result, examination coverage of the taxpayers in the highest income category (taxpayers with over $10 million of total positive income) increased to over 8 percent coverage for Tax Year (TY) 2018, the most recent year for which complete statistics are available. This level is the highest coverage rate of this growing population since TY 2014, and we expect the TY 2019 numbers will show this level of coverage continued.

Substantially all experienced examiners – those who are the most highly trained with substantial accounting and tax law skills – are almost entirely focused on tax returns that include complex issues, such as high-income taxpayers, pass-through entities, multi-national taxpayers involving international tax issues, large pension plans, private foundations and the most egregious situations. We also continue to focus on employment tax cases where employers have failed to pay over taxes withheld from employees or have failed to file their employment tax returns.

An IRS initiative announced in 2020 involves improving tax compliance by increasing visits to those generally with incomes above $100,000 who failed to file tax returns. These Revenue Officer Compliance Sweeps (ROCS) focus on the most egregious non-filers. A partnership between our Field Collection operations, the OFE and our Criminal Investigation (CI) division also worked to identify common attributes of successful fraud referrals resulting in recommendations for criminal investigation for non-filers.

Another example of our accomplishments involves the development of a comprehensive, coordinated enforcement strategy to address abusive syndicated conservation easement transactions, and we have worked closely with the U.S. Department of Justice to shut down the promotion of them. Subsequently, the U.S. Tax Court held in the government's favor in a number of conservation easement cases, supporting the IRS's position on the abusive nature of the underlying deductions in these cases. While continuing to investigate these transactions, the IRS has also made settlement offers to certain taxpayers with docketed cases at the Tax Court involving this type of transaction.

Our efforts have also borne fruit in another important area--employment tax fraud. Non-compliance in this area means employers cheat the system and their employees without consequence. In so doing, they gain an unfair advantage over their honest competitors. We continue to work with the Justice Department's Tax Division to identify opportunities to better address non-compliance. These opportunities include using data analytics to identify egregious noncompliant employers. To cite one instance, we used our Innovation Lab's Data Analytics Program to identify thousands of taxpayers who reported wages on their individual income tax returns where the employer who paid those wages did not file their W-2 forms with the Social Security Administration and neither filed employment tax returns nor remitted taxes withheld from their employees. Seriously noncompliant employers were further investigated by the IRS examination, collection and CI organizations. This agency-wide commitment ensures consistent treatment of taxpayers and fair application of the tax law.

The IRS's enforcement efforts have extended to preserving COVID-related financial relief for those legitimately in need of financial support during this crisis. For example, the IRS has been working diligently to thwart scams related to COVID-19 by alerting taxpayers and tax professionals to these scams – especially calls and email phishing attempts tied to the EIPs. The IRS and our partners throughout the country have been publicizing these scams. Another example involves the OFE's efforts to prevent ineligible claimants from obtaining $1.2 billion in COVID-related employer credits. The credits were intended to help employers retain employees who would otherwise be unable to work during the pandemic, but bad actors saw an opportunity to exploit the program for their own financial gain. Working collaboratively with teams of seasoned enforcement employees who identified the questionable claims, OFE investigated the suspect claims and either administratively disallowed the claims and/or referred cases for further investigation.

In noting accomplishments on enforcement, I continue to be extremely proud of the investigative work done by CI. To take just one recent example, CI's Cyber Crimes Unit played a key role in the *largest cryptocurrency seizure ever recorded for the federal government*, valued at more than $3.6 billion. In February 2022, the Justice Department announced the arrest of two individuals in connection with an alleged conspiracy to launder cryptocurrency stolen during a 2016 hack of Bitfinex, a virtual currency exchange. IRS-CI Cyber Crimes Unit special agents were critical in unraveling a sophisticated laundering technique, enabling them to trace, access and seize the stolen funds. *As well as being the largest cryptocurrency seizure, this was also the largest single financial seizure recorded by the federal government.*

In regard to recent events, CI is prepared to support the U.S. government's efforts to impose sanctions on Russia. CI has a track record of successfully rooting out and stopping illegal kleptocracy money flowing into or through the U.S. CI's special agents expertly target those who launder money, including active investigations involving Russian oligarchs and politicians, as well as those who facilitate the illicit movement of money on behalf of sanctioned individuals or organizations. Agents on the Global Illicit Financial Team and throughout CI are not only experts in tracing assets and understanding the complex global financial world; they also work seamlessly with our domestic and global law enforcement partners to ensure the integrity of the U.S. financial system on behalf of U.S. taxpayers.

