



June 6, 2022

The Honorable Charles P. Rettig
Commissioner
Internal Revenue Service

Priority Open Recommendations: Internal Revenue Service

Dear Mr. Rettig:

The purpose of this letter is to provide an update on the overall status of the Internal Revenue Service's (IRS) implementation of GAO's recommendations and to call your personal attention to areas where open recommendations should be given high priority.¹

In November 2021, we reported that on a government-wide basis, 76 percent of our recommendations made 4 years ago were implemented.² IRS's recommendation implementation rate was 88 percent. As of May 2022, IRS had 268 open recommendations. Fully implementing these open recommendations could significantly improve IRS's operations.

Since our June 2021 letter, IRS has implemented four of our 25 open priority recommendations. Specifically, IRS implemented

- three June 2014 recommendations for the correspondence audit program, better linking performance measures to program-specific objectives and agency-wide goals;³ and
- our July 2018 recommendation by completing an extended evaluation to quantify the potential costs and benefits of expanding the Return Review Program, IRS's primary pre-refund system for detecting and preventing the issuance of invalid refunds.⁴

In addition, we closed one priority recommendation from February 2020 as implemented because Congress took action that addressed it by requiring third-party reporting for

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

²GAO, *Performance and Accountability Report: Fiscal Year 2021*, [GAO-22-4SP](#) (Washington, D.C.: Nov. 15, 2021).

³GAO, *IRS Correspondence Audits: Better Management Could Improve Tax Compliance and Reduce Taxpayer Burden*, [GAO-14-479](#) (Washington, D.C.: Jun. 5, 2014).

⁴GAO, *Tax Fraud and Noncompliance: IRS Could Further Leverage the Return Review Program to Strengthen Tax Enforcement*, [GAO-18-544](#) (Washington, D.C.: Jul. 24, 2018).

transactions involving virtual currency.⁵ The increased reporting, which takes effect beginning with the 2023 tax year, could improve tax compliance by providing IRS with better information about virtual currency transactions, making it easier for certain taxpayers to complete tax returns.

We ask your continued attention to the 20 remaining priority recommendations. We are also adding five new recommendations related to improving taxpayer services and reducing tax fraud. This brings the total number of current priority recommendations to 25. (See the enclosure for the list of these recommendations and actions needed to implement them.)

The 25 priority recommendations fall into the following six areas.

1. Improving taxpayer services. High-quality customer service makes it easier for taxpayers to voluntarily file their tax returns and pay taxes owed. However, IRS has struggled to meet taxpayer service demands with an unprecedented call volume and growing backlog of taxpayer correspondence from prior years. Millions of taxpayers have experienced long delays in receiving refunds. It will be difficult for IRS to provide taxpayers assistance if they continue to call or write IRS when they cannot get the information they need through IRS's online services. Eight priority recommendations in this area include communicating estimated time frames for resolving its correspondence backlog and developing additional options for taxpayers to file their returns online for free. This would help IRS allocate its finite resources to improve taxpayer service and assess its progress toward an improved taxpayer experience.

2. Reducing tax fraud and improper payments. Tax noncompliance, including refund fraud, threatens the integrity of the tax system and costs the federal government hundreds of billions of dollars annually. Detecting fraudulent tax returns has become increasingly difficult for IRS as fraudsters gain access to more personal and financial information, which they use to file returns that appear legitimate. Six priority recommendations in this area include implementing a method to digitize information from paper-filed tax returns and developing a fraud risk profile for business identity theft. This would help IRS better defend itself and taxpayers against tax refund fraud and reduce improper payments that should not have been made or were made in incorrect amounts.

3. Improving cybersecurity. Implementing the one priority recommendation in this area would centralize leadership for IRS's efforts overseeing cybersecurity practices of third-party providers, such as paid tax return preparers and tax software providers. If these third parties do not properly secure taxpayers' personal and financial information, taxpayers will be vulnerable to data breaches that expose their information for use by fraudsters to commit identity theft refund fraud.

