U.S. GOVERNMENT ACCOUNTABILITY OFFICE

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

November 7, 2024

The Honorable Janet L. Yellen
Secretary of the Treasury

Financial Audit: IRS's FY 2024 and FY 2023 Financial Statements

Dear Madam Secretary:

This report transmits the GAO auditor's report on the results of our audits of the fiscal years 2024 and 2023 financial statements of the Internal Revenue Service (IRS), which is incorporated in the enclosed *IRS Fiscal Year 2024 Agency Financial Report*.

As discussed more fully in the auditor's report that begins on page 54 of the enclosed financial report, we found

- IRS's financial statements as of and for the fiscal years ended September 30, 2024, and 2023, are presented fairly, in all material respects, in accordance with U.S. generally accepted accounting principles;
- although internal controls could be improved, IRS maintained, in all material respects, effective internal control over financial reporting as of September 30, 2024; and
- no reportable noncompliance for fiscal year 2024 with provisions of applicable laws, regulations, contracts, and grant agreements we tested.

During our audit, we continued to identify a significant deficiency in internal control over financial reporting concerning IRS's unpaid assessments. This significant deficiency merits attention by those charged with governance of IRS.[1]

Under current law, executive agencies, including the Department of the Treasury of which IRS is a component, must annually prepare audited organization-wide financial statements.[2] The law also requires audited financial statements of components of executive agencies as designated by the Director of the Office of Management and Budget (OMB). IRS is one of these designated

[1]A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

[2]See 31 U.S.C. § 3515.

components. In connection with fulfilling our requirement to audit the consolidated financial statements of the U.S. government, and consistent with our authority to audit statements and schedules prepared by executive agency components, we have audited IRS's financial statements because of the significance of IRS's tax collections to the consolidated financial statements of the U.S. government.[3]

We are sending copies of this report to the appropriate congressional committees, the Commissioner of Internal Revenue, the Director of the Office of Management and Budget, and other interested parties. In addition, the report is available at no charge on the GAO website at https://www.gao.gov.

If you or your staff have any questions concerning this report, please contact me at (202) 512-3406 or simpsondb@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions to this report are listed on the third to last page of this report.

Sincerely,

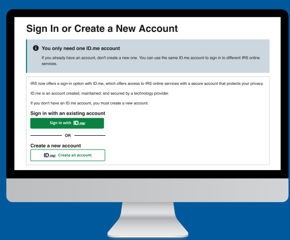
Dawn B. Simpson
Director, Financial Management and Assurance

Enclosure

[3]See 31 U.S.C. §§ 331(e)(2), 3515, 3521(g), (i).

2024 AGENCY FINANCIAL REPORT

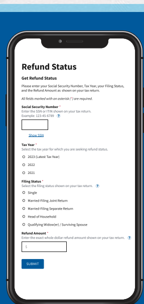
IRS offers tools and applications to help people understand and meet their tax responsibilities



YOUR ACCOUNT

Access your individual, business, or tax pro account.

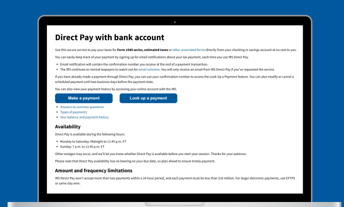
Go to your account (www.irs.gov/youraccount)



WHERE'S MY REFUND

Find the status of your last return and check on your refund.

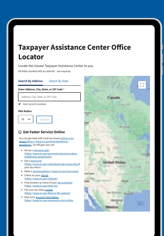
Check your refund status (www.irs.gov/wheres-my-refund)



PAY DIRECTLY FROM YOUR BANK ACCOUNT

Use Direct Pay to securely pay your taxes from your checking or savings account.

Pay your taxes (www.irs.gov/directpay)



TAXPAYER ASSISTANCE CENTER LOCATOR

Find your local office and see what services are available.

Contact your local IRS office (www.irs.gov/tac)

Visit IRS.gov for additional resources

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ABOUT THIS REPORT

This Agency Financial Report presents the Internal Revenue Service's (IRS) financial information in relation to its mission and entrusted resources for the fiscal year (FY) 2024 reporting period (October 1, 2023 to September 30, 2024). It highlights select accomplishments and challenges in implementing programs that promote the IRS's mission. This financial report is available on www.irs.gov/about-irs/irs-financial-reports.

The IRS, as a bureau within the Department of the Treasury (Treasury), presents this report in accordance with Office of Management and Budget's Circular A-136, Financial Reporting Requirements. This report includes Circular A-136 core principles and requirements applicable to a component entity. This report is titled Agency Financial Report to be consistent with similar reports in the federal government.

How This Report is Organized

The Agency Financial Report consists of the following sections:

Section 1: Management's Discussion and Analysis (Unaudited)

Provides a high-level overview of the IRS's history, mission, and organizational structure; strategic framework; programmatic performance; enterprise risks; analysis of financial statements; analysis of systems, controls, and legal compliance; management assurances related to the IRS's internal controls; and forward-looking information. United States (U.S.) generally accepted accounting principles issued by the Federal Accounting Standards Advisory Board require the Management's Discussion and Analysis be presented as required supplementary information to the financial statements.

Section 2: Financial Information

Includes a message from the Chief Financial Officer (CFO), Independent Auditor's Report and IRS response, audited financial statements and accompanying notes, and unaudited required supplementary information.

Section 3: Other Information (Unaudited)

Contains a summary of the Financial Statement Audit and Management Assurances; Tax Burden, Tax Gap, and Tax Expenditures; Management and Performance Challenges; Grants Programs; and Refundable Tax Credits and Other Outlays and Social Security and Medicare Taxes. Treasury reports on Payment Integrity and Climate–Related Financial Risk in its Agency Financial Report (home.treasury.gov/about/budget-financial-reporting-planning-and-performance/agency-financial-report). For information on Payment Integrity, see PaymentAccuracy.gov (www.paymentaccuracy.gov).

MESSAGE FROM THE COMMISSIONER

On behalf of my dedicated colleagues at the IRS, I am pleased to present the IRS Agency Financial Report for FY 2024. This report provides an assessment of the IRS's financial status and demonstrates how the IRS effectively used entrusted resources in support of our mission to provide America's taxpayers top-quality service with integrity and fairness to all.

The funding provided by the Inflation Reduction Act of 2022 (IRA) has given us a unique opportunity – a once-in-a-generation chance – to envision and realize a future of tax administration that meets the evolving needs of taxpayers and the nation. My commitment to invest this funding responsibly and drive critically needed agency improvements is focused around three central themes:

1. Ensuring taxpayers can easily contact the IRS to get help navigating complex tax laws and accessing the credits for which they are eligible, whether in person, on the phone, or online.
2. Identifying the growing number of taxpayers with complex returns — including certain high-income and high-wealth individuals, large corporations, and complex partnerships — who are shielding income to evade their tax responsibility and collect from them what is owed.
3. Addressing the growing risk of tax scams and schemes, protecting honest taxpayers from them, and rooting out the nefarious actors that perpetrate them.

This transformation is driven by a detailed Strategic Operating Plan FY 2023-2031 (SOP) that guides dramatic improvements to our information technology infrastructure to deliver modern technology platforms that center around data and applications, strengthens compliance, and delivers improved service to taxpayers and tax professionals. Our 2024 IRA Strategic Operating Plan Annual Update provides details about our successes in the first year of implementation. In our 2024 IRA Strategic Operating Plan Annual Update Supplement (SOP Annual Update Supplement), we look to the future and lay out in more detail the vision, plan, and resources required to continue implementing the SOP. The SOP, Strategic Operating Plan Annual Update, and SOP Annual Update Supplement can be found at www.irs.gov/strategicplan.

I am proud of the transformation work we have done in FY 2024, and I am committed to completing the additional work that remains on many fronts: maintaining the outstanding level of service for our main phone line and closing gaps on other lines, expanding digital options for all taxpayers, further strengthening data security, and increasing support for vulnerable populations by such actions as increasing access to the Earned Income Tax Credit and other refundable credits, as well as protecting and supporting scam victims.

Key Areas of Focus:

2024 Filing Season: We had several ambitious transformation goals at the start of the filing season, and because of the hard work of IRS employees, we either met or exceeded our goals. We exceeded our goal to provide an 85% level of service on our main toll-free phone line during the filing season, reaching nearly 88%, which means most callers routed to live assistors were able to connect and receive support without needing to make multiple calls just to get their question answered. We significantly exceeded our goal of an average call wait time of five minutes or less on our main taxpayer helpline, with calls being answered in about three minutes. Taxpayers had the ability to opt for a call back if the projected wait time on the phone was more than 15 minutes, saving taxpayers over 1.5 million hours of hold time.

We increased self-service support in areas such as the Where's My Refund? (www.irs.gov/wheres-my-refund) and Where's My Amended Return? (www.irs.gov/wmar) to help taxpayers get quicker answers on the status of their refund or amended return. The improved Where's My Refund? tool also allows taxpayers to see more detailed refund status messages and works seamlessly on mobile devices.

For those who needed in-person assistance, we provided more help at our Taxpayer Assistance Centers. We exceeded our goal to deliver 8,500 more hours of in-person assistance than we did during the 2023 filing season by providing 13,000 more hours. We also expanded hours at more than 240 Taxpayer Assistance Centers around the country during the filing season and provided special Saturday hours in more than 70 locations. Evening and Saturday hours made it more convenient for thousands of taxpayers to get help during a time that fits their schedule.

We achieved our goals, but have more work to do in terms of providing service to tax professionals, such as improving functionality on the Practitioner Priority Line. While our service has improved, we will continue our focus on providing quality service to the practitioner community.

Direct File: During the 2024 filing season, the IRS conducted a limited-scope pilot of a system that allowed eligible taxpayers in 12 states to prepare and file a free, online tax return directly with the IRS. This pilot, called Direct File, served as an important innovation in our ongoing efforts to lead the agency into a digital, taxpayer-focused future.

Hundreds of thousands of taxpayers successfully signed into the system, and more than 140,000 tax returns were filed through Direct File, which is an impressive number given the limited scope of the pilot. Users gave the new option positive reviews, citing the ease and convenience of the tool. A General Services Administration Touchpoints survey of more than 15,000 Direct File users found 90% of respondents ranked their experience with Direct File as *Excellent* or *Above Average*. Based on the operational success and positive feedback, in May 2024, the IRS announced that Direct File would be expanded and made permanent. We were honored to receive an Innovation of the Year award from FEDSCOOP for the Direct File pilot. This award celebrates cutting-edge, innovative applications of technology that have disrupted traditional government operations and processes leading to an enhanced impact on mission and service delivery.

Digitalization: We're making critical progress in several areas toward greater digitalization. Digitization of paper-filed tax returns is a cornerstone of the IRS's modernization efforts. The IRS replaced outdated scanning equipment and is installing automated mail-sorter machines in the six highest-volume IRS locations. Once digitized, tax return data is processed throughout the IRS in a digitally optimized manner. Historical documents are also digitized and made digitally available for both taxpayers and IRS employees.

Online Services: As a result of expanded capabilities of the IRS Individual Online Account and Tax Pro Account this past filing season, taxpayers and tax professionals were able to perform more types of transactions in their accounts. We also launched a Business Tax Account to make interacting with the IRS easier for small business owners. We're continuing to expand the types of businesses eligible to use this account and the types of transactions they can perform.

Compliance Efforts: The IRS has increased compliance efforts on those posing the greatest risk to the nation's tax system, whether it's those trying to avoid paying the correct tax amount or promoters aggressively peddling abusive schemes. In our High Wealth, High Balance Due Taxpayer Field Initiative, the IRS intensified work on taxpayers with total positive income above $1 million who have more than $250,000 in recognized tax debt. As a result of an increase in the number of revenue officers focusing on these high-end collection cases, in FY 2024, we recovered more than $1 billion in delinquent tax debt. We also opened audits on 76 of the largest partnerships in the U.S. that included a cross-section of industries, including hedge funds, real estate investment partnerships, publicly traded partnerships, large law firms, and other industries. As part of our stepped-up efforts in the partnership area, we recently issued guidance to close tax loopholes that have led to abusive partnership transactions. We also created a new dedicated team in the Office of Chief Counsel that will focus on developing more guidance in this area.

Tax Scams and Fraud: When it comes to protecting taxpayers from scams, the IRS is always on the side of the taxpayer. We continued to issue public warnings about scams that threatened taxpayers such as one that promises inflated Earned Income Tax Credit amounts and another that attempts to trick people into tax-related identity theft. We also continued to see a significant increase in scams and marketing related to the Employee Retention Credit, a credit designed to support eligible businesses adversely affected by the Coronavirus Disease 19 (COVID-19) pandemic. Promoters aggressively marketed this program to businesses that may not have been eligible to claim these credits, putting them at financial risk and requiring the IRS to devote extra staff to process the large influx of new and often fraudulent claims.

We will continue civil and criminal enforcement efforts of these unscrupulous promoters. We entered a new phase of our work in this area in FY 2024, completing a detailed review of more than one million claims. In FY 2024, the IRS denied billions of dollars in improper claims, and that process will continue into FY 2025. At the same time, we began additional work to issue payments to help taxpayers without any red flags on their claims, so small businesses with legitimate claims can receive the assistance to which they are entitled.

Investing in the IRS Workforce: The IRS's greatest asset is our workforce, and we continue to focus on increasing our staffing to better serve America's taxpayers. In addition to new hires for in-person and telephone support, IRA resources enabled increased staffing in other areas, including Submission Processing, Information Technology, and Enforcement. In FY 2024, we began to heavily recruit revenue agents, who are responsible for auditing the most complex filers, including high-income and high-wealth individuals, large corporations, and complex partnerships.

Exhibiting Financial Stewardship: I am proud to share that the IRS achieved an unmodified financial statement audit opinion for the 25th consecutive year, marking a significant milestone in our commitment to financial integrity. Additionally, we successfully addressed a long-standing significant deficiency in Information System Controls, underscoring our dedication to public stewardship and excellence in financial management. The IRS continues to strengthen management controls and is making progress toward addressing the remaining unpaid assessments significant deficiency in internal control over financial reporting to meet all U.S. financial systems compliance and conformance objectives, which is outlined in the Management's Discussion and Analysis – Analysis of Systems, Controls, and Legal Compliance.

Looking back on FY 2024, it's clear that the IRS is in a better place. But there is much more to do, and I am confident that even more can be accomplished across the IRS in support of taxpayers, our employees, and the nation. I am committed to ensuring that the IRS will continue to improve the taxpayer experience and increase the efficiency and effectiveness of its operations, but our progress depends on adequate discretionary budget support and continued transformation funding.

I am proud to lead this work in collaboration with my colleagues, valued partners in the tax community, and national, state, and local partners to provide an effective and efficient tax system that is fair and equitable for all.

Sincerely,

Daniel I. Werfel
Commissioner of Internal Revenue
November 1, 2024

IRS Transformation Vision

Click this QR code or scan it with your smart device to watch an update from Commissioner Werfel

MANAGEMENT'S DISCUSSION AND ANALYSIS

ABOUT THE IRS

The IRS is a bureau of the Treasury. The IRS carries out the responsibilities of the Secretary of the Treasury under Internal Revenue Code Section 7801. The Secretary has full authority to administer and enforce the Internal Revenue Code and has the power to create an agency to enforce these laws.

Internal Revenue Code Section 7803 provides for the appointment of a Commissioner of Internal Revenue to administer and supervise the execution and application of the Internal Revenue Code.

The IRS is one of the world's largest tax administrators. In FY 2024, the IRS collected about $5.1 trillion in taxes, which represents nearly all the revenue that supports the federal government's operations.

Some Key Tax Statistics in FY 2024 Include:

267M
FEDERAL TAX RETURNS AND FORMS PROCESSED

$5.1T
COLLECTED IN GROSS TAXES

$3,143
AVERAGE INDIVIDUAL REFUND

$98.7B
ENFORCEMENT REVENUE COLLECTED

Note: These statistics are from October 1, 2023, through September 30, 2024. The Average Individual Refund amount includes refunds issued in FY 2024 for all tax years.

History

The IRS is one of the oldest bureaus in the U.S. Government. Article 1, Section 8 of the Constitution gave the federal government the "Power To lay and collect Taxes, Duties, Imposts and Excises, to pay the Debts and provide for the common Defence and general Welfare of the United States…" In 1862, President Lincoln and the Congress established the Bureau of Internal Revenue and the nation's first income tax. In 1953, the Bureau of Internal Revenue's name changed to the Internal Revenue Service. Visit the IRS History Timeline at www.irs.gov/irs-history-timeline.

Internal Revenue Service Building, 1111 Constitution Ave. N.W., Washington D. C.

Mission and Organization

The IRS's mission is to provide America's taxpayers top-quality service by helping them understand and meet their tax responsibilities while enforcing the law with integrity and fairness to all.

This mission statement describes the IRS's role — and the public's expectation — about how the IRS should perform that role.

- In the U.S., the Congress passes tax laws and requires taxpayers to comply.
- The taxpayer's role is to understand and meet their tax obligations.
- The IRS's role is to help willing taxpayers with the tax law, while ensuring that the minority who are unwilling to comply pay their fair share.

The IRS's core operations include collecting taxes, processing tax returns, assisting taxpayers, enforcing tax laws, and investigating tax crimes. The extensive IRS portfolio also includes tax-exempt organizations, tax-exempt bonds, refundable tax credits, and other specialized programs.

In FY 2024, the IRS made structural changes at the top of its organization designed to help with transformation efforts. The IRS's organizational structure continues to closely resemble the private sector model of organizing around customers with similar needs. The new organizational structure features a single Deputy IRS Commissioner and four new IRS chief positions, which are:

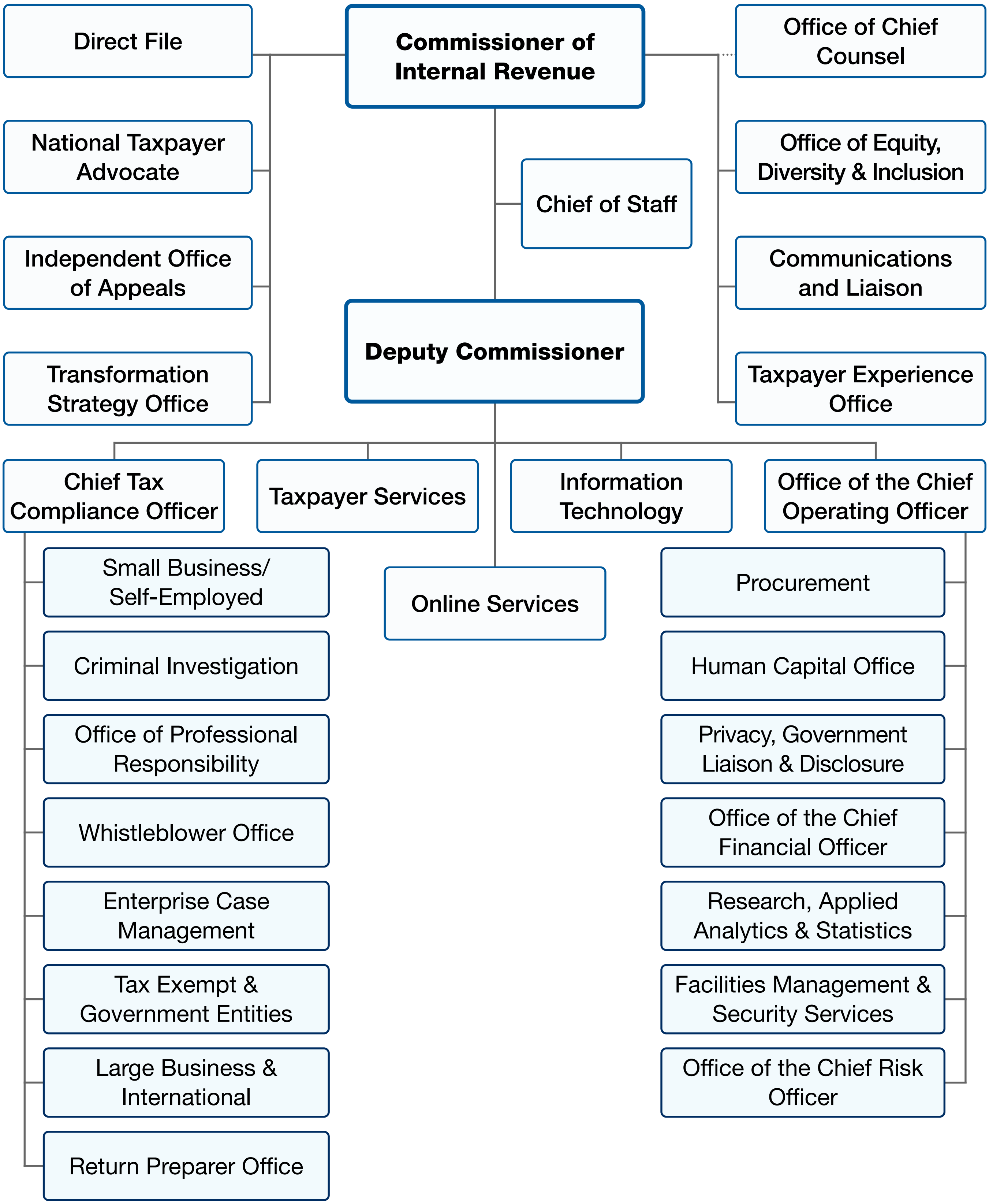
Chief Taxpayer Services – has responsibility for oversight and delivery of customer service (including telephone and face-to-face assistance) and tax return processing for all of America's taxpayers as well as compliance activities for taxpayers. This organization was formerly the Wage and Investment division.