Resource challenges

Despite the progress we have made, our ability to enforce the tax laws against non-compliant taxpayers with complex returns continues to be hampered by a lack of resources. We can no longer audit a respectable percentage of large corporations, and we are often limited in the issues reviewed among those we do audit. These corporations can afford to spend large amounts on legal counsel, drag out proceedings and bury the government in paper. We are, quite simply, “outgunned” in our efforts to assure a high degree of compliance for these taxpayers. It is unacceptable for the nation’s tax administrator to be outgunned when appropriately challenging the return positions of some of the most sophisticated taxpayers. We must receive the resources to hire and train more specialists across a wide range of complex areas to assist with audits of entities (taxable, pass-through and tax-exempt) and individuals (financial products; engineering; digital assets; cross-border activities; estate and gift planning; family offices; foundations; and many others).

A lack of resources also threatens to reduce the effectiveness of our criminal investigative work. Much like other operating divisions in the IRS, CI is close to its lowest staffing level in the past 30 years. With fewer agents, we have fewer cases and fewer successful convictions. A strong, robust criminal tax enforcement presence provides significant deterrence to those willing to evade their lawful obligations to our country. Without adequate resources, we risk sending a much less powerful message to would-be and active tax evaders.

Because of our current funding and staffing limitations across our enforcement functions, we are forced to make difficult decisions regarding priorities, the types of enforcement actions we employ, and the service we offer. Limited IT resources preclude us from building adequate solutions for efficiently matching or reconciling data from multiple sources. As a result, we are often left with manual processes to analyze reporting information we receive. Such is the case with data from the Foreign Account Tax Compliance Act (FATCA). Congress enacted FATCA in 2010, but we have yet to be appropriated any significant funding for its implementation. This situation is compounded by the fact that when we do detect potential non-compliance or fraudulent behavior through manually generated FATCA reports, we seldom have sufficient funding to pursue the information and ensure proper compliance. We have an acute need for additional personnel with specialized training to follow cross-border money flows. They will help ensure tax compliance by improving our capacity to detect unreported accounts and income generated by those accounts, as well as the sources of assets in offshore accounts.

In other programs, we have information but are unable to select all high-risk cases identified due to resource and funding constraints. In these situations, to the detriment of tax administration, we must make difficult enforcement decisions based on resources, return on investment, coverage of all types of taxpayers, and other high priority work. For example, our information document reporting programs are identifying potential discrepancies with taxpayers who have received Form 1099-K, *Payment Card and Third-Party Network Transactions* (including potential non-filers), but not all of these have been addressed due to resource constraints.

As we make enforcement decisions, we try to balance resource limitations across a number of factors, including evaluating overall compliance effect and focusing resources into special projects. For example, we currently have fewer than 2,000 revenue officers, the lowest number of field collection personnel since the 1970s, and we have over 100,000 collection cases in active inventory. In addition to our active inventory, we have over 1.5 million cases (more than 500,000 of which are considered high priority) awaiting assignment to these same 2,000 revenue officers. We have classified roughly 85 percent of those cases as high priority, many of which involve delinquent business employment taxes.

In discussing our resource situation, another major concern is our ability to investigate and take enforcement actions against abusive transactions. While we are doing our best with the resources available to us, it is important to point out that the lack of funds and staffing makes it increasingly difficult for us to keep up with – much less stay ahead of – those who promote abusive transactions and the tax evaders who engage in them. Shelter promoters continue to innovate and invent new ways of gaming the system. We continue working to find them and identify their methods, but in order to ensure we can take meaningful enforcement actions against them, it is critical that we receive adequate resources.

It is becoming easier for tax shelter promoters to pitch their wares to the wealthy, and we are concerned such pitches are taking hold. While we are doing what we can, we need more resources if we hope to keep these activities in check and continue our efforts to inform taxpayers about the problems with these transactions so they will be dissuaded from participating in them. These activities shift the required funding of our country onto the backs of wage earners. Everyone should pay their fair share, and no one should be able to inappropriately avoid their obligations.