4. Enhancing information reporting. Implementing five priority recommendations in this area, for example by expanding third-party information reporting to improve sole proprietor compliance, would help IRS improve the intake, processing, and use of information returns. By matching information returns reported by third parties against information reported by taxpayers, IRS identifies potential fraud and noncompliance for enforcement action. According to IRS

⁵GAO, *Virtual Currencies: Additional Information Reporting and Clarified Guidance Could Improve Tax Compliance*, [GAO-20-188](#) (Washington, D.C.: Feb. 12, 2020), and *Infrastructure Investment and Jobs Act*, Pub. L. No. 117-58, § 80603, 135 Stat. 429, 1339–1341 (2021).

research, taxpayers are more likely to misreport income when little or no third-party information reporting exists than when substantial reporting exists.

5. Improving audit effectiveness. Auditing tax returns is a critical part of IRS’s strategy to ensure tax compliance and address the tax gap, which is the difference between taxes owed and those paid on time. Implementing three priority recommendations in this area, including improving how IRS defines large partnerships and analyzing results of partnership audits, would better inform IRS decisions about how to allocate limited audit and enforcement resources.

6. Enhancing strategic human capital management. IRS continues to face capacity challenges with skills gaps in mission-critical enforcement staff. Moreover, IRS continues to rely on expensive overtime to manage the unprecedented workloads for processing tax returns and assisting taxpayers. Implementing two priority recommendations in this area would position IRS to identify the workforce needed for the future and address skills gaps, as well as to use overtime efficiently to meet objectives.

In March 2021, we issued our biennial update to our [High-Risk List](#), which identifies government operations with greater vulnerabilities to fraud, waste, abuse, and mismanagement or the need for transformation to address economy, efficiency, or effectiveness challenges.⁶ One of our high-risk areas, [enforcement of tax laws](#), centers directly on IRS.

Several other government-wide high-risk areas also have direct implications for IRS and its operation. These include (1) [ensuring the cybersecurity of the nation](#),⁷ (2) [improving the management of IT acquisitions and operations](#), (3) [strategic human capital management](#), (4) [managing federal real property](#), and (5) [government-wide personnel security clearance process](#). We urge your attention to the enforcement of tax laws high-risk area as well as the government-wide high-risk issues as they relate to IRS. Progress on high-risk issues has been possible through the concerted actions and efforts of Congress, the Office of Management and Budget (OMB), and the leadership and staff in agencies, including IRS. In March 2022, we issued a report on key practices to successfully address high-risk areas, which can be a helpful resource as your agency continues to make progress to address high-risk issues.⁸

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Copies of this letter are being sent to the Director of OMB, the Secretary of the Treasury, and appropriate congressional committees including the Committees on Appropriations, Budget, Finance, and Homeland Security and Governmental Affairs, United States Senate; the Committees on Appropriations, Budget, Oversight and Reform, and Ways and Means, United States House of Representatives; and the Joint Committee on Taxation. In addition, the report will be available on the GAO website at <http://www.gao.gov>.

⁶GAO, *High-Risk Series: Dedicated Leadership Needed to Address Limited Progress in Most High-Risk Areas*, [GAO-21-119SP](#) (Washington, D.C.: Mar. 2, 2021).

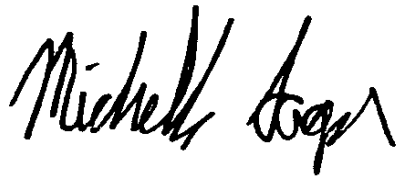
⁷With regard to cybersecurity, we also urge you to use foundational information and communications technology supply chain risk management practices set forth in our December 2020 report: GAO, *Information Technology: Federal Agencies Need to Take Urgent Action to Manage Supply Chain Risks*, [GAO-21-171](#) (Washington, D.C.: Dec. 15, 2020).

⁸GAO, *High-Risk Series: Key Practices to Successfully Address High-Risk Areas and Remove Them from the List*, [GAO-22-105184](#) (Washington, D.C.: Mar 3, 2022).