Chief Tax Compliance Officer – has responsibility for oversight of the IRS compliance operations in the following organizations: Large Business and International, Small Business/Self Employed, Tax Exempt and Government Entities, IRS Criminal Investigation, Office of Professional Responsibility, Return Preparer Office, Whistleblower Office, and Enterprise Case Management.

Chief Information Officer – has responsibility for oversight and delivery of information technology services and solutions that drive effective tax administration to ensure public confidence and to meet complex legislative requirements, operate a world-class tax administration agency, and deliver technology services and solutions to employees and the public.

Chief Operating Officer – has responsibility for oversight of a variety of key operations support offices, including the: Human Capital Office, CFO, Procurement, Facilities Management and Security Services, Privacy Governmental Liaison and Disclosure, Office of the Chief Risk Officer, and Research, Applied Analytics and Statistics.

IRS Organizational Structure



View the most current IRS organization (www.irs.gov/about-irs/irs-organization) and leadership structure.

PERFORMANCE OVERVIEW

IRS Strategic Framework

The IRA creates a unique opportunity for this nation to realize a future of tax administration that meets the evolving needs of taxpayers. After years of underfunding that deteriorated taxpayer service and tax enforcement, frustrating taxpayers, the tax community, and IRS employees alike, the IRA provides the IRS with tens of billions of dollars during the next decade. This funding enables the IRS to significantly improve taxpayer services, ensure fair enforcement of tax law, and generate the revenue needed to fund the country's vital activities.

Published in April 2023, the SOP (www.irs.gov/strategicplan) envisions a modernized IRS that is focused on the customer experience, prefers digital over manual processes, and prioritizes compliance efforts that focus on complex tax issues and high-income individuals, complex partnerships, and large corporations. It outlines how the IRS will transform the American tax administration system into one that is more modern, capable of adapting to this digital age, and serves the evolving needs of taxpayers. It also supports the government-wide strategic priorities from the President's Management Agenda, including strengthening the federal workforce, delivering an excellent customer experience, enhancing clean energy efforts, increasing equity, and supporting underserved communities. Each IRS organization aligns its programs and performance within the SOP framework, which serves as a guide for decision-making by IRS leadership and project managers.

The SOP outlines five major objectives to carry forward this transformation:

Strategic Objective 1	Dramatically improve services to help taxpayers meet their obligations and receive the tax incentives for which they are eligible.
Strategic Objective 2	Quickly resolve taxpayer issues when they arise.
Strategic Objective 3	Focus expanded enforcement on taxpayers with complex tax filings and high-dollar noncompliance to address the tax gap.
Strategic Objective 4	Deliver cutting-edge technology, data, and analytics to operate more effectively.
Strategic Objective 5	Attract, retain, and empower a highly skilled, diverse workforce, and develop a culture that is better equipped to deliver results for taxpayers.

The IRS Transformation and Strategy Office was established in January 2023 to act as a catalyst for the IRS transformation. The Chief Transformation and Strategy Officer provides leadership and oversees transformation efforts. Change management practices are built into all initiatives and project plans and incorporates measures of success, as appropriate. Champions are appointed to lead ongoing projects throughout the IRS to achieve, communicate, and monitor the IRS's cultural goals.

As mentioned in the IRS's SOP Annual Update Supplement (www.irs.gov/strategicplan), the IRS incurs costs outside of the purview of the five objectives for ongoing activities performed by its support organizations, which include actions to fulfill statutory and regulatory requirements, effectively administer the tax system, and meet obligations to taxpayers. The IRS has reported select FY 2024 accomplishments performed by these offices in the Performance Overview section under Shared Services Support.

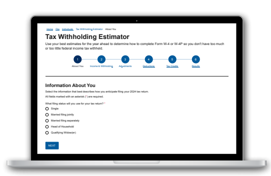
As Treasury's largest bureau, the IRS plays a critical role in advancing the Treasury Strategic Plan 2022–2026 (home.treasury.gov/about/budget-financial-reporting-planning-and-performance/strategic-plan) by co-leading the *Tax Policy and Administration* strategic objective and supporting nine other objectives across all five Treasury goals.

Major Programs

The IRS demonstrates responsible stewardship over taxpayer dollars by aligning major programs and performance measures with budgetary resources as appropriated by Congress. SOP Objectives 1 through 4 align to the major programs in the IRS Statement of Net Cost and represent transformational activities as described in the SOP and IRS base operations costs. The IRS distributes the costs associated with Objective 5 and Shared Services Support across all major programs.

DID YOU KNOW?

IRS OFFERS TAX WITHHOLDING ESTIMATORS



The IRS encourages taxpayers to use the IRS Tax Withholding Estimator to ensure they are withholding the correct amount of tax from their pay. Visit IRS.gov/w4app to learn more.

SOP Objectives, Initiatives, and Near-Term Priority Efforts

Through the course of implementing the SOP (www.irs.gov/strategicplan) in the first year, the IRS further refined its vision and near-term priority efforts. As published in its SOP Annual Update Supplement, the IRS presents in more detail the vision, plan, and resources required to continue implementing the SOP. A key component was the development of plain language outcomes aligned to the five objectives in the SOP, with priority efforts and key results over the next two years.

The SOP is structured to achieve the following five objectives and their near-term priority efforts, which will be accomplished through a series of initiatives and projects:

Strategic Objective 1: Dramatically improve services to help taxpayers meet their obligations and receive the tax incentives for which they are eligible.

Initiatives	Near-Term Priority Efforts
1.1 Improve the availability and accessibility of customer service. **1.2** Expand digital services and digitalization. **1.3** Ensure employees have the right tools. **1.4** Improve self-service options. **1.5** Explore direct file. **1.6** Enable taxpayers to access their data. **1.7** Provide earlier legal certainty. **1.8** Deliver proactive alerts. **1.9** Help taxpayers understand and claim appropriate credits and deductions. **1.10** Make payments easy. **1.11** Build status-tracking tools for taxpayers. **1.12** Streamline multichannel customer assistance.	• Enhance Live Assistance • Expand Online Services • Accelerate Digitalization • Improve Employee Tools
Major Program: Service to the Taxpayer	**Total Program Cost:** $6,519 million

Strategic Objective 2: **Quickly resolve taxpayer issues when they arise.**

Initiatives	Near-Term Priority Efforts
2.1 Identify issues during filing. **2.2** Deliver early and appropriate treatments for issues. **2.3** Develop taxpayer-centric notices. **2.4** Expand tax certainty and issue resolution programs. **2.5** Offer proactive debt resolution. **2.6** Expand engagement with nonfilers. **2.7** Use improved data and analytics to tailor timely collections contacts.	• Simplify Notices • Disrupt Scams
Major Program: Enforcement of Tax Legislation	**Total Program Cost:** *Objective 2 is combined with Objective 3*

Strategic Objective 3: **Focus expanded enforcement on taxpayers with complex tax filings and high-dollar noncompliance to address the tax gap.**

Initiatives	Near-Term Priority Efforts
3.1 Employ centralized, analytics-driven, risk-based methods to aid in the selection of compliance cases. **3.2** Expand enforcement for large corporations. **3.3** Expand enforcement for large partnerships. **3.4** Expand enforcement for high-income and high-wealth individuals. **3.5** Expand enforcement in areas where audit coverage has declined to levels that erode voluntary compliance. **3.6** Pursue appropriate enforcement for complex, high-risk, and emerging issues. **3.7** Promote fairness in enforcement activities.	• Ensure Fairness in Enforcement
Major Program: Enforcement of Tax Legislation	**Total Program Cost:** $12,359 million

Strategic Objective 4: **Deliver cutting-edge technology, data, and analytics to operate more effectively.**

Initiatives	Near-Term Priority Efforts
4.1 Transform core account data and processing. **4.2** Accelerate technology delivery. **4.3** Improve technology operations. **4.4** Continue to ensure data security. **4.5** Maximize data utility. **4.6** Apply enhanced analytics capabilities to improve tax administration. **4.7** Strategically use data to improve tax administration. **4.8** Partner to expand insights.	• Modernize Foundational IT
Major Program: Transformation of Business Systems	**Total Program Cost:** $914 million

Strategic Objective 5: **Attract, retain, and empower a highly skilled, diverse workforce, and develop a culture that is better equipped to deliver results for taxpayers.***

Initiatives	Near-Term Priority Efforts
5.1 Redesign hiring and onboarding. **5.2** Attract a talented and diverse workforce. **5.3** Improve the employee experience. **5.4** Help employees grow and develop. **5.5** Develop a data-savvy workforce. **5.6** Elevate workforce planning strategy. **5.7** Improve organizational structures and governance. **5.8** Build a culture of service and continuous improvement.	• Enhance Human Capital and Culture

*The IRS distributes costs associated with Objective 5 among Objectives 1, 2, 3 and 4.

IRS Performance Measurement Reporting Process

The IRS Congressional Budget Justification & Annual Performance Report and Plan (www.irs.gov/about-irs/budget-documents), approved by the IRS Commissioner and Deputy Commissioner, includes key performance measures, with annual and outyear targets and key performance indicators. Key performance indicators are created in the absence of historical data or when there is a lessened degree of control over the measurable value; therefore, targets are not required. The IRS uses these key metrics to assess progress in achieving the success in major program areas. All performance results in the FY 2024 Agency Financial Report are considered preliminary. The IRS will publish the actual results in the FY 2026 IRS Congressional Budget Justification & Annual Performance Report and Plan, which is generally published after the State of the Union Address.

DID YOU KNOW?

CONGRESSIONAL BUDGET JUSTIFICATION & ANNUAL PERFORMANCE REPORT AND PLAN

- Ensures taxpayers can easily interact with the IRS
- Maintains fairness in the tax system
- Addresses tax scams
- Outlines IT infrastructure funding and modern technology platforms

Summary of FY 2024 Results: The IRS has a total of 28 key performance measures and key performance indicators that support IRS major program areas, of which 20 are measures with targets and 8 are indicators. The IRS exceeded the FY 2024 target for 12 out of 20 key performance measures and 2 out of 3 key performance indicators are trending in the desired direction compared to the prior year result. Results were not available for 5 key performance indicators; those results will appear in the FY 2026 IRS Congressional Budget Justification & Annual Performance Report and Plan.

Refer to the Verification and Validation of Performance Data information at the end of this Performance Overview section for details on the IRS's approach to verification and validation of performance data and performance measurement reporting.

Strategic Objective 1: Dramatically improve services to help taxpayers meet their obligations and receive the tax incentives for which they are eligible.

Major Program | Service to the Taxpayer

In FY 2024, the IRS enhanced live assistance. After the passage of the IRA, the IRS hired thousands of new customer service representatives to ensure that call centers could effectively handle the millions of calls that the IRS receives annually. The improvement to taxpayer service was immediate. During the 2024 filing season, the IRS answered more than one million additional phone calls than the prior year and achieved a nearly 88% level of service (the percentage of callers that speak to a customer service representative), while maintaining an average call wait time of three minutes. The IRS introduced new voicebot technology, which helped taxpayers with a wide range of issues, including securing account transcripts, getting answers to questions about balances due, and getting help from the Taxpayer Advocate Service.

Without additional funding, the IRS estimates it can maintain the taxpayer services workforce at the level required to deliver exceptional service in FY 2025 but will not be able to sustain these efforts through FY 2026. Consequently, the IRS projects that the 85% level of service targeted for the 2025 filing season may drop to less than 30% in FY 2026, absent additional funding.

In FY 2024, the IRS launched additional efforts to ensure that taxpayers can access additional tax credits for which they may be eligible, such as:

- In November 2023, the IRS sent over 1.8 million reminder letters to individuals who received the advanced Child Tax Credit but did not file a 2021 return and could be eligible to claim the other 50% of the expanded Child Tax Credit.
- In January 2024, while expanding partnerships with tax software companies, paid preparers, philanthropies, employers, and state and local governments, the IRS launched a new annual Tax Professional Awareness initiative to educate tax professionals on refundable credit eligibility requirements and inform them of their due diligence obligations to help eligible taxpayers receive credits. The IRS also began a data sharing program with states that enables them to inform potentially eligible taxpayers about the Earned Income Tax Credit.

These efforts will not only support taxpayers with receiving Earned Income Tax Credits and other refundable tax credits but also support taxpayers' compliance with the complex eligibility rules for claiming those credits. This will assist taxpayers with claiming only those tax credits for which they are eligible and could lead to reductions in the IRS improper payment rates. More information on IRS improper payments can be found in Other Information – Section C: Management and Performance Challenges.

Using IRA funding, in FY 2024, the IRS also expanded its online services. The IRS enhanced and created popular and convenient online tools that save taxpayers time and money, while also reducing phone calls, paper processes, and other burdens. The IRS added new features to the Online Account for individuals, giving individual taxpayers the ability to perform more interactions with the IRS without needing to speak to a customer service representative. These additional features allow taxpayers to view digital copies of most notices and letters, access forms, view status updates such as changes in refund status, expand secure two-way messaging, and view their previous year's tax return forms and information returns. It also allows individuals to process and monitor payments and apply for an identity protection personal identification number.

In FY 2024, the IRS launched its first-ever Business Tax Account, which focused on small business owners, sole proprietors, individual partners of partnerships, and individual shareholders of S corporations with an employer identification number. Now, eligible entities can view certain digital notices and letters, business tax records, business balance due, and request a tax compliance check.

Additionally, tax professionals can perform most of their interactions with the IRS through their online Tax Pro Account. These enhancements provide the ability to manage active client authorizations and view individual and business clients' tax information, such as business balance due and canceled and returned checks for individuals.

The IRS dramatically increased digital services. The 2024 Direct File pilot served as an important innovation in ongoing efforts to lead the IRS into a digital, taxpayer-focused future. The IRS incorporated a Secure Access Digital Identity authentication feature that enabled eligible taxpayers to sign and electronically file their federal tax return directly and securely with the IRS. Legacy paper processes are in the process of being converted to digital formats to further support digital services. To ensure paper filings are properly retained, the IRS developed a quality control review process with defined criteria and standards to ensure digitized paper is complete and correct prior to disposal.

The IRA and the Creating Helpful Incentives to Produce Semiconductors Act of 2022 represent the most significant actions taken on domestic manufacturing, clean energy, and climate change in U.S. history. Since enactment, the IRS and Treasury have collaboratively worked to implement the 34 clean energy provisions affecting both individual and business taxpayers.

In November 2023, the IRS successfully launched IRS Energy Credits Online, which is used for multiple clean energy IRA provisions and is part of the larger effort underway to make improvements to the taxpayer experience and to transform IRS operations. IRS Energy Credits Online provides an electronic method for users to register for a Clean Vehicle or Elective Payment/Transfer Election account. Account holders can register facilities and properties, request advance payments, and submit Clean Vehicle Time-of-Sale reports. The IRS also conducted numerous IRS Energy Credits Online registration efforts in partnership with industry organizations and shared valuable information through nine e-News bulletins focused on eligible clean energy credit communities that collectively have over 2.8 million subscribers.

The IRS established a historic collaboration with the Department of Energy where they assumed the role of service provider to the IRS for energy projects, including:

- $4 billion in tax credits to advanced energy projects in the first allocation round of the Qualifying Advanced Energy Project Credit (48C) Program.
- The approval of more than 40,000 Low-Income Communities Bonus Credit program applications for eligible solar and wind projects, allocating more than 1,100 megawatts of capacity.

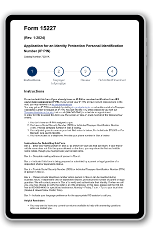
Another major IRS transformation effort is to accelerate digitalization by moving to a digital experience and paperless IRS. As part of the Paperless Processing Initiative, the IRS made an additional 20 forms eligible for electronic filing. The IRS replaced aged scanning equipment and automated mail sorters in high-volume locations, positioning for a future of digitizing paper returns at the point of receipt.

The IRS achieved a significant milestone in FY 2024 when the Document Upload Tool accepted its one-millionth taxpayer submission. Launched in FY 2021 and expanded in FY 2023, the tool offers taxpayers and tax professionals the option to respond digitally to eligible IRS notices by uploading documents securely online through IRS.gov. The IRS estimates more than 94% of individual taxpayers will no longer have to send mail to the IRS, because they can now submit all correspondence and responses to notices and letters that do not have a filing or payment action online.

In FY 2024, taxpayers could submit 30 mobile-friendly forms on their mobile devices. This is an important milestone toward the goal of meeting taxpayers where they are. An estimated 15% of Americans rely solely on mobile phones for their Internet access, so it is important to make forms available in mobile-friendly formats.

DID YOU KNOW?

MOBILE-FRIENDLY FORMS



Mobile-friendly forms are HTML versions of IRS forms that can be filled out on cell phones and tablet devices. These forms adapt to all necessary screen sizes and ensure information is entered into all data fields. Visit IRS.gov/mobilefriendlyforms to learn more.

Objective 1 Performance Results

The IRS met or exceeded 7 out of 7 of its Objective 1 key performance measures.

TABLE 1: Summary of key performance measure results for FYs 2020–2024.

Key Performance Measures	2020 Actual	2021 Actual	2022 Actual	2023 Actual	2024 Target	2024 Actual
Customer Service Representative Level of Service[1]	53.1%	18.5%	17.4%	51.8%	60.0%	65.1%
Level of Service(A)[*,2]	71.6%	38.2%	39.3%	66.4%	65.0%	76.5%
Customer Accuracy – Tax Law (Phones)[3]	91.0%	92.8%	92.0%	91.4%	89.0%	90.4%
Customer Accuracy – Accounts (Phones)[4]	93.5%	93.0%	91.8%	89.2%	89.0%	90.2%
Timeliness of Critical Individual Filing Season Tax Products to the Public[5]	78.4%	92.0%	96.4%	96.4%	89.0%	96.6%
Timeliness of Critical Tax Exempt and Government Entities & Business Tax Products to the Public[6]	96.0%	92.9%	96.0%	86.5%	87.0%	94.8%
Enterprise Self-Assistance Participation Rate[7]	90.6%	92.3%	93.9%	94.2%	94.0%	95.8%

■ Target met, or indicator trending in the desired direction compared to the prior year result.

■ Target not met, or indicator not trending in the desired direction compared to the prior year result.

* Historical data provided for comparative purpose.

[1] The number of toll-free callers that either speak to a Customer Service Representative or receive informational messages divided by the total number of attempted calls. From October 1, 2023, through September 30, 2024, Customer Service Representative Level of Service was 65.1%, which exceeded the target of 60%, and was an increase of around 26% over the prior year actual level of service of 51.8%. The level of service for the 2024 filing season was 87.6%. Customer service representatives answered around 19.9 million calls in FY 2024. Customer service representative phone demand, which includes services offered and disconnects, was around 34.5 million, which was an 11% decrease from last year's demand of 38.8 million. In FY 2024, around 17.2 million taxpayers were offered a callback and 66.1% accepted. This resulted in around 5.3 million hours saved for the taxpayer, providing a better experience.

[2] The relative success rate of taxpayers that call seeking assistance and receive a response to their inquiry by an assistor or through automated responses divided by the total number of attempted calls. This indicator was added to performance reporting in FY 2023.

[3] The percentage of correct answers given by a live assistor on toll-free tax law inquiries.

[4] The percentage of correct answers given by a live assistor on toll-free account inquiries.

[5] The percentage of critical individual filing season tax products available to the public seven calendar days before the official IRS start of the individual filing season.

[6] The percentage of critical Tax Exempt and Government Entities and business tax products available to the public seven calendar days before the official IRS start of the individual filing season.

[7] The percentage of taxpayer assistance requests resolved using self-assisted automated services.

1 out of 2 of the Objective 1 key performance indicators are trending in the desired direction compared to the prior year result.

TABLE 1.1: Summary of key performance indicator results for FYs 2020-2024.

Key Performance Indicators	2020 Actual	2021 Actual	2022 Actual	2023 Actual	2024 Target	2024 Actual
Taxpayers Satisfied with the IRS[1]	74	70	69	75	Indicator	N/A**
Total Ending Inventory (Thousands)*,[2]	1,100	4,100	2,156	2,923	Indicator	3,242
Percent of Closures to Receipts*,[3]	99.6%	71.9%	116.4%	93.8%	Indicator	96.5%

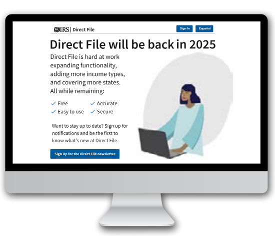
■ Target met, or indicator trending in the desired direction compared to the prior year result.
■ Target not met, or indicator not trending in the desired direction compared to the prior year result.
* Historical data provided for comparative purpose.
** Results not available and are not included in the total Key Performance Indicators count above. Results will appear in the IRS FY 2026 Congressional Budget Justification & Annual Performance Report and Plan.