LOOKING TO THE FUTURE: IRS TAXPAYER EXPERIENCE OFFICE

Along with our day-to-day efforts to help taxpayers and enforce the tax laws, our agency is also committed to delivering on the promise of a new IRS. We are continuing the work begun in 2019 with passage of the Taxpayer First Act (TFA) to develop an innovative approach to the future of tax administration that will better serve everyone, including those in underserved communities. The IRS is using the implementation of the TFA to make significant improvements in the way we serve taxpayers, enforce the tax laws in a fair and impartial manner, and ensure our workforce collaborates and is well-trained.

A key driver of these efforts is our Taxpayer Experience Office, launched last year to unify and expand the work being done across the agency to serve taxpayers. The Taxpayer Experience Office sets the strategic direction for improving the taxpayer experience and identifies opportunities to make continuous improvements in real time for taxpayers and the tax professional community.

The Taxpayer Experience Office will identify changing taxpayer expectations and industry trends, focus on customer service best practices, and promote a consistent voice and experience across all taxpayer segments by developing agency-wide taxpayer experience guidelines and expectations. The office will be adding staff in the coming months to help support the effort.

Some of the areas of improvement in the near term include expanding customer callback, expanded payment options, secure two-way messaging and more services for multilingual customers. These activities build on recent improvements such as digital tools to support EIPs and advance CTC payments, online chat and the online tax professional account.

THE PRESIDENT'S FY 2023 BUDGET

The President's FY 2023 Budget proposal for the IRS provides $14.1 billion, an increase of $2.2 billion, or 18 percent more than the FY 2022 Annualized Continuing Resolution level of $11.9 billion, to administer the nation's tax system fairly, collect more than $4 trillion in gross taxes to fund the government, and strengthen tax compliance. Because the Administration drafted the FY 2023 budget submission ahead of the enactment of the FY 2022 Omnibus, the submission was not able to reflect the final enacted FY 2022 funding levels. The Budget includes initiatives to improve the taxpayer experience that should ultimately lead to increased voluntary tax compliance. The request also aims to ensure we stay current with the paper inventory and improve telephone and in-person service; facilitates better oversight of high-income and corporate tax returns; and accelerates the development of digital tools to enable smarter communication with taxpayers. In addition, the Administration continues to support a multiyear investment in IRS enforcement to increase tax compliance. An appropriate level of funding for the IRS will allow the agency to continue enhancing the taxpayer experience, narrowing the tax gap to ensure equitable administration of the tax code, protecting IRS systems and taxpayer data, and modernizing our information technology systems.

Specific funding areas

The FY 2023 Budget requests a total program increase of $1.31 billion, including the following:

- ***Putting Taxpayers First***: $320.2 million to continue implementing the Taxpayer First Act (TFA), which requires the IRS to put in place a Taxpayer Experience Strategy to improve the taxpayer experience with the IRS. The IRS's Taxpayer Experience Office, in partnership with key internal and external stakeholders and subject matter experts, identified certain areas of focus to inform development and implementation. The FY 2023 request focuses on: continuing to protect taxpayer data; increasing outreach and taxpayer education efforts; developing strategies to reach underserved communities; and providing human resources support for implementing the TFA.

- ***Enhancing Taxpayer Service***: $389.1 million for increasing the telephone Level of Service (LOS) and enhancing information technologies to improve taxpayer services. This investment will build on the IRS's efforts to improve telephone services for the underserved, such as those who are deaf or hard of hearing, limited English proficiency communities, and victims of identity theft. This investment provides a projected LOS of 85 percent in FY 2023 assuming phone demand returns to pre-pandemic levels and the IRS can provide in-person services at pre-pandemic levels. The increase in funding also will improve the ways taxpayers interact with the IRS by enhancing and expanding the range of modern, digital tools provided by the IRS to deliver a service experience comparable to that available in the private sector. By empowering taxpayers to address certain needs without requiring live assistance, development of these tools is essential to the IRS's long-term success in satisfying taxpayer expectations and meeting the ongoing growth in demand for assistance.
- ***Increasing Compliance to Ensure Fairness***: $469.3 million to allow the IRS to continue improving upon its compliance strategies and enforcement activities – including examination, collection and investigation – to ensure fairness in the tax system and narrow the tax gap. We continue to develop innovative approaches to understanding, detecting, and resolving potential noncompliance, which helps to maintain taxpayer confidence in the tax system. It is important to note the IRS has an overall enforcement return on investment (ROI) of about $5 for every $1 invested compared to the IRS appropriated budget, not including significant deterrence effects.
- ***Maintaining Critical IT Operations***: $39.5 million to sustain these operations to maintain optimum network performance and functionality. The IRS continues to transform its technological landscape, and it has made progress on its modernization journey to provide taxpayers with a seamless customer experience, while empowering employees with the tools and systems needed to provide top quality services and enforce the tax law. These successes have increased the need to sustain critical IT operations to maintain optimum network performance and functionality. The IRS continues to deploy and incorporate new, modernized tools for taxpayers, tax professionals and employees. Taxpayer service improvements (additional digital services, up-to-the-minute account information, etc.), enterprise efficiency advances (automation, artificial intelligence, machine learning, etc.) and new employee tools (case management, collaboration, learning platforms, etc.) all require additional bandwidth to sustain a high volume of users processing digitalized capabilities.