I appreciate IRS's continued commitment to these important issues. If you have any questions or would like to discuss any of the issues outlined in this letter, please do not hesitate to contact me or Jessica Lucas-Judy, Director, Strategic Issues, at lucasjudyj@gao.gov or (202) 512-6806, or James R. McTigue Jr., Director, Strategic Issues, at mctiguej@gao.gov or (202) 512-6806.

Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this letter. Our teams will continue to coordinate with your staff on all of the 268 open recommendations. Thank you for your attention to these matters.

Sincerely yours,

A handwritten signature in black ink that reads "Michelle Sager". The signature is written in a cursive, flowing style.

Michelle Sager
Managing Director, Strategic Issues

Enclosure – 1

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

Enclosure

Priority Open Recommendations: Internal Revenue Service

1. Improving Taxpayer Services

Tax Filing: Actions Needed to Address Processing Delays and Risks to the 2021 Filing Season. [GAO-21-251](#). Washington D.C.: March 1, 2021.

Recommendation: The Commissioner of Internal Revenue should revise IRS’s estimates for resolving its backlog of work from the 2020 filing season.

Action needed: IRS disagreed with this recommendation. IRS said it continues to monitor and assess the 2020 filing season carryover paper inventory daily, and that it adjusts processing priorities based on constantly changing variables that affect the paper inventory backlog. In December 2021, IRS completed entering all remaining returns from 2020 into its systems for processing. As of April 2022, IRS officials said that, in general, these returns have been fully processed. However, they said IRS may be holding some returns from 2020 for review due to complex errors. We requested data from IRS on how many returns from 2020 remain unprocessed to assess IRS’s progress on fully implementing this recommendation.

Additionally, we reported in April 2022 that IRS’s backlog of taxpayer correspondence grew to more than 8 million by the start of 2022. We are monitoring IRS’s efforts to address this backlog in a separate priority recommendation. Addressing its backlog of work would enable IRS to better serve taxpayers and deliver long-overdue refunds from the 2020 filing season.

High-risk area: [Enforcement of Tax Laws](#)

Director: Jessica Lucas-Judy, Strategic Issues

Contact information: lucasjudyj@gao.gov or (202) 512-6806

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

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

Action needed: IRS agreed with the recommendation. In its March 2022 comments on the report, IRS stated that it continues to work to return its correspondence inventory to normal levels. To fully implement this recommendation, IRS needs to clearly communicate estimated time frames for resolving correspondence so taxpayers know when to reasonably expect a response or refund. Without clear, timely information on IRS’s processing time frames for addressing taxpayer correspondence, taxpayers will continue to call, write, or visit IRS in person to try to obtain this information, and IRS will continue to struggle to meet demands for taxpayer customer service and in processing returns.

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

Action needed: IRS agreed with this recommendation. In its March 2022 comments on the report, IRS stated that implementation of this effort will be contingent on available funding. IRS also stated that it is conducting research, to be completed in the spring of 2022, to gather insights on user needs and expectations regarding refund status messaging. This indicates that IRS is in the early stages of gathering user requirements for “Where’s My Refund,” an initial step for an information technology modernization effort.

To fully implement this recommendation, IRS needs a plan to address technical limitations with the current application or develop a new application to better serve taxpayers in the future. Without clear leadership direction and a plan and timeline for modernizing “Where’s My Refund,” IRS will not be positioned to better serve taxpayers in the future. Further, it will be difficult for IRS to reduce the burden of additional workload on IRS staff and associated costs when taxpayers call or write IRS when they cannot get the information they need through “Where’s My Refund.”

High-risk area: [Enforcement of Tax Laws](#)

Director: Jessica Lucas-Judy, Strategic Issues

Contact information: lucasjudyj@gao.gov or (202) 512-6806

Tax Administration: Taxpayer Input Could Strengthen IRS's Online Services. [GAO-20-71](#). Washington, D.C.: December 19, 2019.