[1] The score of taxpayers satisfied with the IRS according to the American Customer Satisfaction Index survey. The All-Individual Tax Filer score is calculated from separate American Customer Satisfaction Index Individual Paper Filer and Electronic Filer Customer Satisfaction Index Scores. Based on a 100-point scale. There was a methodology change made in 2023, which shifted the American Customer Satisfaction Index data collection from telephone interviews to online panel surveys and made efforts to improve representation. American Customer Satisfaction Index is conducted by Claes Fornell International Group, founding partner of the American Customer Satisfaction Index and sole licensee in the U.S. to use the patented American Customer Satisfactions Index methodology.

[2] The total number of accounts management and correspondence work to be processed in inventory. This indicator was added to performance reporting in FY 2022.

[3] The number of adjustment cases closed compared to the number received. This indicator was added to performance reporting in FY 2022.

DID YOU KNOW?



DIRECT FILE WON FEDSCOOP'S INNOVATION OF THE YEAR AWARD

The award (fedscoop.com) celebrates cutting-edge, innovative applications of technology that have disrupted traditional government operations and processes leading to an enhanced impact on mission and service delivery.

File your taxes online — for free — directly with the IRS. Visit IRS.gov/directfile to learn more.

Strategic Objective 2: Quickly resolve taxpayer issues when they arise.

Major Program | Enforcement of Tax Legislation

Correspondence issued via mail or, more recently, via online accounts, remains one of the most critical methods the IRS has for engaging taxpayers. With IRA funding, the IRS is focused on improving communications with taxpayers by making IRS notices easier to understand and providing online access to those who choose to engage with the IRS electronically.

The IRS redesigned 31 notices for the 2024 tax season. These included notices to taxpayers who may be eligible for tax deferment, including those who served in combat zones, notices reminding a taxpayer they may have unfiled returns, and notices reminding a taxpayer about their balance due and where they can go for assistance.

The IRS continues to detect and disrupt tax scams through data analytics and private sector partnerships. In FY 2024, the IRS offered a withdrawal option to help small business owners and others who were misled or pressured by the marketers or promoters to file ineligible Employee Retention Credit claims. Claims that were withdrawn were treated as if they were never filed, and the IRS did not impose penalties or interest. The IRS also partnered with the Department of Veterans Affairs to support the disruption of tax scams and schemes that specifically target U.S. military veterans. These initiatives protected more than $1 billion in improper claims.

DID YOU KNOW?

TAX SCAMS – WHAT TO KNOW, WHAT TO DO

You can avoid falling victim to a tax scam. Know what to watch out for and how the IRS contacts you. Visit IRS.gov/scams to learn more.

Objective 2 Performance Results

The IRS did not meet the target of its Objective 2 key performance measure.

TABLE 2: Summary of key performance measure results for FYs 2020–2024.

Key Performance Measures	2020 Actual	2021 Actual	2022 Actual	2023 Actual	2024 Target	2024 Actual
Collection Coverage[1]	34.9%	41.2%	38.3%	34.9%	40.7%	39.1%

■ Target met, or indicator trending in the desired direction compared to the prior year result.
■ Target not met, or indicator not trending in the desired direction compared to the prior year result.
* Historical data provided for comparative purpose.

[1] The volume of collection work disposed compared to the volume of collection work available. FY 2024 performance was 39.1%, which was an increase from 34.9% in FY 2023. Collection Coverage finished below the target of 40.7%. While total closures have increased compared to FY 2023, total ending inventory has also increased by around 13%.

The Objective 2 key performance indicator data is not yet available.

TABLE 2.1: Summary of key performance indicator results for FYs 2020–2024.

Key Performance Indicators	2020 Actual	2021 Actual	2022 Actual	2023 Actual	2024 Target	2024 Actual
Time to Start Compliance Resolution*,[1]	66.3%	66.0%	68.0%	72.0%	Indicator	N/A**
Time to Resolve Compliance Issue after Filing*,[2]	491	484	404	372	Indicator	N/A**
Repeat Noncompliance Rate*,[3]	35.6%	30.7%	28.1%	18.9%	Indicator	N/A**
Cost to Collect $100[4]	$0.35	$0.33	$0.29	$0.34	Indicator	N/A**

■ Target met, or indicator trending in the desired direction compared to the prior year result.
■ Target not met, or indicator not trending in the desired direction compared to the prior year result.
* Historical data provided for comparative purpose.
** Results not available and are not included in the total Key Performance Indicators count above. Results will appear in the IRS FY 2026 Congressional Budget Justification & Annual Performance Report and Plan.

[1] The percentage of all individual income tax enforcement cases started within six months of the return posting date. This indicator was added to performance reporting in FY 2020.

[2] The median time it takes to close all individual income tax enforcement cases in days (excluding disaster, bankruptcy and Tax Equity and Fiscal Responsibility Act cases for exam and collection cases that are not closed as full paid) starting from filing date. This indicator was added to performance reporting in FY 2020.

[3] The percentage of individual taxpayers in a fiscal year with noncompliance two years after the initial tax year that contains a filing, payment or reporting compliance issue, compared to total taxpayers. This indicator was added to performance reporting in FY 2020.

[4] The cost of collecting $100 is computed as total operating costs divided by gross collection multiplied by 100.

Strategic Objective 3: Focus expanded enforcement on taxpayers with complex tax filings and high-dollar noncompliance to address the tax gap.

Major Program | Enforcement of Tax Legislation

Prior to funding provided by the IRA, more than a decade of budget cuts prevented the IRS from keeping pace with the sophisticated ways that some taxpayers attempt to evade taxes. The IRS is moving more swiftly to improve tax compliance in areas where the IRS did not have adequate resources; however, small businesses and households earning $400,000 or less will not see audit rates increase relative to historical levels.

In continuing efforts to improve tax compliance and ensure fairness, the IRS used IRA funding to reduce the number of high-income nonfilers. The IRS is working to ensure priority taxpayer segments, which include large corporations, complex partnerships, high-income and high-wealth individual filers pay the taxes they owe. New compliance efforts are focused on 125,000 high-income taxpayer cases where federal income tax returns have not been filed since 2017. This work is directly in line with the IRS's vision to minimize attempts at tax evasion by complex filers. The IRS estimates that approximately $63 billion, or 9% of the gross tax gap, is due to nonfilers. More information on the tax gap can be found in Other Information – Section B: Tax Burden, Tax Gap, and Tax Expenditures. In FY 2024, the IRS sent more than 25,000 compliance letters to the priority nonfiler population with more than $1 million in income, and over 100,000 letters to nonfilers who had incomes between $400,000 and $1 million for tax years 2017 through 2021.

The IRS expanded enforcement for priority taxpayer segments in FY 2024 by increasing total trained staff and making compliance work more efficient with new tools and processes. This included identifying and implementing strategic options for rapidly increasing enforcement activities to supplement hiring and training. The IRS introduced a pilot to utilize refined approaches and treatments for priority taxpayer segments. High-income nonfilers received tailored, proactive outreach before receiving automated assessments or penalties.

In FY 2024, the IRS ramped up efforts to pursue high-income and high-wealth individuals who have either not filed their taxes or failed to pay recognized tax debt, concentrating on taxpayers with more than $1 million in income and more than $250,000 in recognized tax debt. The IRS opened examinations on 76 of the largest partnerships in the U.S., representing a cross section of industries including hedge funds, real estate investment partnerships, publicly traded partnerships, large law firms, and other industries. The selection of these returns is the result of groundbreaking collaboration among experts in data science and tax enforcement. In addition, the IRS expanded the large corporate compliance program, focusing on noncompliance by using data analytics to identify large corporate taxpayers for audit. The large corporate compliance program includes the largest and most complex corporate taxpayers with average assets of more than $24 billion and average taxable income of approximately $526 million per year.

With the funding provided by the IRA, the IRS has already begun to rebuild capacity and deliver results to improve tax fairness, including collecting over $1 billion from millionaires with delinquent tax debt and examining the returns of large partnerships with questionable balance sheets. This has been made possible by an increase in enforcement staff of more than 8,000 since the passage of the IRA, bringing total enforcement staffing to nearly 43,000. This resulted in boosting enforcement capacity to ensure high-income individuals, large corporations, and complex partnerships pay what they legally owe, and to disrupt tax scams that prey on families, small businesses, and other taxpayers.

The IRS continues to rebuild trust and fairness in enforcement. When researchers from Treasury and several academic institutions published a study (https://siepr.stanford.edu/publications/working-paper/measuring-and-mitigating-racial-disparities-tax-audits) that found Black taxpayers were three to five times more likely to be audited than other taxpayers, the IRS dedicated resources to evaluate the extent to which exam priorities, automated processes, and the data it relies on, contributed to this disparity. The IRS's findings supported the conclusion that Black taxpayers are audited at higher rates than other taxpayers. The IRS is revamping compliance efforts to advance its commitment to fair, equitable, and effective tax administration and hold itself accountable to taxpayers. The IRS is investing IRA resources in research that can help identify disparities across dimensions of race, ethnicity, age, gender, and geography, and is using that research to continuously refine approaches to compliance and enforcement.

Concerns about the IRS's Whistleblower Program have been raised by Congress, the whistleblower practitioner community, and the news media regarding the decline in the total dollar amount of whistleblower awards, the total proceeds collected attributed to whistleblower awards paid, the number of awards paid, and the length of time it takes to pay out an award. To address these concerns, the IRS introduced several steps during FY 2024 to improve the Whistleblower Program by increasing the capacity to use high-value whistleblower information effectively, awarding whistleblowers fairly and as soon as possible, and keeping whistleblowers informed of the status of their claims and the basis for IRS decisions.

DID YOU KNOW?

THE IRS WHISTLEBLOWER OFFICE

The IRS Whistleblower Office processes tips received from individuals who spot tax problems in their workplace, while conducting day-to-day personal business or anywhere else they may be encountered. Monetary awards are paid to eligible individuals whose information is used by the IRS. Visit IRS.gov/whistleblower to learn more.

The IRS is strengthening collaboration with all whistleblower program stakeholders. In FY 2024, the IRS updated Form 211, Application for Award for Original Information, based on feedback from whistleblower program stakeholders. Form 211 revisions included *updated alleged violation issue* options to improve data capture of key compliance work areas and the option for multiple whistleblowers to file jointly. The IRS is working to make it easier for whistleblowers to file a claim by developing a digital intake solution. The IRS took steps to help improve awareness of the program and is developing a multi-year IRS Whistleblower Office Strategic Plan that is also based on feedback from internal and external stakeholders. In FY 2024, the IRS paid awards totaling $123.5 million based on whistleblower information attributable to tax and other amounts collected of $474.7 million. Since issuing its first award in 2007 through September 2024, the IRS has paid over $1.3 billion in awards based on the successful collection of $7.4 billion from noncompliant taxpayers.

Objective 3 Performance Results

The IRS met or exceeded 1 out of 6 of its Objective 3 key performance measures.

TABLE 3: Summary of key performance measure results for FYs 2020–2024.

Key Performance Measures	2020 Actual	2021 Actual	2022 Actual	2023 Actual	2024 Target	2024 Actual
Examination Efficiency – Individual[1]	76	108	101	103	106	**82**
Exam Starts – High-Income Individuals[*,2]	2,693	2,227	3,625	4,326	4,398	**4,052**
Exam Starts – Partnerships[*,3]	4,106	4,327	3,155	6,709	4,074	**2,285**
Exam Starts – Large Corporations (Assets >= $250M)[*,4]	1,700	1,490	1,365	1,400	1,250	**1,263**
Criminal Investigations Completed[5]	2,624	2,766	2,552	2,584	2,500	**2,481**
Conviction Rate[6]	90.4%	89.4%	90.6%	88.4%	92.0%	**90.0%**

■ Target met, or indicator trending in the desired direction compared to the prior year result.
■ Target not met, or indicator not trending in the desired direction compared to the prior year result.
* Historical data provided for comparative purpose.

[1] The sum of all individual 1040 returns closed by Small Business/Self-Employed, Taxpayer Services, and Large Business and International (Field Exam and Correspondence Exam programs) divided by the total full-time equivalent expended in relation to those individual returns. FY 2024 performance was 82. Examination Efficiency – Individual finished below the target of 106. This was due to training new hires and working complex cases, which take more time to complete.

[2] The number of examinations of individual returns started during the fiscal year with a total positive income of $10 million and above. This indicator was added to performance reporting in FY 2021. FY 2024 performance was 4,052, which was a 6.3% decrease from FY 2023. Exam Starts – High-Income Individuals finished below the target of 4,398. This was due to hiring and experienced examiners being taken offline to serve as on-the-job instructors, reducing overall direct exam time. Exam starts are expected to increase in FY 2025 and subsequent years as new hires complete training and trainers resume their normal work.

[3] The number of examinations of partnership returns started during the fiscal year. This indicator was added to performance reporting in FY 2021. FY 2024 performance was 2,285, which was a 65.9% decrease from FY 2023. Exam Starts – Partnerships finished below the target of 4,074. This was due to a delay in partnership training. Per directive, IRA funding was not to be used to increase exams on small businesses. Thus, partnership examinations will move towards more complex organizations requiring long cycle times and resulting in fewer starts.

[4] The number of examinations of large corporate returns started during the fiscal year reporting assets of $250 million and above. This indicator was added to performance reporting in FY 2021. There was significant hiring in FY 2024, which required new hire training. Exam starts are expected to increase in FY 2025 and subsequent years as new hires complete training and trainers resume their normal work.

[5] The total number of subject criminal investigations completed during the fiscal year, including those that resulted in prosecution recommendations to the Department of Justice as well as those discontinued due to a lack of prosecution potential. FY 2024 performance was 2,481, which was a 4% decrease from FY 2023. Criminal Investigations Completed finished below the target of 2,500 because there was a bigger shift toward training as a result of much needed hiring. Experienced agents served as on-the-job instructors and academy instructors, thereby impacting productivity.

[6] The percent of adjudicated criminal cases that result in convictions.

DID YOU KNOW?

IDENTITY THEFT CONTROL

Tax-related identity theft happens when someone steals your personal information to commit tax fraud. Visit IRS.gov/idtheft to learn more.

Strategic Objective 4: Deliver cutting-edge technology, data, and analytics to operate more effectively.

Major Program | Transformation of Business Systems

The IRS is a *technology shop* in that every aspect of delivering tax administration is enabled by technology and data. The foundational technology infrastructure, data, systems, and network are critical to enabling services and enforcement efforts, while ensuring core IRS operations remain resilient and secure. None of the improvements previously described would be possible without investing in the IRS's underlying technology infrastructure and data analytics. Thanks to IRA investments, the IRS is deploying new technology to benefit taxpayers and is making significant progress on modernizing its foundational legacy information technology systems. In addition to replacing decades-old sorting machines, in FY 2024, the IRS enabled bulk filings of Forms 1099 and scanned millions of paper forms.

Business systems modernization activities were zeroed out in the FY 2023 and FY 2024 appropriations; therefore, the IRS is reliant on IRA funding for digitalization and other technological innovations. With the absence of discretionary business systems modernization funding, the IRS estimates it is currently underfunded by nearly $3 billion through FY 2031 for funds dedicated to information technology modernization. The IRS estimates business systems modernization funds provided by the IRA will be exhausted by FY 2026, at which point:

- Automation solutions will be scaled back leaving taxpayers unable to have up-to-date account information when they want it.
- Cyber and cloud work will be truncated, increasing the risk for failure of IRS systems and cyber-attacks.
- Work on digital solutions including Taxpayer 360 (a new platform designed to provide a more seamless and efficient experience for both taxpayers and customer service representatives), expanded payment functionality, and other important modernization efforts will be stopped.

In FY 2024, the IRS implemented enhanced security audit trails and advanced logging, advanced cybersecurity monitoring, cyber fraud analytics, and incident response capabilities to reduce risk and ensure high availability of IRS systems and applications, and protected information without major disruption to nearly 10,000 data users. Enhanced security audit trails were completely modernized by consolidating all audit trail data repositories into a centralized monitoring tool. As a result, the IRS is now receiving audit trails from 100% of IRS applications, an increase from 36 applications to 320.

Objective 4 Performance Results

The IRS met or exceeded 2 out of 4 of its Objective 4 key performance measures.

TABLE 4: Summary of key performance measure results for FYs 2020–2024.

Key Performance Measures	2020 Actual	2021 Actual	2022 Actual	2023 Actual	2024 Target	2024 Actual
Rentable Square Feet per Person[1]	278	278	264	248	238	224
Percent of Aged Hardware[2]	16.0%	9.3%	7.1%	19.9%	20.0%	17.6%
Percent of Major Information Technology Investments Within +/- 10% Cost Variance at the Investment Level[3]	84.2%	94.1%	81.3%	85.7%	90.0%	85.7%
Percent of Major Information Technology Investments Within +/- 10% Schedule Variance at the Investment Level[4]	94.7%	100.0%	87.5%	92.8%	90.0%	71.4%

Target met, or indicator trending in the desired direction compared to the prior year result.
Target not met, or indicator not trending in the desired direction compared to the prior year result.
* Historical data provided for comparative purpose.

[1] The amount of rentable square feet the IRS maintains per person requiring space.

[2] This measure shows the percentage of all information technology hardware in operation that is past its useful life.

[3] The number of major information technology investments within +/-10% variance between planned total cost and projected/actual cost within a fiscal year divided by the total number of major information technology investments in the fiscal year. Six of seven major investments were within the cost variance threshold at the close of the 4th quarter. Filing and Intake underspent due to the Digitalization program which achieved efficiencies in spend.

[4] The number of major information technology investments within +/-10% variance between planned days and projected/actual days within a fiscal year divided by the total number of major information technology investments in the fiscal year. Five of seven major investments were within the schedule variance threshold at the close of the 4th quarter. Digital Services was late and Filing and Intake was early.

Treasury Secretary Janet Yellen and Submission Processing Field Director Michelle Momsen view a new IBML Fusion HDL scanner at the IRS campus in Austin, TX. This will allow employees to convert and store more paper documents in a digital format and is one of many IRA investments.

Commissioner Werfel discussed the new sorting machines with Secretary Yellen and (l-r) Submission Processing Deputy Director Scott Wallace and Texas Congressman Greg Casar.

Strategic Objective 5: Attract, retain, and empower a highly skilled, diverse workforce and develop a culture that is better equipped to deliver results for taxpayers.

Employees are the foundation of everything the IRS does – without a high-quality workforce, none of the improvements made thus far would be possible. The IRS continues to invest in its employees to ensure it recruits and retains top talent. In FY 2024, the IRS assessed and reshaped its workforce to meet future requirements by modernizing how the IRS attracts, retains, develops, and empowers its employees. The IRS also focused on efforts to ensure IRS employees have the tools, training, and culture they need to perform at their best, collaborate effectively, and build meaningful connections within and across teams. Through these efforts, the IRS fostered a positive and enhanced employee experience and created a workplace that reflects the diversity of the taxpayers it serves.

In FY 2024, the IRS matured its workforce planning capabilities by enhancing hiring plans to include additional position requirements to perform critical work. The IRS updated onboarding and orientation programs to ensure a positive first employee experience for new hires. In-person orientation events were established in 12 key campus and IRS locations. The IRS launched a Health of the Workforce dashboard to monitor workforce trends at different levels and teams. The IRS also expanded training for managers to increase their ability to support their employees and the IRS mission and expanded its workforce using streamlined, efficient methods for workforce planning, recruiting, hiring, and onboarding quality applicants that represent the American taxpayers.

The IRS continuously encourages its employees to pursue educational opportunities that enhance performance and help the IRS fulfill its mission of providing effective tax administration. In May 2024, the IRS implemented a new, voluntary Certified Internal Controls Advocate course to provide employees with an understanding of internal controls concepts. The course covers basic skills on how to analyze operations, determine and rate risks, design and implement effective controls, and monitor the controls to ensure they are operating as intended. Since implementation, IRS employees from 14 different organizations became Certified Internal Controls Advocates.

The IRS also created the Risk Management Advocate Program, which provides opportunities for all IRS employees to gain an understanding of enterprise risk management concepts and tools for practical application in their normal duties, develop and improve leadership competencies, and obtain a greater awareness of enterprise risk management initiatives. Successful completion of this course allows employees to become Certified Risk Management Advocates. In FY 2024, 90 new Certified Risk Management Advocates were added, bringing the total to over 600 certified employees since the program's inception in 2019.

Objective 5 Performance Results

The IRS met or exceeded 2 out of 2 of its Objective 5 key performance measures.

TABLE 5: Summary of key performance measure results for FYs 2020-2024.

Key Performance Measures	2020 Actual	2021 Actual	2022 Actual	2023 Actual	2024 Target	2024 Actual
Attrition Rate[1]	6.15%	7.52%	9.72%	8.43%	7.90%	7.12%
Hiring Cycle Time[2]	119.5	98.6	80.63	77.14	80	74

■ Target met, or indicator trending in the desired direction compared to the prior year result.
■ Target not met, or indicator not trending in the desired direction compared to the prior year result.
* Historical data provided for comparative purpose.

[1] Attrition Rate is the total number of full-time permanent employees that left the IRS during the fiscal year divided by the number of full-time permanent employees on board at the beginning of the fiscal year plus the number of full-time permanent new hires.

[2] Hiring Cycle Time is the number of days between the date a hiring request is approved (or a certificate is issued) to the enter on duty date. This measure was added to performance reporting in FY 2019.

The Objective 5 key performance indicator is trending in the desired direction compared to the prior year result.

TABLE 5.1: Summary of key performance indicator results for FYs 2020-2024.