- ***Fostering Economic Development in Underserved Communities***: $10.2 million to allow the IRS to cultivate new opportunities for adults and students in underserved communities. One focus of our efforts is the Mississippi Delta Region, which currently has the highest rate of poverty in the United States, excluding the U.S. territories. As an initial step, we are opening a new Automated Collection System (ACS) call site in Clarksdale, Mississippi, and have announced plans to hire contact representatives to work at the call site. Initiatives in other regions are already underway, including a significant staffing increase for our ACS operation in Puerto Rico. We have increased staff at this site from approximately 79 employees in FY 2020 to more than 400 as of February 2022. We plan to add another ACS call site in Puerto Rico during 2022 that will accommodate an additional 400 employees. The expansion offers employment to Puerto Rico residents and allows for a significant increase in bilingual ACS employees to better serve taxpayers with limited English proficiency.

Structural changes to IRS appropriations to improve mission delivery

The President's Budget also proposes a change to the appropriations language that would allow Taxpayer Services and Enforcement funding to be used for certain associated support costs that are currently reserved for Operations Support funding. Currently, Taxpayer Services and Enforcement funding only pays for an employee's labor cost, not the cost to hire the employee nor the IT equipment and space needed to make them productive. There are significant benefits to this change: By including support costs, future IRS budgets would reflect the full cost of Taxpayer Services and Enforcement. The changes would also prompt IRS business units to be more efficient with their support costs because they would stand to directly benefit from savings.

In addition to the IRS's FY 2023 budget request, stable, multi-year funding for the IRS is necessary to facilitate the types of longer-term investments that the agency needs to make to adequately serve the American people and enforce the tax laws.

LEGISLATIVE PROPOSALS IN THE PRESIDENT'S FY 2023 BUDGET

Along with the funding requested in the President's FY 2023 Budget request, we are also asking for Congress's help legislatively in several important areas that would improve tax administration, including the following:

- ***Information reporting by financial institutions and digital asset brokers.*** Over time, the U.S. has established a broad network of information exchange relationships with other jurisdictions based on established international standards. The information obtained through those relationships has been central to recent successful IRS enforcement efforts against offshore tax evasion. The ability to exchange information reciprocally is particularly important in connection with the implementation of the Foreign Account Tax Compliance Act (FATCA). Currently, however, the U.S. provides less information to foreign governments than we receive from them. The proposal would expand reporting by financial institutions and digital asset brokers in a number of ways – for example, by requiring financial institutions to report the account balance for all financial accounts maintained at a U.S. office and held by foreign persons. These new reporting requirements would enable the IRS to provide equivalent levels of information to cooperative foreign governments in appropriate circumstances to support their efforts to address tax evasion by their residents. The proposal would be effective for returns to be filed after December 31, 2023.