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

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

Important developments have occurred since we made this recommendation, including the December 2019 revision of the agreement between IRS and industry removing a prohibition on an IRS-run online filing system. Also, two large companies left the Free File program in 2020 and 2021, which makes it more difficult for taxpayers to find an online filing method guaranteed to be free. Further, IRS announced in May 2020 that taxpayers would be able to file an amended return electronically using commercial software for tax years 2020 and 2019. However, as of May 2022, only a current year return for tax year 2021 may be filed through the Free File program.

To fully implement this recommendation, IRS needs to undertake a more complete analysis of the agreement to inform decisions about the future direction of online services for individual taxpayers and next steps regarding the Free File agreement, which is set to expire at the end of October 2023. Without more rigorous examination, IRS is not positioned to manage the mounting risks of its reliance on the agreement nor to consider how Free File fits with its growing portfolio on online services.

High-risk area: [Enforcement of Tax Laws](#)

Director: Jessica Lucas-Judy, Strategic Issues

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

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

Action needed: IRS disagreed with this recommendation. In its April 2022 comments on the report, IRS stated that it currently does not believe a public free filing option would significantly improve the taxpayer experience and it does not have sufficient funding to do this. IRS leaves open the possibility that it would reconsider its position if Congress enacted new legislation or funding. IRS has an information advantage over private tax preparation and filing companies that could simplify the filing process. Further, IRS would not necessarily need to develop new filing options on its own. IRS could address resource challenges by leveraging entities such as the U.S. Digital Service and Code for America.

While IRS expressed concern about the resources required to develop an alternative, such concern needs to be weighed against the potential of an abrupt end to the program and the customer service challenges it would present. As such, IRS should start planning to avoid such an outcome. Ensuring IRS is well positioned to offer free online filing services to taxpayers will help mitigate the risks and uncertainty associated with the Free File program.

High-risk area: [Enforcement of Tax Laws](#)

Director: James R. McTigue, Strategic Issues

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Taxpayer Service: IRS Could Improve the Taxpayer Experience by Using Better Service Performance Measures. [GAO-20-656](#). Washington, D.C.: September 23, 2020.

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

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

Actions needed: IRS generally agreed with both of these related recommendations. In its January 2021 *Taxpayer First Act Report to Congress*, IRS identified a new framework of strategic goals and objectives for improving the taxpayer experience and some high-level

service performance measures with targets for improving the taxpayer experience.⁹ However, the report did not specify related performance goals aligned with strategic goals for assessing progress in improved taxpayer experience outcomes, particularly in the divisions that provide taxpayer services.

As of March 2022, IRS officials said that the fiscal year 2022-2026 IRS Strategic Plan, which is expected to be completed in the spring of 2022, will include strategic goals, objectives, and supporting measures for agency-wide and division performance goals that align with IRS's taxpayer service goals. We will review the forthcoming plan to determine if IRS has fully implemented these priority recommendations. IRS needs to clearly state performance goals for desired improvements in the taxpayer experience and specify their related measures with targets. Without such performance information, it will be challenging for IRS and stakeholders to assess progress made toward an improved taxpayer experience and providing top-quality service.

High-risk area: [Enforcement of Tax Laws](#)

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

Recommendation: The Commissioner of Internal Revenue should establish time frames and monitoring procedures for timely transfer of taxpayer appeals requests by examination compliance units to the Office of Appeals.

Action needed: IRS agreed with this recommendation. All four IRS divisions established and documented time frames for timely examination appeal transfer. Three divisions have demonstrated procedures in place for monitoring timely appeal transfer. One division—Small Business/Self Employed (SB/SE)—has updated its Internal Revenue Manual guidance on timely appeal request transfer requirements. In May 2022, SB/SE provided additional information about the steps involved when a taxpayer appeal request needs additional information or review before transfer. We will review this information to determine whether IRS has fully demonstrated how it monitors timeliness across the range of examination cases that SB/SE handles.