Key Performance Indicators	2020 Actual	2021 Actual	2022 Actual	2023 Actual	2024 Target	2024 Actual
Employee Engagement Index[1]	74.2%	73.5%	73.1%	72.9%	Indicator	73.7%

■ Target met, or indicator trending in the desired direction compared to the prior year result.
■ Target not met, or indicator not trending in the desired direction compared to the prior year result.
* Historical data provided for comparative purpose.
** Results not available and are not included in the total Key Performance Indicators count above. Results will appear in the IRS FY 2026 Congressional Budget Justification & Annual Performance Report and Plan.

[1] The Office of Personnel Management Employee Engagement Index is a measure of the conditions conducive to engagement. The index consists of 15 items grouped into three subindices: Leaders Lead, Supervisors, and Intrinsic Work Experience. The Office of Personnel Management measures this government wide.

Shared Services Support

The IRS incurs costs for shared tasks that occur outside the purview of the SOP (www.irs.gov/strategicplan). These tasks support employees, taxpayers, and the overall mission of the IRS. Below are select FY 2024 accomplishments performed by these offices.

Security and Facilities

Safety, security, and the well-being of IRS employees, taxpayers, contractors, and facilities is of utmost importance to the IRS. The IRS overcame many funding challenges to enhance physical facility security and provide permanent and interim space solutions by strategically allocating IRA and discretionary funds across more than 500 facilities. The IRS applied critical upgrades and expansions to its security infrastructure, which included procuring state-of-the-art video surveillance systems and automating data collection and processes. The IRS also collaborated with the Department of Homeland Security's Federal Protective Service to enhance its threat response capabilities and develop a certified training course.

To enhance taxpayer service, the IRS modernized 25 Taxpayer Assistance Centers by replacing walk-up counter windows, upgrading security, making alterations, and in some locations, creating private taxpayer workspace for virtual communication with individual taxpayer assistance specialists. Since the IRA funding was approved, the IRS reopened 35 previously closed Taxpayer Assistance Centers across the country, ensuring equipment was up-to-date and functional. In addition, the IRS continued its expansion effort in Puerto Rico to enhance in-person and over-the-phone taxpayer service levels, which generated over 3,000 new jobs, having an economic impact of over $200 million in salaries annually. The IRS delivered a permanent training center, expanded the Automated Collection System Call Site in San Juan, adding one call site in Guaynabo (Caparra), two Taxpayer Services call sites in Caguas and Ponce, and four Taxpayer Assistance Centers across the island.

Human Capital

To bolster the overall employee experience, the IRS delivered several new and enhanced programs and services. The Student Loan Repayment Program was updated to expand eligibility to all employees and streamline the payment process. The Student Loan Repayment Program provides student loan repayments to support employee retention. The Childcare Subsidy Program was enhanced making it accessible to more IRS families. Additionally, the IRS established supply stations at all campuses to ensure employees had the necessary supplies to carry out their day-to-day duties. The IRS implemented a new series of events called *IRS Cares Day*. The events were designed to provide a wide variety of services and real-time support to address employees' workplace needs.

The IRS implemented an electronic Official Personnel Folder hybrid digitization and robotics automation solution to meet the National Archives and Records Administration and Office of Management and Budget Mandate M-19-21 directive. The capabilities of the hybrid solution digitize and utilize robotic process automation to upload forms to an employee's electronic profile in the Office of Personnel Management's electronic Official Personnel Folder system.

Privacy and Disclosure

In FY 2024, the IRS continued its efforts to preserve and enhance protection, authentication, minimization, retention, and disclosure of taxpayer information. The IRS developed a Privacy Advocate Certification Program to increase IRS employees' ability to identify and address privacy threats to federal tax information and promote awareness of criminal activities aimed at compromising taxpayers' private information.

The IRS began implementing a new artificial intelligence governance process to ensure enterprise-level oversight and compliance with federal requirements. The process was approved by the Data and Analytics Strategic Integration Board and issued interim guidance for new Internal Revenue Manual 10.24.1, Artificial Intelligence (AI) Governance and Principles (www.irs.gov/pub/foia/ig/spder/interim-guidance-raas-10-0524-0001-artificial-intelligence-governance-and-principles-redacted.pdf), in May 2024. The governance body included an artificial intelligence assurance team consisting of subject matter experts from 10 different business units.

Using IRA funding, the IRS enhanced and created popular convenient online tools that save taxpayers time and money, while reducing phone calls, paper processes, and other burdens on IRS employees. The IRS improved timely access to records and transparency to operations by deploying a Freedom of Information Act Portal. The portal provides members of the public the ability to request and receive records electronically, including tax records protected by Internal Revenue Code Section 6103. This has enhanced customer satisfaction while protecting sensitive information in a digital environment. The Freedom of Information Act Portal also provides requesters access to a dashboard of requests submitted, the ability to obtain the status of those requests and submit questions, and the functionality to download responsive records securely.

DID YOU KNOW?

FREEDOM OF INFORMATION ACT PUBLIC ACCESS PORTAL

This portal (foiapublicaccessportal.for.irs.gov) provides members of the public with basic information on how to obtain access to records maintained by the IRS.

Procurement

In FY 2024, the IRS created the Acquisition Program Management Office, to provide a centralized point of contact for direct customer support with acquisition package development, including requirements writing, during the pre-award phase of the acquisition process. The IRS also designed an IRS-specific training, ensuring that all contracting officer representatives possess the necessary knowledge and tools to effectively oversee contracting activities and enhance compliance and operational efficiency within the organization. Over 95% of the IRS contracting office representatives completed the Contractor Onboarding and Offboarding training.

The IRS continued to work towards meeting statutory and regulatory requirements for contracts throughout the agency. The IRS's priority objective is timely execution of procurement packages. However, the IRS faced challenges with increased workloads, continuous customer education for ideal contract management, continuing resolution constraints, and swift adaptability to changing procurement landscapes that influence how the agency acquires goods and services. The IRS continued to work through competing priorities, attrition, contract management, and growing demands for contract requirements.

Finance

The IRS was the first agency to meet Treasury's Government Invoicing mandate. Previously a manual process, this new solution uses the IRS's financial system to integrate with Treasury Government Invoicing for intragovernmental agreements and transaction processing. This enables the IRS to transparently manage its intra-governmental buy/sell transactions, and with its trading partners, negotiate and accept general terms and conditions agreements, broker orders, exchange performance information, and validate settlement requests through intra-governmental payment and collection.

The IRS continued to streamline processes — such as accounts payable — to save time, improve reporting, ensure adherence to prompt payment legislation, and to ensure the IRS makes timely and accurate payments. The streamlined accounts payable process saves labor hours annually while continuing to exceed the 98% prompt payment target.

Enterprise Risk Management

The IRS continued to strengthen its Enterprise Risk Management Program and risk management practices. The IRS Commissioner kicked off the Risk Awareness Campaign in October 2023 with the theme of *Nurturing a Robust Risk-Aware Culture*, whereby he emphasized the significance of having a strong risk-aware culture that encourages employees to consider risks while doing their daily work. Throughout the fiscal year, the IRS hosted a series of risk management events with internal and external partners to promote awareness on risks, enhance incident response and program management strategies; and educate employees on how they can recognize and report potential threatening activities to enable early detection and intervention.

On November 29, 2023, the Association for Federal Enterprise Risk Management, an organization that promotes Enterprise Risk Management practices within the federal government, awarded the IRS with the prestigious Enterprise Risk Management Luminary Award for significant progress and notable achievements in the implementation and management of an Enterprise Risk Management program.

Verification and Validation of Performance Data

The IRS requires complete, accurate, and reliable performance data to assess progress toward its strategic objectives and program outcomes to make good management decisions. The IRS's approach to verification and validation of performance data to improve accuracy and reliability is based upon the following:

1. The IRS reviews performance measures through its annual performance assessment process with Treasury. This assessment includes reviewing the extent to which currently reported performance measures support the strategic plan and priorities and identifying or developing new performance measures to fill any gaps.
2. IRS business units use a standard template to document detailed information for each performance measure. The IRS includes these measure templates in its comprehensive data dictionary, which it maintains corporately and updates annually. For each measure, the data dictionary includes information including, but not limited to:
   - Definition
   - Business unit
   - Responsible Official
   - Formula/methodology for computation
   - Source of the data
   - Data limitations
   - Management controls
3. The Responsible Official for the measure assesses the completeness, consistency, timeliness, and quality of the data, following the documented procedures for gathering the data and ensuring management controls are in place. The heads of office are accountable for their performance results. These positions vary by business unit.
4. The CFO's Strategic Planning office reviews quarterly and year-end performance measure results before sharing the results with the senior executive team and/or publishing them in Treasury and IRS documents. The Strategic Planning office also independently reviews the performance measure targets and accompanying documentation. If anomalies occur, the Strategic Planning office informs the business unit, which makes any necessary adjustments. Leadership reviews all target adjustments as part of the budget development and review process.
5. As part of managing the portfolio of enterprise performance measures, the Strategic Planning office conducts ad-hoc meetings with business units to discuss topics such as: oversight, responsibilities of ownership, guidance on measurement and reporting, and organizational change.
6. At the end of each fiscal year, the business units who are involved in the collection and reporting of these measures receive a notification from the Strategic Planning office, reminding them of their responsibility for:
   - Ensuring the quality and accuracy of the performance data.
   - Reviewing and following Internal Revenue Manual guidelines when proposing new and modifying existing measures.

- Ensuring there are sufficient controls in place for proper and accurate reporting of their performance results.

These procedures help to provide assurances that the performance data and internal controls reported by the IRS are sufficiently complete, accurate, and reliable.

Detailed guidance on the appropriate use and application of performance information appears in Internal Revenue Manual 1.5.1: The IRS Balanced Performance Measurement System (www.irs.gov/irm/part1/irm_01-005-001).

Members of Puerto Rico Accounts Management at the Bayamon location during in-person program reviews.

The Accounts Management function answers more than 55 million account and tax law inquiries and form requests via telephone and 19.8 million paper inquiries each year across ten campus and fifteen remote locations.

ENTERPRISE RISK MANAGEMENT

In compliance with the Office of Management and Budget Circular A-123, Management's Responsibility for Enterprise Risk Management and Internal Control, the IRS conducts an annual Enterprise Risk Assessment and develops an Enterprise Risk Profile, which articulates the IRS's top risks to achieving its strategic objectives.

As part of the annual Enterprise Risk Assessment process, the Chief Risk Officer brings together representatives from across the IRS to assess risk environments, looking at external and internal factors, including business unit level risks, that could impact the IRS within the next 12 to 18 months. The Commissioner and Executive Risk Committee deliberate on the Enterprise Risk Assessment outputs, which update the IRS Enterprise Risk Profile and determine priorities and focus for the upcoming year.

For the 2024 reporting, the IRS is organizing its portfolio of enterprise risks by Risk Type, which brings visibility to certain enterprise risks individually and those that may fall at the bottom of the traditional numerical ranked profile. The table below includes Risk Types, a Risk Type Summary, and the top ranked Enterprise Risk within each Risk Type.

IRS 2024/2025 Enterprise Risk Profile

Risk Type				
Strategic/ Reputational	**Technology**	**Operational**	**Organizational**	**Financial/ Reporting**
The strategic/ reputational risks are related to the IRS's strategic posture and reputation. Internally, risks are related to taxpayer experience, compliance and the management of contracts and vendors. Externally, risks are related to the impact of legislation and third parties.	The technology risks are related to the IRS information technology infrastructure's resiliency, accessibility, reliability, security, and evolving risks such as Artificial Intelligence and the modernization of Information Technology at the IRS.	The operational risks are related to managing efficient and effective operations at the IRS, including physical threats to operations, data and record protection, acquisition processes, procedure and policy and overall alignment with the SOP.	The organizational risks are related to IRS employee experience, such as challenges with recruitment, hiring, retention; embracing change stemming from the IRA transformation efforts; and monitoring the IRS's cultural goals.	The financial/reporting risks are related to the reliability of the overall financial well-being of the IRS and the U.S. tax system. This includes threats associated with fraud, communication, reliable reporting and funding for taxpayer services.
Top Enterprise Risk by Risk Type				
Taxpayer Experience	***Data Security***	***Contract Planning and Acquisition***	***Employee Experience***	***Retention of IRA Resources***

ANALYSIS OF FINANCIAL STATEMENTS

Financial Management Highlights

The financial statements are prepared to report the financial position and results of operations, pursuant to the requirements of 31 U.S. Code Section 3515(b). The statements are prepared from records of the IRS in accordance with U.S. generally accepted accounting principles and the formats prescribed by the Office of Management and Budget. Reports used to monitor and control budgetary resources are prepared from the same records. Users of the statements are advised that the statements are for a component of the U.S. government.

The IRS is responsible for the administration of tax laws and the custodial collections of taxes for the U.S. government. The IRS responsibilities are divided into two distinct financial management activity categories: administrative and custodial. Administrative accounts are included as appropriations and offsetting collections in the Statements of Budgetary Resources. These resources are also reflected as assets, liabilities, revenues, expenses, and the net position of the IRS. Custodial accounts include activity in support of tax collections. The IRS collects nearly all the receipts that support the federal government's operations. Tax receipts are accounted for in designated custodial accounts as presented on the Statements of Custodial Activity. Custodial accounts are also included in the Balance Sheets for Fund Balance with Treasury; Federal Taxes Receivable, Net; and Federal Tax Refunds Payable.

Financial Statement Overview

The IRS received $79,411 million in multi-year (FYs 2022 through 2031) supplemental funding through the IRA. However, the Fiscal Responsibility Act of 2023 rescinded $1,389 million in IRA funding and the appropriations bill for FY 2024 rescinded $20,200 million in IRA funding from Enforcement. Since inception, IRA net obligations incurred total $9,009 million with $48,813 million remaining unobligated to carry forward into FY 2025. IRA unobligated balances by budget account at the end of FY 2024 are broken out as follows:

- Taxpayer Services – **$1,891 million**
- Enforcement – **$22,415 million**
- Business Systems Modernization – **$2,707 million**
- Operations Support – **$21,356 million**
- Energy Security – **$441 million**
- Direct E-File Taskforce – **$3 million**

The following financial statements analysis provides an overview of the IRS's financial position and results of operations with an emphasis on significant variations in financial statement line items. Audited financial statements with accompanying notes, including the independent auditor's report, are presented in the Financial Information section of this report. In addition, Note 20. IRA provides cumulative financial data specific to the IRA appropriations.

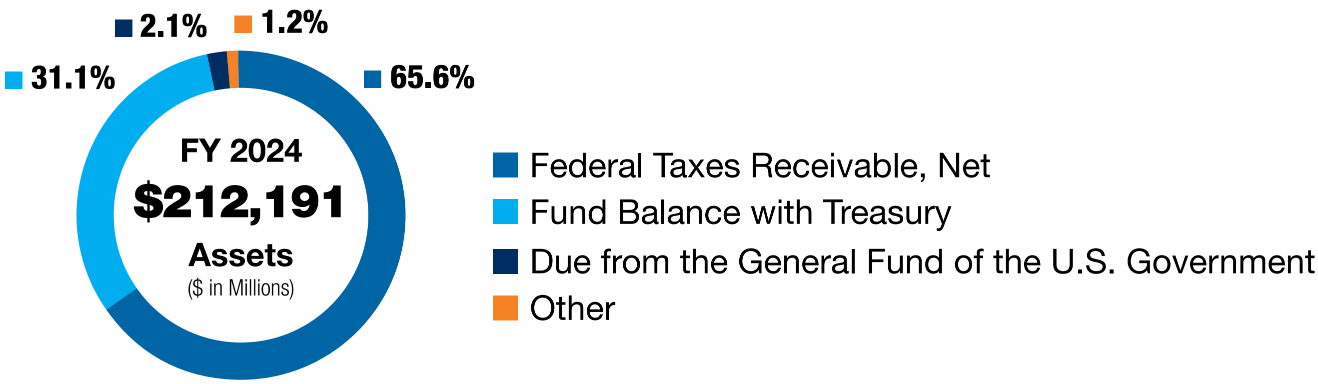
Financial Statement Analysis

Analysis of the Balance Sheets

The Balance Sheets display amounts of future economic benefits owned or available for use (assets), amounts owed (liabilities), and the residual amounts (net position) at the end of the fiscal year. The following chart displays changes in Balance Sheet line items as of the fiscal year ended September 30, 2024, compared to September 30, 2023.

($ in Millions)	2024	2023	$ Change	%Change
ASSETS				
Federal Taxes Receivable, Net	$ 139,220	$ 182,000	$ (42,780)	-23.5%
Fund Balance with Treasury	66,019	86,347	(20,328)	-23.5%
Due from the General Fund of the U.S. Government	4,427	6,647	(2,220)	-33.4%
Other	2,525	1,798	727	40.4%
Total Assets	**$ 212,191**	**$ 276,792**	**$ (64,601)**	**-23.3%**
LIABILITIES				
Intragovernmental	$ 148,335	$ 185,633	$ (37,298)	-20.1%
Federal Tax Refunds Payable	4,427	6,648	(2,221)	-33.4%
Other	3,601	3,870	(269)	-7.0%
Federal Employee Benefits Payable	1,310	1,507	(197)	-13.1%
Total Liabilities	**$ 157,673**	**$ 197,658**	**$ (39,985)**	**-20.2%**
NET POSITION				
Unexpended Appropriations	$ 52,433	$ 77,569	$ (25,136)	-32.4%
Cumulative Results of Operations	2,085	1,565	520	33.2%
Total Net Position	**$ 54,518**	**$ 79,134**	**$ (24,616)**	**-31.1%**

Assets of the IRS primarily comprise: Federal Taxes Receivable, Net; Fund Balance with Treasury; Due from the General Fund of the U.S. Government; and Other, which primarily consists of Property and Equipment, Net. The composition of FY 2024 assets is presented as follows:

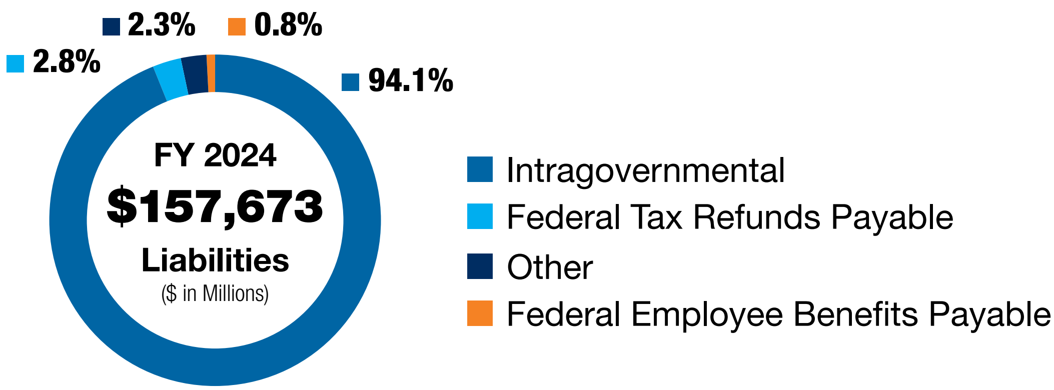


Asset fluctuations primarily include decreased Fund Balance with Treasury; Federal Taxes Receivable, Net; and Due from the General Fund of the U.S. Government—which are partially offset by an increase in Property and Equipment, Net.

Federal Taxes Receivable, Net decreased by $42,780 million in FY 2024 as compared to FY 2023. This decrease is primarily due to payments that reduced amounts of nondelinquent 965(h) unpaid assessments, partially offset by an increase in delinquent unpaid assessments, both of which are described further in the section for Unpaid Assessments. Additional information on Federal Taxes Receivable, Net can be found in Note 4. Federal Taxes Receivable, Net in the Financial Information section of this report.

Fund Balance with Treasury decreases of $20,328 million are primarily due to the rescission of $20,200 million in IRA funding. Other Assets increased by $727 million as purchases of property and equipment have risen from $382 million in FY 2023 to $1,005 million in FY 2024, the majority being attributable to capitalized internal-use software. Due from General Fund of the U.S. Government decreased by $2,220 million which correlates to the liability for Federal Tax Refunds Payable. Amounts due from the General Fund of the U.S. Government represents funds that will be used as resources to disburse federal tax refunds.

Liabilities include Intragovernmental (Due to the General Fund of the U.S. Government and Other Intragovernmental Liabilities), Federal Tax Refunds Payable, Federal Employee Benefits Payable, and Other Liabilities with the Public. Additional information for Federal Employee Benefits Payable and Other Liabilities (Intragovernmental and With the Public) can be found in Note 8. Federal Employee Benefits Payable and Note 9. Other Liabilities. The percentage composition of IRS liabilities is depicted in the following chart:



Liability fluctuations primarily include decreased Intragovernmental liabilities, Federal Tax Refunds Payable, and Other Liabilities with the Public.

Intragovernmental liabilities decreased from the previous fiscal year because of a $37,218 million decline in the amount for the Due to the General Fund liability, which is representative of funds that will be distributed to the General Fund upon collection. This amount is directly correlated with the amount of Federal Taxes Receivable, Net but also includes State Innovation Waiver Payments (refer to Note 1.K. Due to the General Fund of the U.S. Government).