- ***Require reporting by certain taxpayers on foreign digital asset accounts.*** Section 6038D(b) of the Internal Revenue Code contains an annual reporting requirement for individuals in regard to two categories of foreign financial assets, but there is no reporting requirement under this section for digital assets. Against this backdrop, tax compliance and enforcement with respect to digital assets is a rapidly growing problem. The global nature of the digital assets market offers opportunities for U.S. taxpayers to conceal assets and taxable income by using offshore digital asset exchanges and wallet providers. The proposal would amend section 6038D(b) to require reporting with respect to a new third category of asset: that is, any account that holds digital assets maintained by a foreign digital asset exchange or other foreign digital asset service provider. Reporting would be required *only* for taxpayers that hold an aggregate value of all three categories of assets in excess of $50,000. The proposal would be effective for returns required to be filed after December 31, 2022.
- ***Extend the statute of limitations for certain tax assessments.*** Section 6501 of the Internal Revenue Code generally requires the IRS to assess a tax within three years after the filing of a return. But for complex audits in the largest cases, critical issues may not be identified until late in the process of an examination, and in many cases these issues cannot be pursued further due to time and resource constraints. The proposal would amend section 6501 to extend the three-year statute of limitations to six years if a taxpayer omits from gross income more than $100 million on a return. This change would give the IRS enhanced agility and flexibility in evaluating and staffing its case inventory and appropriately allocating its limited enforcement resources.
- ***Increase oversight of paid tax return preparers.*** Paid tax return preparers have an important role in tax administration because they assist taxpayers in complying with their obligations under the tax laws. The proposal would amend Title 31, U.S. Code (Money and Finance) to provide the Secretary with explicit authority to regulate all paid preparers of Federal

tax returns, including by establishing mandatory minimum competency standards. The proposal would be effective on the date of enactment.

- ***Expand and increase penalties for return preparation and e-filing***. Inappropriate behavior by paid tax return preparers harms taxpayers through the filing of inaccurate returns, erroneous refunds and credits and personal tax return noncompliance. Tax return preparer misconduct continues, in part, because the amounts of the penalties under current law do not adequately promote voluntary compliance. The proposal would increase the amount of the tax penalties that apply to paid tax return preparers for willful, reckless or unreasonable understatements, as well as for forms of noncompliance that do not involve an understatement of tax.
- ***Expand authority to require electronic filing for forms and returns***. Under this proposal, electronic filing would be required for returns filed by taxpayers reporting larger amounts or that are complex business entities, including: (1) income tax returns of individuals with gross income of $400,000 or more; (2) income, estate, or gift tax returns of all related individuals, estates, and trusts with assets or gross income of $400,000 or more in any of the three preceding years; (3) partnership returns for partnerships with assets or any item of income of more than $10 million in any of the three preceding years; (4) partnership returns for partnerships with more than 10 partners; (5) returns of real estate investment trusts, real estate mortgage investment conduits, regulated investment companies and all insurance companies; and (6) corporate returns for corporations with $10 million or more in assets or more than 10 shareholders. Further, electronic filing would be required for the following forms: (1) Forms 8918, "Material Advisor Disclosure Statement"; (2) Forms 8886, "Reportable Transaction Disclosure Statement"; (3) Forms 1042, "Annual Withholding Tax Return for U.S. Source Income of Foreign Persons"; (4) Forms 8038-CP, "Return for Credit Payments to Issuers of Qualified Bonds"; and (5) Forms 8300, "Report of Cash Payments Over $10,000 Received in a Trade or Business." Return preparers that expect to prepare more than 10 corporation income tax returns or partnership returns would be required to file such returns electronically. The Secretary would also be authorized to determine which additional returns, statements, and other documents must be filed in electronic form in order to ensure the efficient administration of the internal revenue laws without regard to the number of returns that a person files during a year.
- ***Improve reporting for payments subject to backup withholding***. The proposal would treat all information returns subject to backup withholding similarly. Specifically, the IRS would be permitted to require payees of any reportable payments to furnish their TINs to payors under penalty of perjury. The proposal would be effective for payments made after December 31, 2021.

CONCLUSION

Chairman Connolly, Ranking Member Hice and Members of the Subcommittee, thank you again for the opportunity to update you on the filing season and IRS operations.

We continue to balance multiple unprecedented demands, including continuing the filing season and work on important new tax provisions. We remain focused on numerous taxpayer-related issues, and we have pursued innovative ideas and processes not previously deployed by the IRS in an effort to make improvements to the current inventory and provide meaningful taxpayer services.

The reality at the IRS is that we know we need to do better; we're committed to doing better, and we are trending in a positive direction. We appreciate your patience and understanding and the many expressions of gratitude we have received for the efforts of our employees, who have consistently stepped forward despite their own health and safety concerns. Our employees are doing everything they can. But we need Congress to help us by providing adequate resources and a sustained, multiyear investment in the agency.

I continue to be extremely proud of our workforce and their dedication to helping American taxpayers fulfill their tax responsibilities and resolve tax issues.