To fully implement this recommendation, IRS needs to demonstrate monitoring capability to ensure the timely transfer of all examination appeals, including those from the SB/SE division. Delays in transferring such requests can result in increased interest costs for taxpayers because interest continues to accumulate on the tax liability during the appeal process. Further, taxpayers unsure of the status of their appeals may call or write to IRS, tying up staff responding to inquiries about appeals delayed in transfer.

High-risk area: [Enforcement of Tax Laws](#)

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⁹IRS, *Taxpayer First Act: Report to Congress*, (Publication 5426: Jan. 11, 2021). The report addresses three provisions of the Taxpayer First Act, each of which included a requirement to report to Congress. Pub. L. No. 116-25, §§ 1101, 1302, 2402, 133 Stat. 981, 985–986, 993, 1014 (2019).

2. Reducing Tax Fraud and Improper Payments

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

Recommendation: In accordance with the plan developed for implementing changes to its online authentication programs, the Commissioner of Internal Revenue should implement improvements to IRS's systems to fully implement the National Institute of Standards and Technology's (NIST) new guidance.

Action needed: IRS agreed with this recommendation and has taken steps to implement it as of February 2022. Efforts include taking steps to create a new online authentication platform to authenticate taxpayers' identities using external partners, consistent with NIST guidance.¹⁰ IRS has also worked with external partners to test its platform, including conducting a usability study to understand the user experience. In January 2022, IRS told us that it has begun using the platform for taxpayer authentication for several online applications and plans to continue adding applications to this new platform through this summer. As of February 2022, IRS expected to complete implementation in February 2023. To fully implement this recommendation, IRS must complete migrating its online authentication applications to a new NIST-compliant platform. Improving its ability to authenticate taxpayer identities will better position IRS to respond to known and unknown threats to the tax system.

High-risk area: [Enforcement of Tax Laws](#)

Director: James R. McTigue Jr., Strategic Issues

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

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

Action needed: IRS agreed with this recommendation and is taking steps to implement its digitization strategy and use the Return Review Program's (RRP) capabilities. As of May 2022, IRS reported that it expects RRP's fraud filters and enhanced enforcement capabilities to be fully connected to certain amended digitized forms in 2022. To fully implement this recommendation, however, IRS must fully digitize paper tax returns at intake. This would allow IRS to reduce processing time, use the RRP fraud filters on all paper and electronic forms, and allow more pre-refund compliance checks or investigations, among other benefits.

Recommendation: Based on its evaluation of RRP, the Commissioner of Internal Revenue should expand RRP to support identified activities.¹¹

¹⁰NIST, *Electronic Authentication Guideline, Special Publication 800-63-2* (August 2013), superseded by *Digital Identity Guidelines, Special Publication 800-63-3* (June 2017).

¹¹In January 2022, IRS implemented a previous priority recommendation to evaluate the costs and benefits of expanding RRP to analyze individual returns not claiming refunds to support other enforcement activities.

Action needed: IRS agreed with this recommendation, noting that an agency goal is to expand the use of RRP to improve tax compliance and enforcement. In January 2022, IRS reported its completed evaluation identified increased revenue and cost savings from using RRP in certain enforcement activities. As of May 2022, IRS reported that it is also working to connect RRP's expanded enforcement capabilities to digitized amended paper returns. To fully implement this recommendation, IRS needs to continue leveraging RRP capabilities to support other enforcement activities. Fully expanding RRP will help IRS streamline its detection and treatment of fraud and increase taxpayer compliance.

High-risk area: [Enforcement of Tax Laws](#)

Director: James R. McTigue, Jr., Strategic Issues

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

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

Action needed: IRS agreed with the recommendation, but it has provided conflicting information on its implementation plans. In September 2020, IRS initially assigned oversight of its agency-wide efforts on business IDT to an executive steering committee. However, in February 2021, IRS officials stated that the agency is restructuring this executive steering committee and the restructured executive steering committee had not assumed the oversight role for business IDT. In May 2021, IRS officials stated that the committee would continue to serve as an interim oversight body on business IDT until IRS fully establishes the role of Chief of Identity Theft and Fraud, a new role described in its January 2021 *Taxpayer First Act Report to Congress*.