Federal Tax Refunds Payable decreased by $2,221 million in comparison to FY 2023. Refunds of Federal Taxes and Outlays decreased by 16.1% from the prior year as discussed in the Analysis of the Statements of Custodial Activity. Other Liabilities with the Public decreased by $311 million due to a lower amount of federal tax deposits not yet identified.

Net Position consists of Unexpended Appropriations and Cumulative Results of Operations. Funds made available by Congress are recorded in Unexpended Appropriations. Cumulative Results of Operations is the net difference between 1) expenses, losses, and transfers from the inception of an agency or activity and 2) financing sources such as expended appropriations, revenues, gains, and transfers in from the inception of an agency or activity, as of the reporting date of the financial statements. The net book value of capitalized assets and future funding requirements of unfunded liabilities both affect net position but do not factor into the unobligated balance as reported on the Statement of Budgetary Resources. Net Position decreased by 31.1% due to higher payroll expenditures and the rescission of $20,200 million of IRA funding.

Analysis of the Statements of Net Cost

The Statements of Net Cost present the annual cost of operating the IRS's three major programs: Service to the Taxpayer, Enforcement of Tax Legislation, and Transformation of Business Systems. Net Cost of Operations includes Gross Cost less Earned Revenue from user fees and reimbursable agreements.

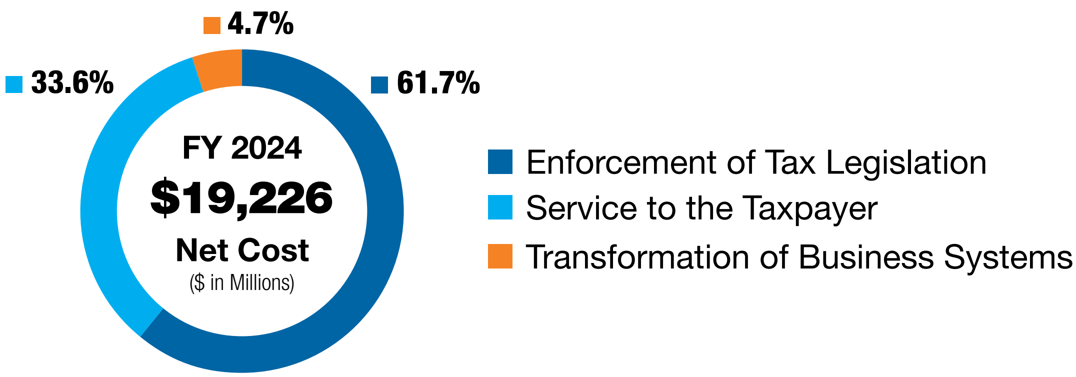
Net Cost of Operations increased by $1,998 million, or 11.6% over the prior fiscal year. The Statement of Net Cost reflects a total of $19,226 million for the period ending September 30, 2024, as compared to $17,228 million for the period ending September 30, 2023.

Statement of Net Cost

($ in Millions)	2024	2023	$ Change	% Change
GROSS COSTS				
Service to the Taxpayer	$ 6,519	$ 5,949	$ 570	9.6%
Enforcement of Tax Legislation	12,359	10,916	1,443	13.2%
Transformation of Business Systems	914	943	(29)	-3.1%
Total Gross Costs	**$ 19,792**	**$ 17,808**	**$ 1,984**	**11.1%**
REVENUES				
Service to the Taxpayer	$ 61	$ 60	$ 1	1.7%
Enforcement of Tax Legislation	500	514	(14)	-2.7%
Transformation of Business Systems	5	6	(1)	-16.7%
Total Revenues	**$ 566**	**$ 580**	**$ (14)**	**-2.4%**
NET COSTS				
Service to the Taxpayer	$ 6,458	$ 5,889	$ 569	9.7%
Enforcement of Tax Legislation	11,859	10,402	1,457	14.0%
Transformation of Business Systems	909	937	(28)	-3.0%
Total Net Costs	**$ 19,226**	**$ 17,228**	**$ 1,998**	**11.6%**

Gross Cost increased by $1,984 million due primarily to higher costs for personnel salaries and benefits as staffing levels are 10.7% higher and a cost-of-living adjustment of 4.7% was implemented for calendar year 2024. Total payroll expenses have risen by $1,434 million and imputed costs associated with employee pension benefits have increased by $262 million. In addition, agency modernization efforts have resulted in higher expenses for contractual services, which includes management consulting services for large-scale information technology projects.

Net Cost of Operations by major programs are presented in the table below for the periods ending September 30, 2024 and 2023, respectively.



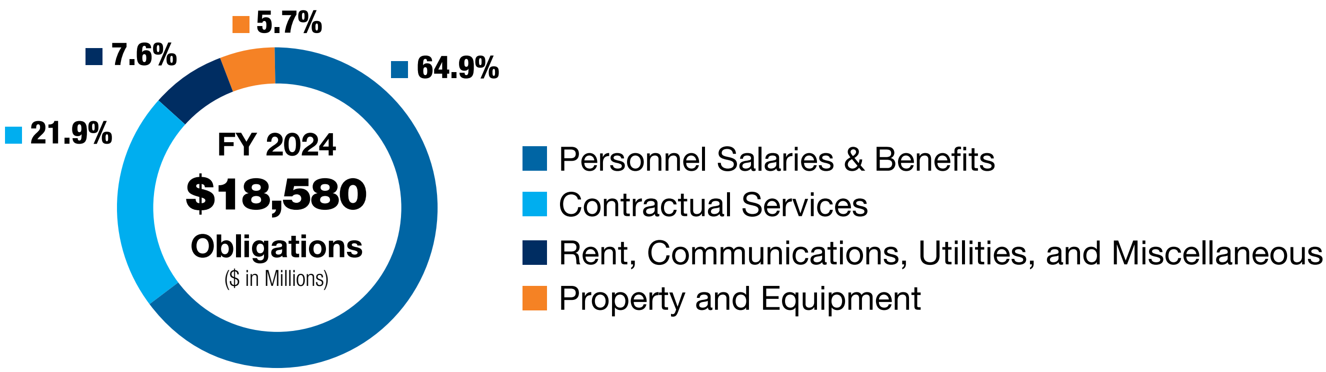
Analysis of the Statements of Budgetary Resources

IRS operations are financed through appropriations, spending authority from offsetting collections, and unobligated balances carried forward. Custodial appropriations for taxpayer refunds, refundable tax credits, and other outlays are not available to the IRS for operational expenditures and are therefore not included in the presentation of the Statements of Budgetary Resources (refer to Note 15. Statement of Budgetary Resources for a reconciliation to the Budget of the U.S. Government).

As displayed in the following chart, Total Budgetary Resources decreased by $23,537 million from the previous fiscal year, which is primarily attributable to the $20,200 million rescission in the IRA appropriation for Enforcement.

($ in Millions)	2024	2023	$ Change	% Change
BUDGETARY RESOURCES				
Unobligated Balance from Prior Year Authority	$ 76,112	$ 80,934	$ (4,822)	-6.0%
Appropriations (Discretionary and Mandatory)				
Taxpayer Services	3,390	2,880	510	17.7%
Enforcement	(15,034)	3,776	(18,810)	-498.1%
Operations Support	3,890	4,181	(291)	-7.0%
Business Systems Modernization	–	10	(10)	-100.0%
Other	436	575	(139)	-24.2%
Total Appropriations	(7,318)	11,422	(18,740)	-164.1%
Spending Authority from Offsetting Collections	174	149	25	16.8%
Total Budgetary Resources	**$ 68,968**	**$ 92,505**	**$ (23,537)**	**-25.4%**

In FY 2024, the IRS incurred obligations of $18,580 million, which is an increase of $2,054 million, or 12.4%, from the previous fiscal year. Higher obligations are due to expenditures from the IRA supplemental appropriations for information technology projects and to cover additional payroll costs associated with expanding the size of the IRS workforce. Of the $1,434 million in additional personnel-related obligations, $840 million was funded through the IRA accounts. The following chart displays the FY 2024 obligations incurred by category. Miscellaneous includes travel and transportation, grants, printing, and supplies and materials.



Major Budget Account Descriptions

Taxpayer Services funds the necessary expenses of the IRS to provide taxpayer services, including pre-filing assistance and education, filing and account services, taxpayer advocacy services, and Low-Income Taxpayer Clinic and Volunteer Income Tax Assistance grants for tax return preparation assistance.

Enforcement funds the necessary expenses for tax enforcement activities of the IRS to determine and collect owed taxes, provide legal and litigation support, conduct criminal investigations, and enforce criminal statutes related to violations of internal revenue laws and other financial crimes.

Operations Support funds the necessary expenses of the IRS to support taxpayer services and enforcement programs, including rent payments; facilities services; printing; postage; physical security; headquarters and other administration activities spanning the entire bureau; research and statistics of income; telecommunications; information technology development; enhancement; operations; maintenance; and security.

Business Systems Modernization funds the necessary expenses of the IRS's business systems modernization program to include resources for planning and capital asset acquisition of information technology systems. In FY 2023 and FY 2024, Congress did not appropriate funds to the discretionary Business Systems Modernization account, however, funding from the IRA remains available through FY 2031.

Analysis of the Statements of Custodial Activity

The Statements of Custodial Activity present custodial revenues (federal tax collections), and dispositions of custodial revenues for the current and prior fiscal years. As custodial activity is performed on behalf of another entity, the IRS collects federal tax revenues on behalf of the U.S. government.

Federal tax revenues are reported in six major tax categories:

- Individual Income, which includes Federal Insurance Contributions Act and Self-Employment Contributions Act
- Corporate Income
- Excise
- Estate and Gift
- Railroad Retirement
- Federal Unemployment

FY 2024 revenue receipts collected by the IRS totaled $5,100,490 million, a $406,155 million increase from $4,694,335 million in FY 2023.

Statement of Custodial Activity

($ in Millions)	2024	2023	$ Change	% Change
CUSTODIAL REVENUES				
Individual Income	$ 4,409,528	$ 4,112,546	$ 296,982	7.2%
Corporate Income	565,086	456,941	108,145	23.7%
Excise	77,948	74,249	3,699	5.0%
Other	47,928	50,599	(2,671)	-5.3%
Total Custodial Revenues	**$ 5,100,490**	**$ 4,694,335**	**$ 406,155**	**8.7%**

The Statements of Custodial Activity also present refunds and outlays disbursed by the IRS on behalf of the federal government. Total Refunds of Federal Taxes and Outlays include such items as refunds of tax overpayments, interest payments, and disbursements for refundable tax credits. For additional information on refundable tax credits and outlays, refer to Other Information – Section E: Refundable Tax Credits and Other Outlays and Social Security and Medicare Taxes. Total Refunds of Federal Taxes and Outlays decreased 16.1%, to $552,661 million from $659,052 million for the periods ending September 30, 2024 and 2023, respectively.

Unpaid Assessments

Under federal accounting standards, federal taxes receivable are unpaid tax assessments in which the taxpayer or court has agreed to the amount. Those unpaid assessments not agreed to by taxpayers or the courts are categorized as compliance assessments; those that have no future collection potential are categorized as write-offs. Compliance assessments and write-offs are not included on the Balance Sheets as Federal Taxes Receivable, Net.

($ in Millions)	2024	2023
UNPAID ASSESSMENTS		
Federal Taxes Receivable	$ 389,856	$ 404,000
Compliance Assessments (Amounts not agreed to by taxpayer or courts)	90,131	94,000
Write-Offs (No future collection potential)	86,033	76,000
Total Unpaid Assessments	**$ 566,020**	**$ 574,000**

The decrease in total unpaid assessments is $7,980 million when compared to September 30, 2023. This change is primarily due to a decrease in Gross Federal Taxes Receivable associated with Internal Revenue Code Section 965(h) payments partially offset by an increase in Write-Offs (No future collection potential). For additional information, refer to the Required Supplementary Information section, Federal Taxes Receivable, Net.

The total unpaid assessment balance consists of delinquent and nondelinquent balances. These balances are owed by taxpayers who file returns without sufficient payment and/or assessed amounts through the IRS's enforcement programs (refer to Note 1.G. Federal Taxes Receivable, Net and Note 4. Federal Taxes Receivable, Net). Delinquent balances are past due while nondelinquent balances are Internal Revenue Code 965(h) amounts, for repatriated foreign earnings, due at a future point in time. Unpaid Assessments Other consists of uncollected branded prescription drugs fees and delinquent miscellaneous accounts not separately tabulated for financial reporting.

($ in Millions)	2024	2023
FEDERAL TAXES RECEIVABLE, GROSS		
Nondeliquent Internal Revenue Code Section 965(h) Unpaid Assessments	$ 76,868	$ 123,000
Delinquent Unpaid Assessments	309,323	276,000
Delinquent Restitution Based Unpaid Assessments	3,528	3,000
Unpaid Assessments Other	137	2,000
Federal Taxes Receivable, Gross	**$ 389,856**	**$ 404,000**

Collectability Modeling and Economic Conditions

Delinquent unpaid assessments collectability reflects existing economic conditions of the taxpayers' ability to pay. Indicators of financial health were manually reviewed for publicly traded businesses with large dollar Internal Revenue Code Section 965(h) amounts due. The analysis determined that large dollar Internal Revenue Code Section 965(h) taxpayers are primarily in a favorable long-term economic position to make their future payments.

Federal Taxes Receivable, Net, excludes the estimated uncollectible amounts of $250,636 million and $222,000 million as of September 30, 2024 and 2023, respectively. Examples of uncollectible taxes include taxpayers who agree they owe the tax but are unlikely to pay and businesses with extreme financial hardships. Overall collectibility combines separate collectibility calculations for Internal Revenue Code Section 965(h) amounts and components of delinquent taxes receivable.

Estimated Collectability: Federal Taxes Receivable Gross and Net

($ in Millions)		As of September 30, 2024	
	Collectability	**Gross**	**Net**
Nondelinquent Unpaid Assessments	94.4%	$ 76,868	$ 72,601
Delinquent Unpaid Assessments	21.3%	312,988	66,619
Federal Taxes Receivable, Gross and Net		**$ 389,856**	**$ 139,220**

($ in Millions)		As of September 30, 2023	
	Collectability	**Gross**	**Net**
Nondelinquent Unpaid Assessments	94.3%	$ 125,000	$ 118,000
Delinquent Unpaid Assessments	23.1%	279,000	64,000
Federal Taxes Receivable, Gross and Net		**$ 404,000**	**$ 182,000**

ANALYSIS OF SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

Federal Managers' Financial Integrity Act of 1982

Background

The Federal Managers' Financial Integrity Act of 1982 requires executive branch agencies to establish and maintain internal control and financial systems to provide reasonable assurance that:

- Obligations and costs comply with applicable laws.
- Funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation.
- Revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports, and to maintain accountability over the assets.

The Office of Management and Budget Circular A-123, Management's Responsibility for Enterprise Risk Management and Internal Control provides implementing guidance for the Federal Managers' Financial Integrity Act of 1982, and defines management's responsibility for establishing and assessing internal controls. The Circular also requires federal agencies to adhere to the Government Accountability Office's Standards for Internal Control in the Federal Government, and to evaluate and report on the effectiveness of the organization's internal controls based on the 17 GAO Green Book principles. The purpose of this guidance is to improve accountability and effectiveness of programs and operations through implementation of enterprise risk management practices and by establishing, maintaining, and assessing internal control effectiveness.

The Management Controls Executive Steering Committee is the IRS's internal control oversight body and exercises its governance authority over significant annual internal control processes. The Management Controls Executive Steering Committee briefs the Chief Operating Officer regarding any significant deficiencies. Executives from different divisions provide periodic updates on the status of any deficiencies and any current or pending audits regarding these.

Analysis of Controls

The Commissioner's Assurance Statement is supported by a comprehensive risk-based internal control evaluation plan that adheres to Treasury guidance. This plan includes a methodology that identifies and documents key controls and provides for the assessment and testing of those controls to provide reasonable assurance that the controls are designed, implemented, and operating effectively.

As part of the evaluation process the business units do the following:

- Submit an Internal Control Managerial Assessment certified by their head of office.
- Submit the GAO Evaluation Tool: consisting of an evaluation of the 17 Green Book Principles (biennial).
- Conduct A-123 internal control testing of key financial and non-financial transactions.
- Update the Quality Assurance Review Listing.
- Conduct quality assurance reviews (managerial, operational, quality, security, and program evaluation).
- Conduct Internal Control Review program assessments of IRS activities.

Internal Control Over Financial and Non-Financial Reporting

In accordance with Office of Management and Budget Circular A-123, Appendix A, Management of Reporting, and Data Integrity Risk, the IRS also assessed internal controls over financial reporting. The IRS applied Treasury's Appendix A guide to assess the effectiveness of its internal controls by testing the design, implementation, and operating effectiveness of key internal controls for material transactions to support reliable financial reporting. Based on the results of this assessment the IRS can provide reasonable assurance regarding the effectiveness of its internal control over financial reporting as of September 30, 2024. Furthermore, the IRS completed a pilot project to test internal controls over non-financial reporting to ensure the overall data quality and reliability of the information used to make decisions.

The pilot project review covers internal controls and processes that support overall data quality and reliability. Reporting requirements include the following:

- Reports IRS Executives need to support critical decision-making and evaluation of performance.
- Reports considered *high-level* and might garner significant attention from media and/or oversight groups.
- Reports driven by statutory requirements or the need for integrity, accountability, or transparent government data.
- Reports responsive to agency plans at strategic, operational, or other various levels.
- Reports used and relied upon by other government agencies that might reduce the public's trust and confidence in the IRS if they were to include inaccuracies.

Federal Financial Management Improvement Act of 1996

The Federal Financial Management Improvement Act of 1996 requires federal agencies to implement and maintain financial management systems that comply substantially with federal financial management systems requirements, applicable federal accounting standards, and the U.S. Standard General Ledger at the transaction level.

The Act's Section 803(c)(1) requires an annual determination of substantial compliance with Section 803(a) of the Act based on review of relevant factors. To support this determination, the IRS uses the implementation guidance established by the Office of Management and Budget Circular A-123, Appendix D, Management of Financial Management Systems – Risk and Compliance, to determine whether our financial management systems comply substantially with federal financial management system requirements, applicable federal accounting standards and the U.S. Standard General Ledger at the transaction level. The assessment process includes the use of the Federal Financial Management Improvement Act Compliance Determination Framework in Office of Management and Budget Circular A-123, Appendix D, which is a risk and evidence-based assessment model that leverages existing audits, evaluations, and reviews that auditors and agency management already perform.

In applying the Federal Financial Management Improvement Act Compliance Determination Framework, the IRS assesses available information from audit reports and other relevant and appropriate sources, such as the IRS Federal Information Security Modernization Act of 2014 compliance activities, to determine whether the financial management systems comply substantially with the Federal Financial Management Improvement Act of 1996. The IRS also assesses improvements and ongoing efforts to strengthen financial management systems and the impact of instances of noncompliance on overall financial management system performance. Based on the results of the overall assessment, the IRS concluded that its financial management systems did not comply with federal financial management system requirements as of September 30, 2024, due to a significant deficiency.

The IRS has a significant deficiency in internal control over financial reporting related to unpaid assessments. Specifically, this deficiency relates to limitations in the ability of IRS's financial management systems to classify unpaid assessments and report taxes receivable in accordance with federal accounting standards. The IRS worked diligently during FY 2024 to enhance its information technology security posture and resolved the long-standing Information System Controls significant deficiency condition. The IRS continues to implement a strategy to downgrade the unpaid assessments significant deficiency.

Financial Management Systems

The IRS developed its financial management systems to generate timely and accurate data and to comply with applicable laws and regulations, while protecting data and systems through the design, implementation, and monitoring of strong internal controls. The IRS objectives are to continuously improve financial management systems by implementing enhancements that expand and streamline financial transaction processing, analysis, and reporting, while operating in a robust security environment.

The IRS's financial management systems provide timely, accurate, and complete financial information to generate the IRS's financial statements and provide IRS business units data to execute their missions. The IRS's financial management systems comprise two major components.

The Redesigned Revenue Accounting Control System is a custom-built software database used to account for and summarize all IRS revenue tax transactions and activities. The IRS uses the Redesigned Revenue Accounting Control System to record, control, account for, reconcile, and balance all revenue accounting activity, including tax payment collections and refunds, receivables, appropriation warrants, refundable tax credits, and other transactional revenue activities on behalf of the federal government. The Redesigned Revenue Accounting Control System specifically supports the IRS revenue responsibilities to ensure the accuracy and completeness of tax collections, disbursements and related activities in its financial reports and records.

The Integrated Financial System is comprised of three SAP® software components: the Enterprise Resource Planning Central Component, Procurement for Public Sector, and Business Warehouse. The Integrated Financial System interfaces with multiple systems, including, but not limited to, Invoice Processing Platform, ConcurGov (travel), MoveLINQ® (relocation), and National Finance Center (payroll) systems. The Integrated Financial System provides the IRS with comprehensive automated functionality that supports financial and administrative program management. The software provides automated functionality for significant administrative business processes, including core financials, procurement, intragovernmental transactions, purchase card activities and budget formulation and execution. The Integrated Financial System also provides robust cumulative reporting capabilities by merging data from all sub-systems in Business Warehouse.

During FY 2024, IRS implemented several system improvements including:

- Migrated to the SAP National Security Services, Inc.® S/4HANA® Cloud, which upgraded the Integrated Financial System functional capability platform.
- Government Invoicing functionalities in the Integrated Financial System.
- SAP® and Business Warehouse software upgrades.
- System-wide legislative, technical and cybersecurity upgrades.

The IRS will build upon successes of FY 2024 with the vision that fully articulates the goals and objectives of the SOP (www.irs.gov/strategicplan). The IRS is committed to developing its employees by providing resources, tools and training that will help meet the needs of today and tomorrow and continuing to build its workforce using data-driven planning to strategically understand future workforce needs. It is important for the IRS to foster continued partnerships and build new ones with those who are essential contributors in improving the taxpayer experience. The IRS will continue to expand its network for better information sharing and improved service delivery.

Within the next five years, the IRS plans to continue to enhance financial management systems including:

- Enhancing the Integrated Financial System functional capability by continuing to plan and implement the multi-year initiative to upgrade the Integrated Financial System functional software to SAP® S/4HANA®.
- Implementing the remaining segments of the Government Invoicing functionality.
- Building core systemic functionality to support financial accounting program changes related to the IRA and the Creating Helpful Incentives to Produce Semiconductors Act of 2022.
- Expanding data analytics across financial systems.

Other Laws

The IRS is required to comply with several legal and regulatory requirements, including the Antideficiency Act. The Management Controls Executive Steering Committee, which includes top IRS administrative and programmatic leadership, provides oversight and governance for the design, implementation, and monitoring of controls to comply with these legal and regulatory requirements. The IRS is not aware of any violations of the Antideficency Act.

The Digital Accountability and Transparency Act of 2014 expands upon the Federal Financial Accountability and Transparency Act of 2006 by adding account-level reporting and requiring the federal government to collectively standardize the reportable financial data elements.

In FY 2024 we provided consistent reviews of the Digital Accountability and Transparency Act of 2014 compliance for the following processes:

- Completeness of financial and award data (daily),
- Management accountability on reliability and validity of financial and award data (quarterly).
- Quality Assurance Review (monthly),
- Monthly Verification and Validation (monthly), and
- System Interface and Certification (monthly).

The Federal Information Security Modernization Act of 2014 requires federal agencies to develop, document, and implement an agency-wide program to protect government information and information systems that support the operations and assets of the agency. The IRS continues to work diligently to adopt the best cybersecurity practices and strategies to improve information technology security.

Management Assurances

Commissioner's Statement of Assurance

The IRS's management is responsible for managing risks and maintaining effective internal control and financial management systems to meet the objectives of the Federal Managers' Financial Integrity Act of 1982. We conducted our assessment of risk and internal controls in accordance with the Office of Management and Budget Circular A-123, Management's Responsibility for Enterprise Risk Management and Internal Control.

Based on our assessment, we can provide reasonable assurance that, in accordance with Section 2 of the Federal Managers' Financial Integrity Act of 1982, the IRS's internal control over operations, reporting and compliance with laws and regulations were operating effectively as of September 30, 2024. This includes the effective operation of internal control over financial reporting which was considered as part of our assessment. We can also provide reasonable assurance that, as of September 30, 2024, the IRS's financial management systems conform with the requirements of Section 4 of the Federal Managers' Financial Integrity Act of 1982, with the exception of the federal financial management systems requirement discussed below.

The Federal Financial Management Improvement Act of 1996 Section 803(a) requires agencies to implement and maintain financial management systems that comply substantially with federal financial management systems requirements, applicable federal accounting standards, and the U.S. Standard General Ledger at the transaction level. We conducted our evaluation of financial management systems for compliance with the Federal Financial Management Improvement Act of 1996 in accordance with Office of Management and Budget Circular A-123, Appendix D.

Based on our assessment, we can provide reasonable assurance that, as of September 30, 2024, the IRS complied substantially with applicable federal accounting standards and the U.S. Standard General Ledger at the transaction level. However, the IRS did not comply substantially with federal financial management systems requirements because of a significant deficiency related to unpaid assessments. As a result of this significant deficiency, we determined that the IRS's financial management systems did not comply substantially with the Federal Financial Management Improvement Act of 1996.

We continue to make progress in remediating this deficiency and remain committed to focusing management's attention and resources on appropriate corrective actions. Overall, we continue our efforts to ensure high standards, minimize internal control weaknesses and meet federal financial management systems requirements. Additional information on the deficiency can be found in Other Information – Section A: Summary of Financial Statement Audit and Management Assurances, of this report.

Daniel I. Werfel
Commissioner of Internal Revenue
November 1, 2024

IRS Management's Report on Internal Control Over Financial Reporting

The IRS's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel. The objectives of this process are to provide reasonable assurance that: (1) transactions are properly recorded, processed and summarized to permit the preparation of financial statements in accordance with U.S. generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use or disposition, and (2) transactions are executed in accordance with provisions of applicable laws, including those governing the use of budget authority, regulations, contracts, and grant agreements, noncompliance with which could have a material effect on the financial statements.

IRS management is responsible for designing, implementing, and maintaining effective internal control over financial reporting relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error. IRS management evaluated the effectiveness of the IRS's internal control over financial reporting as of September 30, 2024, based on the criteria established under 31 U.S. Code 3512(c) and (d) (commonly known as the Federal Managers' Financial Integrity Act of 1982).

Based on that evaluation, we conclude that as of September 30, 2024, the IRS's internal control over financial reporting was effective. The IRS has a significant deficiency in its internal control over financial reporting for unpaid assessments, which we are actively addressing.

Daniel I. Werfel
Commissioner of Internal Revenue
November 1, 2024

Melanie R. Krause
Chief Operating Officer
November 1, 2024

Teresa R. Hunter
Chief Financial Officer
November 1, 2024

FORWARD-LOOKING INFORMATION

After a year of implementation, the IRS has refined the objectives of the SOP (www.irs.gov/strategicplan) into a clear and concise articulation of the future of taxpayer service which is that all taxpayers can meet their responsibilities, including all interactions with the IRS, in a completely digital manner if they prefer. It has become abundantly clear that to bring the IRS into the modern era, the IRS needs to become a digital-first agency. Digital-first processes and technologies will enable the IRS to be nimbler in the administration of complex tax laws and will enable the IRS to change along with taxpayer needs and expectations. While the IRS will maintain non-digital options to ensure accessibility to all, the IRS must meet taxpayers where most of them want to be—online. Many taxpayers want to interact with the IRS entirely digitally as they can with commercial financial institutions. By simultaneously digitalizing internal processes, the IRS will also reduce time-consuming, manual processes and free up employees to focus on more complex issues, such as helping victims of scams. Digitalizing also reduces errors, which is beneficial for both taxpayers and the IRS. The IRS estimates it can maintain the taxpayer services workforce at the level required to deliver exceptional service in FY 2025 but will not be able to sustain these efforts through FY 2026 once IRA funding is depleted.

In addition, the IRS is working to ensure fairness in enforcement, making sure large corporate, large partnership, and high-income individual filers pay the taxes they owe. Supported by IRA funding, the IRS will ensure that noncompliant taxpayers and the largest and most complex filers, pay what they owe because the IRS has the workforce and advanced technology needed to ensure fairness in the tax system and narrow the tax gap. Even with improved taxpayer service, some taxpayers do not pay what they owe. The rising breadth and complexity of tax administration, coupled with the sophisticated ways some taxpayers attempt to evade their obligations, have outpaced IRS resources and the ability to monitor compliance and narrow the gap between taxes owed and taxes collected. Achieving this means the IRS will have the workforce and advanced analytics needed to select the right cases for enforcement action, ensure the proper amount of tax is paid, and promote future compliance. In line with Treasury's directive, small businesses and households earning $400,000 or less will not see audit rates increase relative to historical levels.

To achieve gains in taxpayer service and enforcement, the IRS will need to continue investing in foundational capabilities and modernize its core information technology components, in addition to transforming IRS human capital processes and technology as part of ongoing investment in the IRS workforce.

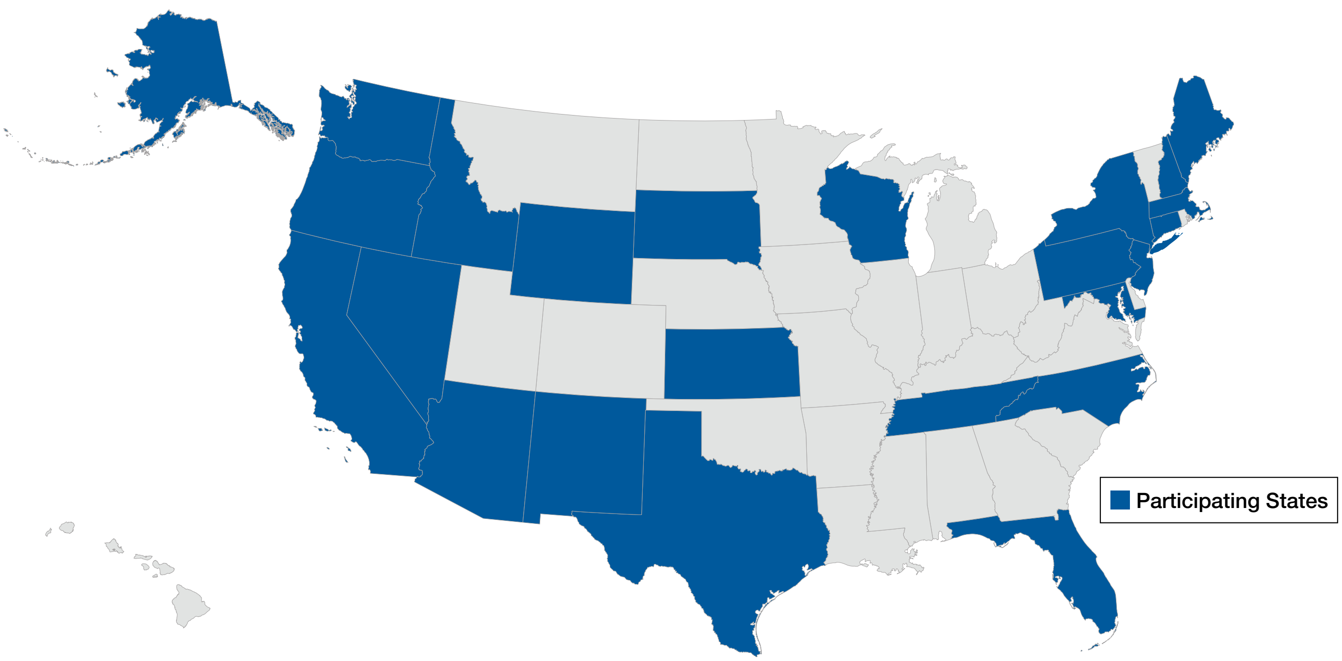
Key areas of focus through 2025 include:

- **Enhancing live assistance** through improved efficiency in call centers, reduced backlog of paper returns and continued expanded staffing levels at Taxpayer Assistance Centers and *Pop-up Live Assistance Centers* in rural and other areas, while working to ensure taxpayers are aware of all available credits and benefits.
- **Expanding online services** by expanding the features available in online accounts, including digital copies of notices, status updates, secure two-way messaging and expanded payment options.
- **Accelerating digitalization** by providing up to 150 non-tax forms in digital mobile-friendly formats in addition to the 20 delivered in FY 2024 as well as scanning at the point of entry virtually all paper-filed tax and information returns.
- **Simplifying notices** by redesigning up to 200 notices, capturing 90% of all notice volume for individual taxpayers and initiating business process changes necessary to flexibly generate notices and reduce taxpayer burden.
- **Disrupting tax scams** and schemes by coordinating with partners to identify scams and victims and improving victim assistance.
- **Modernizing foundational technology** and aged programming from the point of intake of tax returns and information systems. Data security will be integrated throughout to protect the integrity of the tax system and taxpayers.
- **Modernizing how the IRS attracts, retains, develops, and empowers employees**, focusing on efforts to ensure they have the tools, training, and culture they need to perform at their best.
- **Improving IRS employee tools** by developing and integrating high priority software tools into operations to help taxpayers and improve service.
- **Ensuring fairness in enforcement** through hiring and increased training in critical staffing areas such as those dedicated to high-income earners and large and complex partnerships.
- **Increasing compliance efforts on the wealthiest taxpayers, large corporations, and complex partnerships** by expanding audits on these entities.
- **Expanding Direct File to 12 additional states** to provide eligibility to 30 million taxpayers with increased types of permitted taxpayer deductions and tax credits.

While the IRS has accomplished a lot so far with IRA funding and under the SOP (www.irs.gov/strategicplan), there is so much more work to be done to make improvements and transform the IRS for the benefit of taxpayers, tax professionals and the nation. Although the IRA funding provides tens of billions of dollars, years of under-funding created unique challenges for the IRS. Given current funding structures, Business System Modernization funding provided under the IRA is critical for technology improvements but will run out by FY 2026. In addition, the IRS will be unable to support current levels of taxpayer service through FY 2026. This means that the nearly 88% level of service delivered for taxpayers this filing season on the IRS individual customer service phone line could drop to less than 30% in FY 2026, meaning 7 out of 10 taxpayers would not get through to an assistor when calling.

The IRS will continue focusing on making improvements and efficient use of funding. It is critical that the IRS has stable, secure funding to allow technology modernization and taxpayer service improvements to continue and ensure those with complex returns, including certain high-income individuals, large corporations, and complex partnerships pay the taxes they owe.

The President's FY 2025 budget proposal would restore and maintain the full IRA investment in the IRS through 2034 and avoid funding cliffs that would dramatically degrade IRS work abilities in many different areas, including taxpayer services and technology modernization. This funding will ensure the IRS can continue its transformation efforts as outlined in the SOP Annual Update Supplement (www.irs.gov/strategicplan).



IRS Direct File will be open for filing in early 2025 expanding to 24 participating states with additional features making this option available to more taxpayers. Visit IRS.gov/directfile to learn more.

FINANCIAL INFORMATION

MESSAGE FROM THE CHIEF FINANCIAL OFFICER

I am honored to share the IRS's FY 2024 Agency Financial Report. This report reflects our commitment to transparency, accountability, and responsible stewardship of public funds to fulfill the IRS's mission and provide taxpayers with top quality service with integrity and fairness to all.

The CFO organization is the principal advisor to the IRS Commissioner and Deputy Commissioner on all financial management programs, and a critical driver of the IRS's strategic plan, budget formulation and the execution of a multi-billion-dollar budget, financial reporting of the multi-trillion-dollar revenue collected annually, and ensuring effective internal controls.

Over the past year, our office has made progress in modernizing financial management systems and processes. These efforts are part of a broader strategy to enhance efficiency, improve data accuracy, and ensure the highest standards of accountability in the use of taxpayer dollars. This year's achievements are exemplified by:

Strong Internal Controls: The IRS has received an unmodified opinion on its financial statements for the 25th consecutive year. Our external auditors also provided an unmodified opinion on the overall effectiveness of our internal controls over financial reporting. After 11 years, the IRS resolved a long-standing significant deficiency in information system controls, marking substantial improvements and strengthened information technology internal controls. The IRS continues to make progress in resolving the remaining significant deficiency and the single noncompliance instance identified in prior years related to internal controls over unpaid assessments and federal financial management systems requirements. The efforts to remediate the remaining significant deficiency demonstrate the IRS's overall commitment to continuous improvement and fiduciary responsibility.

Financial Reporting Excellence: The IRS received AGA's Certificate of Excellence in Accountability Reporting recognition for the second consecutive year, including a Best-In-Class award for Excellent Overall Management's Discussion and Analysis for outstanding explanation of the strategic plan, providing performance measures for all goals and effectively addressing prior year comments provided by the AGA's review panel. This fiscal year, our financial management operations oversaw about $5.1 trillion in tax collections, $553 billion in tax refunds and outlays and $566 billion in unpaid assessments.

Key Modernization Efforts: We take pride in innovating our business processes to enhance efficiency, accuracy, data analytics, and on-demand reporting to support critical decision-making and become more agile. CFO has streamlined operations through the development and implementation of interactive dashboards and data visualizations, introducing robotic process automations, and data retrieval and validation. By leveraging data-driven insights, we are better equipped to identify cost-saving opportunities and make informed decisions that maximize the impact of every dollar spent.

Strategic Advisor Expertise: IRS leadership depend on CFO as a key enabler to successfully transform the IRS. Our advisory role is well-regarded by the IRS Commissioner and the Transformation Strategy Office for its data-driven analysis that frames the impact of both near-term and strategic decisions. We are trusted to provide our objective expertise as exemplified by our partnership with the Human Capital Office on workforce planning and recruitment and retention strategies, collaboration on long-term information technology investments, teaming with mission-focused organizations on the launching of new energy credit programs, and as co-author with the Research, Applied Analytics & Statistics organization on a whitepaper describing new return on investment perspectives which will impact future investments in the IRS.

Enhanced Transparency: We made great strides in increasing transparency across the IRS. CFO introduced quarterly reporting on IRA spending on IRS.gov allowing the public to track how these funds are being used. As part of our ongoing commitment to openness, we continue to make the IRS's Agency Financial Reports and budget requests publicly available on IRS.gov, allowing for greater visibility into our financial operations.

Workforce Investment: We continue to foster a culture of creativity among employees by offering multiple training avenues to ensure they are equipped with the latest skills and knowledge to navigate the complexities of federal financial management. We encourage CFO employees to explore process improvement opportunities, develop automations, and empower them to recommend innovative ways of leveraging new technologies.

I want to express my deep appreciation to the dedicated professionals in the CFO organization and across the IRS. Their unwavering commitment to excellence is the foundation of our success.

Moving forward, our focus remains on continuous improvement to further innovate and enhance our financial systems, expand our use of technology, and foster a culture of employee empowerment and accountability. We remain steadfast in our commitment to responsible financial stewardship and understand the importance of our role as guardians of the vast majority of revenue collected for the U.S. government and will continue to work tirelessly to ensure that every dollar appropriated to the IRS is used wisely and transparently.

Sincerely,

Teresa R. Hunter
Chief Financial Officer
November 1, 2024

U.S. GOVERNMENT ACCOUNTABILITY OFFICE
441 G St. N.W.
Washington, DC 20548

Independent Auditor's Report

To the Commissioner of Internal Revenue

In our audits of the fiscal years 2024 and 2023 financial statements of the Internal Revenue Service (IRS), we found

- IRS's financial statements as of and for the fiscal years ended September 30, 2024, and 2023, are presented fairly, in all material respects, in accordance with U.S. generally accepted accounting principles;

- although internal controls could be improved, IRS maintained, in all material respects, effective internal control over financial reporting as of September 30, 2024; and

- no reportable noncompliance for fiscal year 2024 with provisions of applicable laws, regulations, contracts, and grant agreements we tested.

The following sections discuss in more detail (1) our report on the financial statements and on internal control over financial reporting, which includes an emphasis-of-matter paragraph related to federal taxes receivable, a section on required supplementary information (RSI),[1] and a section on other information included with the financial statements;[2] (2) our report on compliance with laws, regulations, contracts, and grant agreements; and (3) agency comments.

Report on the Financial Statements and on Internal Control over Financial Reporting

<u>Opinion on the Financial Statements</u>

In connection with fulfilling our requirement to audit the consolidated financial statements of the U.S. government, and consistent with our authority to audit statements and schedules prepared by executive agency components, we have audited IRS's financial statements because of the significance of IRS's tax collections to the consolidated financial statements of the U.S. government.[3] IRS's financial statements comprise the balance sheets as of September 30, 2024, and 2023; the related statements of net cost, changes in net position, budgetary resources, and custodial activity for the fiscal years then ended; and the related notes to the

[1]The RSI consists of Management's Discussion and Analysis and the Required Supplementary Information section, which are included with the financial statements.

[2]Other information consists of information included with the financial statements, other than the RSI and the auditor's report.

[3]See 31 U.S.C. §§ 331(e)(2), 3515, 3521(g), (i). Pursuant to the authority of 31 U.S.C. § 3515, the Office of Management and Budget (OMB) requires IRS to issue annual audited financial statements that are separate from those of the Department of the Treasury or that are presented separately in the department's audited, consolidated financial statements. *See* Office of Management and Budget, *Audit Requirements for Federal Financial Statements*, OMB Bulletin 24-02, app. B (July 29, 2024).

financial statements. In our opinion, IRS's financial statements present fairly, in all material respects, IRS's financial position as of September 30, 2024, and 2023, and its net cost of operations, changes in net position, budgetary resources, and custodial activity for the fiscal years then ended in accordance with U.S. generally accepted accounting principles.

Opinion on Internal Control over Financial Reporting

We also have audited IRS's internal control over financial reporting as of September 30, 2024, based on criteria established under 31 U.S.C. § 3512(c), (d), commonly known as the Federal Managers' Financial Integrity Act of 1982 (FMFIA). In our opinion, although certain internal controls could be improved, IRS maintained, in all material respects, effective internal control over financial reporting as of September 30, 2024, based on criteria established under FMFIA. Our fiscal year 2024 audit continued to identify a significant deficiency in internal control over financial reporting concerning IRS's unpaid assessments.[4] We considered this significant deficiency in determining the nature, timing, and extent of our audit procedures on IRS's fiscal year 2024 financial statements.