As of May 2022, IRS has not shown how the executive steering committee serves as the oversight body for business IDT. Instead, IRS described work developing fraud filters at the business unit level. Although IRS characterized this as a coordinated approach, these units have limited authority to oversee business IDT, as we reported in January 2020.

IRS officials stated that transitioning oversight to the new chief position may take up to 2 years. To fully implement this recommendation, IRS needs to demonstrate that the new leadership position has defined responsibilities and authority for managing fraud risk. We continue to monitor whether IRS is providing centralized oversight consistent with leading practices for fraud risk management in the interim. IRS's continued attention is important for coordinating its efforts to combat the evolving threat of business IDT.

Recommendation: The Commissioner of Internal Revenue should develop a fraud risk profile for business IDT that aligns with leading practices. This should include (1) identifying inherent fraud risks of business IDT, (2) assessing the likelihood and impact of inherent fraud risks, (3) determining fraud risk tolerance, and (4) examining the suitability of existing fraud controls.

Action needed: IRS agreed with the recommendation. In October 2020, IRS completed a fraud risk assessment of 35 business-related tax forms using six quantitative measures of IDT refund fraud risk. As a result of this effort, IRS identified seven business-related tax forms that pose a significant fraud risk but currently lack effective fraud controls. IRS officials stated that this information will be used to determine priorities for implementing new fraud filters, as appropriate.

In May 2022, IRS provided updated information about its fraud risk profiling efforts. We are reviewing the material to determine whether IRS has demonstrated additional actions taken to identify and assess other inherent fraud risks to business IDT, including those we highlighted in our January 2020 report. For example, our report described the inherent fraud risk and vulnerabilities in the Employer Identification Number process. A complete fraud risk assessment would help IRS establish a risk tolerance for the Employer Identification Number process and determine if existing fraud controls are sufficient to address the vulnerabilities inherent to that process. By continuing to identify and assess additional fraud risks to business IDT, IRS will be better positioned to establish risk tolerances and determine the sufficiency of existing fraud controls.

High-risk area: [Enforcement of Tax Laws](#)

Director: James R. McTigue, Jr., Strategic Issues

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

Recommendation: IRS should direct the appropriate officials to assess the program against applicable Improper Payments Information Act of 2002 (IPIA)-defined thresholds and conclude on its susceptibility to significant improper payments, and revise the scope of its improper payments susceptibility assessment for the premium tax credit (PTC) program to include instances in which advance PTC is greater than or equal to the amount of PTC claimed on the tax return. If the program meets the IPIA definition for being susceptible to significant improper payments based on this assessment, estimate and report improper payments associated with the PTC program consistent with IPIA requirements.

Action needed: IRS partially agreed with this recommendation. In December 2019, IRS concluded that the PTC program was susceptible to significant improper payments but that IRS needed additional years of data before it could develop a statistically valid estimate. In February 2022, IRS stated that the Department of the Treasury and IRS notified the Office of Management and Budget (OMB) that they delayed reporting the improper payment estimate for the PTC due to significant demands placed upon Treasury and IRS in connection with the COVID-19 pandemic.

As of March 2022, IRS anticipates reporting improper payment estimates for the PTC in Treasury's Agency Financial Report for fiscal year 2022. To fully implement this recommendation, IRS needs to report a valid estimate of PTC improper payments as part of Treasury's Agency Financial Report. Until IRS completes this assessment, Congress and other external stakeholders will continue to lack key payment integrity information for monitoring improper payments.

High-risk area: [Enforcement of Tax Laws](#)

Director: M. Hannah Padilla, Financial Management and Assurance
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3. Improving Cybersecurity

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

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

Action needed: IRS agreed with the intent of this recommendation but did not agree to implement it. In February 2022, IRS executives reiterated the agency's stance as documented in an internal risk assessment tool, citing the need for additional explicit authority to establish security requirements for the information systems of paid preparers and others who electronically file returns. IRS reported that to effectively establish data safeguarding policies and implement strategies enforcing compliance with those policies, a centralized leadership structure would require statutory authority clearly communicating the authority of IRS to do so. IRS stated that without such authority, implementing the recommendation would be an inefficient, ineffective, and costly use of resources.