Although we identified some new control deficiencies, IRS made significant progress during fiscal year 2024 in addressing the significant deficiency in information system controls that we reported as of September 30, 2023.[5] Specifically, IRS sufficiently addressed certain control deficiencies in security management, access controls, and configuration management—including several long-standing deficiencies related to cryptography and multifactor authentication. As a result, we concluded that the remaining control deficiencies, including the new control deficiencies we identified, do not, individually or collectively, represent a significant deficiency in internal control over financial reporting as of September 30, 2024. Our audit of IRS's internal control over financial reporting also considered the findings reported by the Treasury Inspector General for Tax Administration in its recent annual evaluation of IRS's information security program.[6] It will be important for IRS management to continue to build on the progress it has made in addressing the remaining deficiencies in internal control over financial reporting, as well as focusing efforts on strengthening its information security program.

Although the significant deficiency in internal controls over unpaid assessments did not affect our opinion on IRS's fiscal year 2024 financial statements, misstatements may occur in unaudited financial information reported internally and externally by IRS because of this significant deficiency.

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[4]An unpaid assessment is an enforceable claim against a taxpayer for which specific amounts are due, have been determined, and the person(s) or entities from which a tax is due have been identified. See implementing guidance in *Internal Revenue Manual* § 1.34.4.1.6(1)p, *Terms/Definitions* (Aug. 25, 2015). A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

[5]GAO, *Financial Audit: IRS's FY 2023 and FY 2022 Financial Statements*, GAO-24-106472 (Washington, D.C.: Nov. 9, 2023).

[6]Treasury Inspector General for Tax Administration, *Fiscal Year 2024 IRS Federal Information Security Modernization Act Evaluation*, Report Number: 2024-200-039 (Washington, D.C.: July 29, 2024).

In addition, because of the significant deficiency in internal controls over unpaid assessments that existed during fiscal year 2024, IRS's financial management systems did not comply substantially with federal financial management systems requirements as required by the Federal Financial Management Improvement Act of 1996.[7]

In addition to the significant deficiency in internal controls over unpaid assessments, we also identified other deficiencies in IRS's internal control over financial reporting that we do not consider to be material weaknesses or significant deficiencies. Nonetheless, these deficiencies warrant IRS management's attention. We have communicated these matters to IRS management and, where appropriate, will report on them separately.

Significant Deficiency in Internal Controls over Unpaid Assessments

During fiscal year 2024, the systems IRS uses to account for federal taxes receivable and other unpaid assessment balances continued to have limitations. Because of these limitations, IRS's systems were unable to provide the timely, reliable, and complete transaction-level financial information necessary to enable IRS to appropriately classify and report unpaid assessment balances.[8]

As in prior years,[9] IRS used a manually driven statistical estimation process to compensate for the effects of its system limitations and other deficiencies on a material portion of its federal taxes receivable balance to help ensure that this balance was free from material misstatement.[10] During fiscal year 2024, IRS recorded adjustments totaling about $14.3 billion to correct the effects of continued errors in its underlying data that it identified during its

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[7]Section 803(a) of the Federal Financial Management Improvement Act of 1996 (FFMIA), which is reprinted in 31 U.S.C. § 3512 note, requires that certain federal agencies, including Treasury, implement and maintain financial management systems that comply substantially with federal financial management systems requirements, applicable federal accounting standards, and the *U.S. Government Standard General Ledger* at the transaction level. While IRS's financial management systems did not comply substantially with federal financial management systems requirements, IRS's financial management systems did comply substantially with federal accounting standards and the *U.S. Government Standard General Ledger* at the transaction level. As a Treasury component, IRS is not required to be assessed separately; however, it is included in Treasury's agency-wide FFMIA assessment. Since IRS is a significant component of Treasury, we conducted this assessment to support the audit of the Treasury agency-wide financial statements. See Office of Management and Budget, *Management of Financial Management Systems – Risk and Compliance*, OMB Circular No. A-123, app. D, § VII.A (Dec. 23, 2022).

[8]Federal accounting standards classify unpaid assessments into one of the following three categories for reporting purposes: federal taxes receivable, compliance assessments, and write-offs. Federal taxes receivable are taxes due from taxpayers that IRS can support through the existence of a taxpayer agreement, such as filing of a tax return without sufficient payment, or a court ruling in favor of IRS. Compliance assessments are proposed tax assessments where neither the taxpayer (when the right to disagree or object exists) nor a court has affirmed that the amounts are owed. Write-offs represent unpaid assessments for which IRS does not expect further collections because of factors such as the taxpayer's death, bankruptcy, or insolvency. Federal accounting standards require that IRS report only federal taxes receivable, net of an allowance for uncollectible taxes receivable, on the financial statements. See Statement of Federal Financial Accounting Standards No. 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting* (May 10, 1996). See also implementing guidance in *Internal Revenue Manual*, § 1.34.4, *Unpaid Assessments* (Mar. 17, 2023).

[9]GAO-24-106472

[10]In fiscal year 2024, IRS's reported federal taxes receivable consisted of a combination of two distinct types of taxes receivable with different internal control and accounting processes in place: amounts derived from (1) IRS's unpaid assessments statistical estimation process and (2) the Section 965(h) repatriation of foreign earnings provision of the Tax Cuts and Jobs Act of 2017, Pub. L. No. 115-97, § 14103, 131 Stat. 2054, 2195-2208 (Dec. 22, 2017), which is codified at 26 U.S.C § 965.

estimation process. While using this process to determine a material portion of taxes receivable has enabled IRS to produce reliable related balances for year-end reporting, it does not provide IRS management with readily available, reliable unpaid assessment information daily throughout the year for effectively managing unpaid assessment balances. Further, these limitations led to errors in taxpayer accounts, which create a burden for those taxpayers whose accounts were affected.

While not collectively considered a material weakness, IRS's ongoing control deficiencies related to unpaid assessments are important enough to merit attention by those charged with governance of IRS. Therefore, these issues collectively represent a significant deficiency in IRS's internal control over financial reporting as of September 30, 2024. Continued management commitment and sustained efforts are necessary to build on the progress made to date and to fully address IRS's remaining unresolved issues concerning the management and reporting of unpaid assessments.

Basis for Opinions

We conducted our audits in accordance with U.S. generally accepted government auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audits of the Financial Statements and Internal Control over Financial Reporting section of our report. We are required to be independent of IRS and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis-of-Matter: Federal Taxes Receivable

This matter deserves emphasis to put the information in IRS's financial statements into context. As discussed in note 1.E., *Federal Taxes Receivable, Net*, taxes receivable consist of unpaid assessments (taxes, associated penalties, and interest) due from taxpayers. The existence of a receivable is supported by a taxpayer agreement, such as filing of a tax return without sufficient payment, or a court ruling in favor of IRS. Consistent with federal accounting standards, IRS's financial statements do not include an estimate for the annual tax gap—the difference between the amount of tax that taxpayers owe and the amount they actually pay voluntarily and on time,[11] nor do they include information on tax expenditures.[12] Further detail on the tax gap and tax expenditures, as well as the associated dollar amounts, is provided in the unaudited other information included with the financial statements. Our opinion on IRS's financial statements is not modified with respect to this matter.

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[11]In October 2022, IRS released its most recent estimate of the tax gap, which covered tax years 2014–2016. IRS estimated the average annual gross tax gap to be $496 billion for each of those years. IRS also estimated that $68 billion would be collected through enforcement actions or late payments, leaving a net annual tax gap of $428 billion. In October 2024, IRS released projections of the tax gap for tax year 2022. For tax year 2022, IRS projected a gross tax gap of $696 billion and a net tax gap of $606 billion.

[12]Tax expenditures are provisions of the Internal Revenue Code (Title 26, U.S. Code) that reduce taxpayers' tax liability and therefore the amount of tax revenue paid to the government. Examples include tax credits, deductions, exclusions, exemptions, deferrals, and preferential tax rates.

Responsibilities of Management for the Financial Statements and Internal Control over Financial Reporting

Management is responsible for

- the preparation and fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles;
- preparing, measuring, and presenting the RSI in accordance with U.S. generally accepted accounting principles;
- preparing and presenting other information included in IRS's financial report, and ensuring the consistency of that information with the audited financial statements and the RSI;
- designing, implementing, and maintaining effective internal control over financial reporting relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error;
- assessing the effectiveness of internal control over financial reporting based on the criteria established under FMFIA; and
- its assessment about the effectiveness of internal control over financial reporting as of September 30, 2024, included in the accompanying Management's Report on Internal Control over Financial Reporting on page 47.

Auditor's Responsibilities for the Audits of the Financial Statements and Internal Control over Financial Reporting

Our objectives are to (1) obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether effective internal control over financial reporting was maintained in all material respects, and (2) issue an auditor's report that includes our opinions.

Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit of the financial statements or an audit of internal control over financial reporting conducted in accordance with U.S. generally accepted government auditing standards will always detect a material misstatement or a material weakness when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered to be material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit of financial statements and an audit of internal control over financial reporting in accordance with U.S. generally accepted government auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audits.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks.

Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to our audit of the financial statements in order to design audit procedures that are appropriate in the circumstances.

- Obtain an understanding of internal control relevant to our audit of internal control over financial reporting, assess the risks that a material weakness exists, and test and evaluate the design and operating effectiveness of internal control over financial reporting based on the assessed risk. Our audit of internal control also considered IRS's process for evaluating and reporting on internal control over financial reporting based on criteria established under FMFIA. We did not evaluate all internal controls relevant to operating objectives as broadly established under FMFIA, such as those controls relevant to preparing performance information and ensuring efficient operations. We limited our internal control testing to testing controls over financial reporting. Our internal control testing was for the purpose of expressing an opinion on whether effective internal control over financial reporting was maintained, in all material respects. Consequently, our audit may not identify all deficiencies in internal control over financial reporting that are less severe than a material weakness.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Perform other procedures we consider necessary in the circumstances.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the financial statement audit.

Definition and Inherent Limitations of Internal Control over Financial Reporting

An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel. The objectives of internal control over financial reporting are to provide reasonable assurance that

- transactions are properly recorded, processed, and summarized to permit the preparation of financial statements in accordance with U.S. generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition, and

- transactions are executed in accordance with provisions of applicable laws, including those governing the use of budget authority, regulations, contracts, and grant agreements, noncompliance with which could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements due to fraud or error. We also caution that projecting any evaluation of effectiveness to future periods is subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Required Supplementary Information

U.S. generally accepted accounting principles issued by the Federal Accounting Standards Advisory Board (FASAB) require that the RSI be presented to supplement the financial statements. Such information is the responsibility of management and, although not a part of the financial statements, is required by FASAB, which considers it to be an essential part of financial reporting for placing the financial statements in appropriate operational, economic, or historical context.

We have applied certain limited procedures to the RSI in accordance with U.S. generally accepted government auditing standards. These procedures consisted of (1) inquiring of management about the methods used to prepare the RSI and (2) comparing the RSI for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during the audit of the financial statements, in order to report omissions or material departures from FASAB guidelines, if any, identified by these limited procedures. We did not audit and we do not express an opinion or provide any assurance on the RSI because the limited procedures we applied do not provide sufficient evidence to express an opinion or provide any assurance.

Other Information

IRS's other information contains a wide range of information, some of which is not directly related to the financial statements. This information is presented for purposes of additional analysis and is not a required part of the financial statements or the RSI. Management is responsible for the other information included in IRS's financial report. The other information comprises the following sections of the *IRS Fiscal Year 2024 Agency Financial Report*: Introduction, Message from the Chief Financial Officer, Other Information, and Appendices. Other information does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements

In connection with our audits of IRS's financial statements, we tested compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements consistent with our auditor's responsibilities discussed below.

Results of Our Tests for Compliance with Laws, Regulations, Contracts, and Grant Agreements

Our tests for compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements disclosed no instances of noncompliance for fiscal year 2024 that would be reportable under U.S. generally accepted government auditing standards. However, the objective of our tests was not to provide an opinion on compliance with laws, regulations, contracts, and grant agreements applicable to IRS. Accordingly, we do not express such an opinion.

Basis for Results of Our Tests for Compliance with Laws, Regulations, Contracts, and Grant Agreements

We performed our tests of compliance in accordance with U.S. generally accepted government auditing standards.

Responsibilities of Management for Compliance with Laws, Regulations, Contracts, and Grant Agreements

IRS management is responsible for complying with laws, regulations, contracts, and grant agreements applicable to IRS.

Auditor's Responsibilities for Tests of Compliance with Laws, Regulations, Contracts, and Grant Agreements

Our responsibility is to test compliance with selected provisions of laws, regulations, contracts, and grant agreements applicable to IRS that have a direct effect on the determination of material amounts and disclosures in IRS's financial statements, and to perform certain other limited procedures. Accordingly, we did not test compliance with all provisions of laws, regulations, contracts, and grant agreements applicable to IRS. We caution that noncompliance may occur and not be detected by these tests.

Intended Purpose of Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements

The purpose of this report is solely to describe the scope of our testing of compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements, and the results of that testing, and not to provide an opinion on compliance. This report is an integral part of an audit performed in accordance with U.S. generally accepted government auditing standards in considering compliance. Accordingly, this report on compliance with laws, regulations, contracts, and grant agreements is not suitable for any other purpose.

Agency Comments

In commenting on a draft of this report, IRS stated that it was pleased to receive an unmodified opinion on its financial statements. IRS also commented on its progress in reducing open recommendations and in resolving a significant deficiency in information system controls. IRS also noted its intention to continue working to improve its internal controls. The complete text of IRS's response is reproduced in the enclosure.

Dawn Simpson

Dawn B. Simpson
Director
Financial Management and Assurance

November 1, 2024

ENCLOSURE: IRS RESPONSE TO THE INDEPENDENT AUDITOR'S REPORT

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, DC 20224

COMMISSIONER

November 4, 2024

Ms. Dawn B. Simpson
Director
Financial Management and Assurance
U.S. Government Accountability Office
441 G Street, NW
Washington, DC 20548

Dear Ms. Simpson:

Thank you for the opportunity to comment on the draft report titled, Financial Audit: IRS's FY 2024 and FY 2023 Financial Statements. We are pleased the IRS received an unmodified opinion on its combined financial statements. The unmodified opinion demonstrates that the IRS accurately accounts for tax revenue receipts, tax refunds and IRS appropriated funds.

Most importantly, in this year's opinion, the GAO also determined that the IRS no longer has a significant deficiency regarding information system controls. This is a momentous achievement for the IRS, and we are very proud of this accomplishment. In addition, we continued to make noteworthy progress in resolving open recommendations.

The IRS's ability to produce reliable financial statements each year is due to the efforts of our outstanding personnel. We are dedicated to promoting the highest standard of financial management, and we look forward to working with the GAO to continue providing accurate reporting and improving our internal controls.

Sincerely,

Daniel I. Werfel
Digitally signed by Daniel I. Werfel

Daniel I. Werfel

FINANCIAL STATEMENTS

Audited, See Accompanying Auditor's Report

The financial statements have been prepared to report the financial position and results of operations of the IRS, pursuant to the requirements of the Chief Financial Officers Act of 1990 (Public Law 101-576), the Government Management Reform Act of 1994 (Public Law 103-356) and the Office of Management and Budget Circular A-136, Financial Reporting Requirements. The responsibility for the integrity of the financial information included in these statements is with the management of the IRS. The audit of the IRS financial statements was performed by the U.S. Government Accountability Office.

The IRS financial statements for FY 2024 and FY 2023 are described below:

- The Balance Sheets present the assets, liabilities, and net position.
- The Statements of Net Cost present the gross costs incurred less exchange revenue earned from activities and the net cost of operations. The presentation aligns with the objectives as defined in the SOP (www.irs.gov/strategicplan).
- The Statements of Changes in Net Position present the change in net position resulting from the net cost of operations, budgetary financing sources other than exchange revenues, and other financing sources.
- The Combined Statements of Budgetary Resources present the budgetary resources, the status of those resources, and the agency outlays, net. Additional detail by major budget accounts is available in Required Supplementary Information.
- The Statements of Custodial Activity present the sources of non-exchange federal tax revenues collected and disposition of refunds and outlays disbursed.

Balance Sheets
As of September 30, 2024 and 2023
(in Millions)

	2024	2023
ASSETS		
Intragovernmental		
Fund Balance with Treasury (Notes 2, 3)	$ 66,019	$ 86,347
Accounts Receivable, Net	47	23
Advances and Prepayments	2	3
Other Assets		
Due from the General Fund of the U.S. Government (Note 2)	4,427	6,647
Total Intragovernmental	**70,495**	**93,020**
With the Public		
Cash and Other Monetary Assets	4	4
Accounts Receivable, Net		
Federal Taxes Receivable, Net (Notes 2, 4, 7)	139,220	182,000
Other Receivables, Net	7	6
Property and Equipment, Net (Note 5)	2,450	1,747
Advances and Prepayments	15	15
Total with the Public	**141,696**	**183,772**
Total Assets	**$ 212,191**	**$ 276,792**
LIABILITIES		
Intragovernmental		
Other Liabilities		
Due to the General Fund of the U.S. Government (Note 7)	$ 148,164	$ 185,382
Other Liabilities (Note 9)	171	251
Total Intragovernmental	**148,335**	**185,633**
With the Public		
Accounts Payable		
Federal Tax Refunds Payable	4,427	6,648
Other Payables	56	14
Federal Employee Salary, Leave, and Benefits Payable (Note 8)	933	1,115
Post-Employment Benefits Payable (Note 8)	377	392
Other Liabilities (Note 9)	3,545	3,856
Total with the Public	**9,338**	**12,025**
Total Liabilities	**157,673**	**197,658**
Commitments and Contingencies (Note 11)		
NET POSITION		
Unexpended Appropriations		
Funds from Other Than Dedicated Collections	52,433	77,569
Cumulative Results of Operations		
Funds from Dedicated Collections (Note 12)	292	294
Funds from Other Than Dedicated Collections	1,793	1,271
Total Cumulative Results of Operations (Consolidated)	**2,085**	**1,565**
Total Net Position	**54,518**	**79,134**
Total Liabilities and Net Position	**$ 212,191**	**$ 276,792**

The accompanying notes are an integral part of these statements.

Statements of Net Cost
For the Years Ended September 30, 2024 and 2023
(in Millions)

	2024	2023
MAJOR PROGRAMS		
Service to the Taxpayer		
Gross Cost	$ 6,519	$ 5,949
Earned Revenue	(61)	(60)
Net Cost of Program	**6,458**	**5,889**
Enforcement of Tax Legislation		
Gross Cost	12,359	10,916
Earned Revenue	(500)	(514)
Net Cost of Program	**11,859**	**10,402**
Transformation of Business Systems		
Gross Cost	914	943
Earned Revenue	(5)	(6)
Net Cost of Program	**909**	**937**
Net Cost of Operations	**$ 19,226**	**$ 17,228**

The accompanying notes are an integral part of these statements.

Statement of Changes in Net Position
For the Year Ended September 30, 2024
(in Millions)

	Consolidated Funds from Dedicated Collections (Note 12)	Consolidated Funds from Other Than Dedicated Collections	Consolidated Total
			2024
UNEXPENDED APPROPRIATIONS			
Beginning Balances	$ –	$ 77,569	$ 77,569
Appropriations Received	–	12,319	12,319
Appropriations Transferred In/(Out)	–	(5)	(5)
Other Adjustments	–	(20,323)	(20,323)
Appropriations Used	–	(17,127)	(17,127)
Net Change in Unexpended Appropriations	–	(25,136)	(25,136)
Total Unexpended Appropriations, Ending Balances	**–**	**52,433**	**52,433**
CUMULATIVE RESULTS OF OPERATIONS			
Beginning Balances	294	1,271	1,565
Appropriations Used	–	17,127	17,127
Non-exchange Revenue	139	–	139
Transfers In/(Out) Without Reimbursement	–	42	42
Imputed Financing (Note 13)	9	2,432	2,441
Transfers to the General Fund of the U.S. Government	–	(3)	(3)
Net Cost of Operations	(150)	(19,076)	(19,226)
Net Change in Cumulative Results of Operations	(2)	522	520
Total Cumulative Results of Operations, Ending Balances	**292**	**1,793**	**2,085**
Net Position	**$ 292**	**$ 54,226**	**$ 54,518**

The accompanying notes are an integral part of these statements.

Statement of Changes in Net Position
For the Year Ended September 30, 2023
(in Millions)

	2023		
	Consolidated Funds from Dedicated Collections (Note 12)	Consolidated Funds from Other Than Dedicated Collections	Consolidated Total
UNEXPENDED APPROPRIATIONS			
Beginning Balances	$ –	$ 82,049	$ 82,049
Appropriations Received	–	12,319	12,319
Appropriations Transferred In/(Out)	–	(7)	(7)
Other Adjustments	–	(1,566)	(1,566)
Appropriations Used	–	(15,226)	(15,226)
Net Change in Unexpended Appropriations	–	(4,480)	(4,480)
Total Unexpended Appropriations, Ending Balances	–	77,569	77,569
CUMULATIVE RESULTS OF OPERATIONS			
Beginning Balances	181	1,151	1,332
Appropriations Used	–	15,226	15,226
Non-exchange Revenue	138	–	138
Transfers In/(Out) Without Reimbursement	–	6	6
Imputed Financing (Note 13)	1	2,093	2,094
Transfers to the General Fund of the U.S. Government	–	(3)	(3)
Net Cost of Operations	(26)	(17,202)	(17,228)
Net Change in Cumulative Results of Operations	113	120	233
Total Cumulative Results of Operations, Ending Balances	294	1,271	1,565
Net Position	**$ 294**	**$ 78,840**	**$ 79,134**

The accompanying notes are an integral part of these statements.