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

High-risk area: [Enforcement of Tax Laws, Ensuring the Cybersecurity of the Nation](#)

Director: Jessica Lucas-Judy, Strategic Issues
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4. Enhancing Information Reporting

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

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

Action needed: IRS neither agreed nor disagreed with this recommendation. IRS officials reported that IRS will further research and evaluate the tax administration benefits and taxpayer burdens of expanding third-party information reporting for sole proprietors' income and expenses. As of April 2022, IRS officials reported that the agency is compiling a list of ideas that were proposed in the past but were never adopted, and soliciting additional ideas within IRS.

According to IRS, two key recommendations from IRS's actions have already been addressed by statute. The first is a reduction in the reporting thresholds for Form 1099K, and the second is clarifying third-party information reporting requirements related to virtual currency.¹²

Continued efforts to research expanding third-party information reporting will help IRS develop additional recommendations. Upon conclusion of its research and evaluation, IRS will also prepare a briefing document for Treasury and offer its support in developing any recommendations that Treasury chooses to pursue. To fully implement this recommendation, IRS needs to complete its research on options to increase information reporting for sole proprietorships. Without options to help improve compliance for sole proprietorships, IRS is missing an opportunity to help address a significant part of the tax gap.

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

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

Actions needed: IRS neither agreed nor disagreed with these two related recommendations. Officials reported that IRS will submit an Information Return System Modernization plan to Congress that leverages the 1099 Internet Platform required by section 2102 of the Taxpayer First Act as the foundation of information return modernization efforts.¹³ As of April 2022, IRS reported that the original design of this platform was expanded to include a modernized view of the information returns pipeline from intake to processing. IRS expects that it will implement the first phase of the platform by February 2023. Additionally, its Information Technology office is in the process of designing future phases of this modernization effort and determining how these efforts will be integrated into broader IT modernization planning efforts within IRS.

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

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

¹²American Rescue Plan Act of 2021, Pub. L. No. 117-2, § 9674, 135 Stat. 4, 185 (2021); Infrastructure Investment and Jobs Act, Pub. L. No. 117-58, § 80603, 135 Stat. at 1339–1341.

¹³Pub. L. No. 116-25, § 2102, 133 Stat. at 1010.

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

As of March 2022, IRS expects to complete this evaluation by October 2022. To fully implement this recommendation, IRS needs to complete its review of the selected returns and establish a systematic review of the remaining suite of information returns. Without completing this comprehensive evaluation of information returns or their characteristics, IRS risks gathering information that it cannot use effectively in some areas and burdening filers and taxpayers and not gathering enough information for enhancing compliance in other areas.

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

Action needed: IRS neither agreed nor disagreed with this recommendation. In July 2021, IRS reported that the new organizational structure described in its January 2021 *Taxpayer First Act Report to Congress* would provide for collaboration and coordination on the delivery of IRS-wide programs, such as those involving information returns. According to the report, IRS will consolidate compliance functions currently dispersed across multiple business units into a single division, which may help identify compliance related trends across taxpayer segments. IRS aims for this consolidation to reduce duplicative activities related to case selection and performance monitoring, among others.

As of March 2022, IRS plans to complete its compliance reorganization in August 2024. IRS reported that in the interim, the Deputy Commissioner for Services and Enforcement is to facilitate coordination among internal stakeholders. Until IRS implements a collaborative mechanism with a coordinated approach to using information returns, IRS risks missing opportunities to improve the effectiveness of its development, intake, processing, and use of information returns.

High-risk area: [Enforcement of Tax Laws](#)

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5. Improving Audit Effectiveness

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

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

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

Actions needed: IRS agreed with these recommendations. It defined large partnerships as having \$10 million or more in assets, the same as large corporations. Whereas IRS has eight asset categories for tracking large corporations, IRS has created only one category for tracking large partnerships. It has revised its activity codes to create a category and a reporting and monitoring structure for its new definition to regularly track audit results for large partnerships, such as dollar amounts, hours, and number of returns. As of January 2020, IRS officials said they planned to use these reports on audit results to do the analysis recommended. Until IRS develops a more expansive definition of large partnerships, IRS may have challenges analyzing the results from its audits of large partnerships.

In December 2021, IRS officials said the agency has started efforts to improve selection of partnership returns for audit based on compliance risk and analyze audit results to help determine the effectiveness of partnership audits. Its Large Partnership Compliance program selected cases for auditors to begin in late fiscal year 2021 but resolving these complex cases will take 2 to 3 years. As of March 2022, IRS does not anticipate receiving results from its initial data-collection efforts that could help it determine how to implement these recommendations until September 2022 at the earliest. Other IRS efforts include developing a model to identify partnerships that represent a compliance risk and a few specialized studies to identify tax return issues affecting partnership compliance. As of May 2022, IRS has not provided specific plans or time frames for these two efforts.

To fully implement these recommendations, IRS needs to improve how it defines large partnerships and to analyze the results of its audits. Without detail on audits by additional size categories of large partnerships, IRS is missing opportunities to better plan and use resources when auditing large partnerships.

High-risk area: [Enforcement of Tax Laws](#)

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

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

Action needed: IRS generally agreed with our recommendation. In May 2021, IRS began efforts to digitize the information referral form for reporting tax fraud, but as of February 2022, the form instructions are to print and mail the form. Once the online form submission is functional, IRS will consider developing automated capacity to replace manual clerical screening and mailing of information referrals to IRS enforcement units for further screening. IRS plans to develop an online system to consolidate referral intake as part of its Enterprise Case

Management initiative.¹⁴ As of March 2022, IRS did not have a timeline for developing the system.

To fully implement this recommendation, IRS must establish a timeline for automating the information referral program and consolidating intake for its multiple public referral programs. Without continued progress on efforts to consolidate referral intake, IRS faces continued inefficiencies in receiving and processing referrals. It also risks potential public confusion caused by trying to choose among multiple forms.

High-risk area: [Enforcement of Tax Laws](#)

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6. Enhancing Strategic Human Capital Management

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

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

Action needed: IRS agreed with this recommendation. As of March 2021, IRS reported it had established a workforce plan, including an enterprise strategy, and had initiated the associated workforce analysis needed to implement the initiative. Our review of the workforce plan found IRS was scheduled to implement the plan and have a process in place to monitor and evaluate the results by December 2021. However, IRS reported in December 2021 that it was providing additional time to facilitate concurrence with key stakeholder organizations across IRS, among other reasons. As of March 2022, IRS has extended implementation to August 2022. Full implementation of the initiative will provide a comprehensive inventory of IRS's current workforce that will allow IRS to develop competency and staffing requirements to conduct agency-wide activities associated with identifying and addressing skills gaps.

High-risk area: [Strategic Human Capital Management](#)

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

¹⁴Enterprise Case Management is an IRS information technology solution for performing case management across IRS's business units.

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

Action needed: IRS agreed with this recommendation, but stated that its existing process within the Wage and Investment division for the use and approval of overtime is sufficient, so it would not take any further action. However, as we reported in January 2020, offices in the Wage and Investment division had exceeded their overtime allocations in several of the preceding years. Further, we reported in April 2022 that IRS's use of overtime doubled during fiscal year 2021 compared to the prior year.¹⁵ Dependence on overtime can contribute to skills gaps and negatively affect employee morale. We continue to believe that a strategy, in collaboration with IRS's strategic workforce planning initiative, would help ensure efficient use of expensive overtime.

High-risk area: [Enforcement of Tax Laws](#)

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¹⁵GAO, *Tax Filing: 2021 Performance Underscores Need for IRS to Address Persistent Challenges*. [GAO-22-104938](#) (Washington, D.C.: Apr. 11, 2022).

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