Combined Statements of Budgetary Resources For the Years Ended September 30, 2024 and 2023 (in Millions)

	2024	2023
BUDGETARY RESOURCES		
Unobligated Balance from Prior Year Budget Authority, Net (Discretionary and Mandatory)	$ 76,112	$ 80,934
Appropriations (Discretionary and Mandatory)	(7,318)	11,422
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	174	149
Total Budgetary Resources	**$ 68,968**	**$ 92,505**
STATUS OF BUDGETARY RESOURCES		
New Obligations and Upward Adjustments (Total)	$ 18,580	$ 16,526
Unobligated Balance, End of Year		
Apportioned, Unexpired Accounts	49,675	75,071
Exempt from Apportionment, Unexpired Accounts	7	7
Unapportioned, Unexpired Accounts	383	612
Unexpired Unobligated Balance, End of Year	50,065	75,690
Expired Unobligated Balance, End of Year	323	289
Unobligated Balance, End of Year (Total)	**50,388**	**75,979**
Total Budgetary Resources	**$ 68,968**	**$ 92,505**
OUTLAYS, NET		
Outlays, Net (Total) (Discretionary and Mandatory)	$ 18,325	$ 15,204
Distributed Offsetting Receipts	(346)	(314)
Agency Outlays, Net (Discretionary and Mandatory)	**$ 17,979**	**$ 14,890**

The accompanying notes are an integral part of these statements.

Statements of Custodial Activity
For the Years Ended September 30, 2024 and 2023
(in Millions)

	2024	2023
REVENUE ACTIVITY		
Collections of Federal Tax Revenue (Note 16)		
Individual Income, Federal Insurance Contributions Act, Self-Employment Contributions Act and Other	$ 4,409,528	$ 4,112,546
Corporate Income	565,086	456,941
Excise	77,948	74,249
Estate and Gift	32,868	35,434
Railroad Retirement	6,929	7,218
Federal Unemployment	8,131	7,947
Total Collections of Federal Tax Revenue	**5,100,490**	**4,694,335**
(Decrease)/Increase in Federal Taxes Receivable, Net	(42,780)	(54,000)
Total Federal Tax Revenue	**$ 5,057,710**	**$ 4,640,335**
DISPOSITION OF FEDERAL TAX REVENUE		
Transferred to:		
General Fund of the U.S. Government	$ 5,100,241	$ 4,694,046
Department of the Interior	46	53
Retained by Internal Revenue Service – Private Debt Collection	203	236
(Decrease)/Increase in Amounts Yet to be Transferred	(42,780)	(54,000)
Total Disposition of Federal Tax Revenue	**5,057,710**	**4,640,335**
Net Federal Revenue Activity	**$ –**	**$ –**
FEDERAL TAX REFUND AND OUTLAY ACTIVITIES		
Total Refunds of Federal Taxes and Outlays (Note 17)	$ 552,661	$ 659,052
Appropriations Used for Refund of Federal Taxes and Outlays	(552,661)	(659,052)
Net Federal Tax Refund and Outlay Activities	**$ –**	**$ –**

The accompanying notes are an integral part of these statements.

NOTES TO THE FINANCIAL STATEMENTS

Audited, See Accompanying Auditor's Report

For the Years Ended September 30, 2024 and 2023

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The IRS administers the nation's tax laws and annually collects nearly all the revenues that fund the federal government's operations. The accompanying financial statements present the financial position and results of operations for the IRS, a component-entity of the Treasury. All funds established and maintained to track resources and activity under IRS control are included in the financial statements and accompanying notes.

B. Basis of Accounting and Presentation

The financial statements are prepared from the accounting records of the IRS in conformity with U.S. generally accepted accounting principles and in accordance with Office of Management and Budget Circular A-136, Financial Reporting Requirements. Accounting principles generally accepted for federal entities are the standards prescribed by the Federal Accounting Standards Advisory Board, which is recognized by the American Institute of Certified Public Accountants as the official body for setting accounting standards of the federal government. Accounting standards allow certain presentations and disclosures to be modified, if needed, to prevent the disclosure of classified information.

Financial statements consist of Balance Sheets, Statements of Net Cost, Statements of Changes in Net Position, Statements of Budgetary Resources, and Statements of Custodial Activity. The statements and related notes are presented in a comparative format to display current fiscal year results against prior fiscal year results. The Statements of Changes in Net Position separately report amounts for Funds from Dedicated Collections. The Statements of Budgetary Resources are presented on a combined basis with combining amounts by major program presented as required supplementary information. Certain assets, liabilities, earned revenues, and costs have been classified as intragovernmental in the financial statements and notes. Intragovernmental is defined as transactions made between two reporting entities within the federal government.

Accounting transactions are recorded on both an accrual and a budgetary basis. Under the accrual method of accounting, revenues are recognized when earned and expenses are recognized when incurred, without regard to receipt or payment of cash. Accrual methods of accounting may differ from budgetary accounting principles as the purpose of federal budgetary accounting is to control, monitor, and report on the use of funds made available to federal agencies, and to ensure compliance with laws and regulations. The Statements of Custodial Activity are presented on the modified cash basis of accounting. Under this method, cash collections and transfers to the General Fund of the U.S. Government are reported on a cash basis rather than an accrual basis. Collections and transfers are adjusted on the face of the Statements of Custodial Activity for the net change in taxes receivable, producing modified cash basis balances.

The preparation of financial statements requires management to make certain estimates and assumptions affecting the reported amounts for assets, liabilities, revenues, expenses, and the disclosure of contingent liabilities. Actual results may differ from these estimates. Estimates are used in computing taxes receivables, accruals for accounts payable and actuarial liabilities, and for allocating costs to major programs on the Statements of Net Cost.

C. Fund Balance with Treasury

Fund Balance with Treasury is an asset of a reporting entity and a liability of the General Fund of the U.S. Government. These amounts represent commitments by the federal government to provide resources for certain programs, but do not represent net assets to the federal government. When the IRS seeks to use Fund Balance with Treasury to liquidate budgetary obligations, Treasury will finance the disbursements in the same way it finances all other disbursements, using some combination of receipts, other inflows, and borrowing from the public (if a budget deficit exists). On the financial statements and notes, Fund Balance with Treasury represents the aggregate amount of undisbursed IRS funds which include appropriated funds, deposit funds, suspense funds, and special funds (refer to Note 3. Fund Balance with Treasury).

D. Accounts Receivable, Net

Accounts Receivable, Net, represents the net realizable value of amounts owed to the IRS from other federal agencies and the public. Gross receivable balances are reduced to net realizable value through use of an allowance by using a collection criterion of *more likely than not*. The allowance for uncollectible accounts is based on an annual review of groups of accounts by age for accounts receivable balances older than one year.

Intragovernmental receivables include an expenditure transfer receivable from the Treasury Forfeiture Fund for the repayment of costs incurred in criminal investigations related to seizures and forfeitures. Reimbursable agreements with federal agencies are recorded as receivables and revenues, which are recognized when services are performed, and costs are incurred. Accounts receivable with the public include reimbursable agreements and payroll receivables, such as salary and benefit overpayments, overdrawn leave, leave buybacks under workers' compensation, and federal employees health benefit payments.

E. Advances and Prepayments

Intragovernmental advances and prepayments include employee transit subsidies paid to the Department of Transportation and postage purchased from the U.S. Postal Service for postage meters, business reply mail, bulk mailing permits, stamps, and postage paid envelopes. The U.S. Postal Service requires payment for the postage in advance. Advances and prepayments to the public represent cash outlays for criminal investigations and employee travel.

F. Cash and Other Monetary Assets

Imprest funds include non-restricted cash maintained by headquarters and field offices in commercial bank accounts and are used by investigative services to provide special agents with funding for ongoing covert operations. Other monetary assets consist of seized monies pending the results of criminal investigations. Seized monies are non-entity assets recorded in a deposit fund account.

G. Federal Taxes Receivable, Net

Federal Taxes Receivable, Net, consists of unpaid assessments and accruals for penalties, and interest due from taxpayers. The existence of a receivable is supported by a taxpayer agreement, such as filing of a tax return without sufficient payment, or a court ruling in favor of the IRS. The taxes receivable amount also includes restitution-based assessments, which are federal court ordered assessments for compensation from defendants to the federal government for revenue losses caused by tax-related crimes, including conspiracy to defraud the IRS and tax evasion. The net amount of federal taxes receivable is calculated by reducing the gross receivable amount by an allowance for uncollectible taxes receivable which estimates the portion of total taxes receivable deemed to be uncollectible. Internal Revenue Code Section 965(h) requires U.S. shareholders to pay a transition tax on the untaxed foreign earnings of certain specified foreign corporations as if those earnings had been repatriated to the U.S. Under this provision, taxpayers may elect to pay their transition tax on an eight-year installment schedule (refer to Note 4. Federal Taxes Receivable, Net).

Tax Assessments and Abatements

Under Internal Revenue Code Section 6201, the Secretary of the Treasury is authorized and required to make inquiries, determinations, and assessments of all taxes imposed and accrued under any internal revenue law, which have not been duly paid, including interest, additions to the tax, and assessable penalties. The Secretary of the Treasury has delegated this authority to the Commissioner of Internal Revenue. Unpaid assessments result from taxpayers filing returns without sufficient payments and from the enforcement programs of the IRS, such as examination, under-reporter, substitute for return, and combined annual wage reporting.

Internal Revenue Code Section 6404 authorizes the Commissioner of Internal Revenue to abate certain paid or unpaid portions of assessed taxes, interest, and penalties. Abatements occur for several reasons and are a standard part of the tax administration process. Abatements may be allowed for qualifying corporations claiming net operating losses that create a credit when carried back and applied against a prior year's tax liability. Additionally, abatements can correct previous assessments from enforcement programs, eliminate taxes discharged in bankruptcy, reduce or eliminate taxes encompassed in offers-in-compromise, eliminate penalty assessments for reasonable cause, eliminate contested assessments caused by mathematical or clerical errors, and eliminate assessments contested after the liability has been satisfied. Abatements may result in claims for refunds or reductions of the unpaid assessed amounts.

Other Unpaid Assessments

Compliance assessments are unpaid assessments which neither the taxpayer nor a court has affirmed is owed to the federal government. This includes assessments resulting from an IRS audit or examination in which the taxpayer does not agree with the results. Write-offs consist of unpaid assessments for which the IRS does not expect further collections due to factors such as taxpayers' bankruptcy, insolvency, or death. Compliance assessments and write-offs are not included in Federal Taxes Receivable, Net on the Balance Sheets of the IRS. According to Statement of Federal Financial Accounting Standards (SFFAS) 7: Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting, compliance assessments do not meet the requirements for asset recognition. Statutory provisions authorize the IRS to collect on unpaid assessments for a specific statutory timeframe. To pursue collection efforts, the IRS maintains unpaid assessment accounts in the agency's financial records until the statute for collection expires, which is generally 10 years from when the IRS assesses the tax.

H. Property and Equipment, Net

Property and equipment are recorded at cost and consist of tangible and intangible assets with a useful life of two or more years. IRS property and equipment includes equipment, leasehold improvements, right-to-use lease assets, and internal use software. Depreciation and amortization expenses are calculated using a straight-line method over the useful life of the asset starting on the in-service date. Assets under development, such as internal use software, are capitalized if the estimated aggregate cost meets the threshold for capitalization. Normal repairs and maintenance costs are recognized as an expense in the period incurred. Impairment costs are recognized in the event of a significant and permanent decline in the service utility of the property and equipment (refer to Note 5. Property and Equipment, Net).

IRS Capitalization Policy	
Asset Class	**Capitalization Threshold**
Information Technology Equipment (mainframe, server & telecommunication)	Bulk cost of $50 thousand or greater.
Non-Information Technology Equipment	Assets with bulk cost of $50 thousand or greater and the individual cost is $5 thousand or greater.
Investigative Equipment	Bulk cost of $50 thousand or greater.
Vehicles	No threshold.
Internal Use Software	Projects with an estimated cost greater than or equal to $10 million per year.
Leasehold Improvements	Improvements with bulk cost of $50 thousand or greater.
Right-to-Use Lease Asset	Asset value of $930 thousand or greater.

I. Leases

The IRS leases office space and motor vehicles from the General Services Administration under agreements with lease terms ranging from 1 to 30 years. Intragovernmental lease expenses are recognized as costs are incurred. The IRS is not a lessor to other government entities. In accordance with SFFAS 54: Leases, effective as of October 1, 2023, right-to-use lease assets and lessee lease liabilities are recognized for non-intragovernmental leases that are long-term in nature (greater than 2 years) and when certain conditions are met. For example, the IRS must obtain the right to control access to the economic benefits or services from the underlying assets in exchange for consideration under the lease agreement.

Implementation of SFFAS 54: Leases, is applied prospectively. The effect of the change in accounting principle is not material to the FY 2024 financial statements as the IRS had no material right-to-use lease assets at the end of FY 2023. As permitted through September 30, 2026, contracts or agreements having both lease and non-lease components will be treated as non-lease contracts in their entirety where the IRS has concluded the primary purpose is reasonably attributable to the non-lease components (refer to Note 10. Leases).

J. Inventory and Related Property, Net

Forfeited property held for sale is acquired through forfeiture proceedings or foreclosure sales to satisfy a tax liability. The Federal Tax Lien Revolving Fund, established in accordance with Title 26 U.S. Code Section 7810, is used to redeem real property foreclosed upon by a holder of a lien. The IRS may sell the property, reimburse the revolving fund in an amount equal to the redemption, and apply any net proceeds to the outstanding tax obligation.

Seized monetary instruments are recognized at their fair market value when seized and are reported as part of Cash and Other Monetary Assets. An offsetting liability of equal value is recognized in Other Liabilities on the Balance Sheet. In the event a forfeiture judgment is obtained, the seized asset is reclassified to a forfeited asset, revenue is recognized, and the offsetting liability is removed.

Seized property value, other than monetary instruments, is accounted for in criminal investigation records until the property is forfeited, returned, or otherwise liquidated. Valuation of property seized under the Internal Revenue Code is based on the taxpayer's equity at the fair market value less any third-party liens. Forfeited intangible assets are recognized at fair market value at the time of forfeiture with an offsetting deferred revenue. Current federal accounting standards define cryptocurrency and digital assets as nonmonetary instruments to be recognized at fair market value at the time of seizure or forfeiture. Only central bank digital currencies are treated as monetary instruments.

K. Due to the General Fund of the U.S. Government

Due to the General Fund of the U.S. Government is a liability which comprises two sources: Federal Taxes Receivable, Net and the State Innovation Waiver Program. The portion for federal taxes receivable will ultimately be distributed to the General Fund of the U.S. Government upon collection. The portion for the State Innovation Waiver Program represents awards by the Centers for Medicare and Medicaid Services, under Section 1332 of the Patient Protection and Affordable Care Act, where the grantees participating in the program have not drawn down the funds per the term of the grant. This program is also referred to as a State Relief and Empowerment Waiver (refer to Note 7. Due to the General Fund of the U.S. Government).

L. Federal Tax Refunds Payable and Due from the General Fund of the U.S. Government

Federal Tax Refunds Payable comprises measurable and legally payable amounts owed to taxpayers under the established refund processes of the IRS. This liability is fully funded and offset by a corresponding asset, Due from the General Fund of the U.S. Government. The IRS records an amount Due from the General Fund of the U.S. Government to designate approved funding to pay year-end tax refund liabilities to taxpayers.

M. Contingent Liabilities

Contingent liabilities are liabilities that may be incurred by the IRS depending on the outcome of an uncertain future event, such as pending litigation. Contingencies are classified into three categories: probable, reasonably possible, and remote. A contingency is considered probable when the future confirming events are likely to occur. Probable contingent liabilities are recognized by the IRS in the financial statements provided the amount can reasonably be estimated. Contingencies are reasonably possible when the chance of the future confirming event occurring is more than remote but less than probable. Reasonably possible contingencies are disclosed by the IRS in the notes to the financial statements, as well as probable contingencies that cannot reasonably be estimated. Remote contingencies are not recognized in the financial statements or disclosed in the notes to the financial statements (refer to Note 11. Commitments and Contingencies).

N. Financing Sources and Revenues

Appropriations Received

The IRS receives most of its funding through annual, multi-year, and no-year appropriations that are available for use within statutory limits for operating and capital expenditures. Appropriations Received are presented on the Statements of Changes in Net Position. Appropriations presented on the Statements of Budgetary Resources are net of temporary and permanent reductions and include special fund receipts.

Exchange Revenues

Exchange revenues are derived from transactions where both the IRS and its trading partners receive value. IRS exchange revenues include reimbursements, user fees, and collections of outstanding inactive tax receivables. Revenues for reimbursements are recognized as costs are incurred for services performed for other federal agencies or the public under the reimbursable agreements. Revenues from user fees are from transactions with the public and are recognized when earned. The Fixing America's Surface Transportation Act (Public Law 114-94) authorizes the IRS's Private Collection Agent Program, which provides the IRS with the authority to enter into qualified tax collection contracts with private collection agents to perform the collection of outstanding inactive tax receivables from the public. Earned revenues in this program reflect the portion of the collections retained to cover the costs of services performed under the contracts. Exchange revenues are assigned to a major program on the Statement of Net Cost.

Non-Exchange Revenues

Non-exchange revenues result from the U.S. Government's power to demand payments from the public, generally in the form of tax receipts. IRS tax collections are reported on the Statements of Custodial Activity with an offsetting transfer to the General Fund of the U.S. government. A portion of the tax receipts is used to fund the Special Compliance Personnel Program which has oversight authority over the Private Collection Agencies program. The Special Compliance Personnel Program has a specifically identifiable and legally enforceable claim to a portion of the delinquent debt collections from outstanding inactive tax receivables to fund the administration of the program.

Imputed Financing

The IRS receives goods and services from other federal entities at no cost or less than the full cost to the providing entity. Certain costs of the providing federal entity — that are identifiable to the IRS but not fully reimbursed — are recognized as imputed costs in the Statements of Net Cost and as imputed financing sources on the Statements of Changes in Net Position. Imputed financing sources include Bureau of the Fiscal Service costs of processing tax payments and collections; employee benefits administered by the Office of Personnel Management; and settled claims paid by the Treasury Judgment Fund.

O. Major Programs

The Statements of Net Cost present major programs that align to the IRS's mission and strategic goals of delivering high quality taxpayer service and fair enforcement of the tax law.

Service to the Taxpayer includes activities and programs, such as pre-filing assistance; account management and assistance; processing tax returns and related documents; offering filing and account services; producing media and publications; providing taxpayer advocacy services; and supporting activities. Earned revenues include reimbursable revenues for services provided and user fees, which include photocopies, U.S. residency certifications, and Income Verification Express Service.

Enforcement of Tax Legislation includes the examination of tax returns, both domestic and international; administrative and judicial settlement of taxpayer appeals of examination findings; technical rulings; monitoring of employee pension plans; determination of qualifications of organizations seeking tax-exempt status; enforcement of statutes relating to detection and investigation of criminal violations of the internal revenue laws; identification of under-reporting of tax obligations; securing of unfiled tax returns; collection of unpaid accounts; and supporting activities. Earned revenues consist of user fees for installment agreements; letter rulings and determinations; offers in compromise; enrolled agent and actuary programs; return preparer registrations; advance pricing agreements; services provided under reimbursable agreements; and receipts collected through the Private Collection Agent program.

Transformation of Business Systems includes resources for the planning and capital asset acquisition of information technology to modernize the IRS business systems. Primary activities include expanding online account capabilities to improve the taxpayer experience; improving individual tax processing technologies; streamlining case and workload management processes; and promoting cybersecurity.

P. Custodial Activity

Revenues

The IRS collects custodial non-exchange tax revenues levied for the following tax classifications: Individual Income, Corporate Income, Excise, Estate and Gift, Railroad Retirement, and Federal Unemployment taxes. Individual income taxes include Federal Insurance Contributions Act, Self Employment Contributions Act, and other miscellaneous items. Tax revenues are not available to the IRS for obligation or expenditure as substantially all the collections are transferred to the General Fund of the U.S. Government to fund the federal government's operations. The sources of federal tax revenues and their distributions are presented on the Statements of Custodial Activity.

Appropriations

Legislation grants the IRS permanent and indefinite budgetary authority to disburse tax refunds as the obligations become due. These permanent and indefinite appropriations are not subject to budgetary ceilings set by Congress during the annual appropriations process. Disbursements of federal tax refunds and refundable tax credits are offset by appropriations used for refunds on the Statements of Custodial Activity. Tax refund disbursements are a cost to the federal government, not to the IRS.

Refunds owed to taxpayers are reported as Federal Tax Refunds Payable on the Balance Sheets. The IRS recognizes a corresponding asset, Due from the General Fund of the U.S. Government, to reflect the budget authority to pay this liability.

Q. Funds from Dedicated Collections

Funds from Dedicated Collections are specifically identified revenues — often supplemented by other financing sources — which remain available over time. These specifically identified revenues and other financing sources are required by statute to be used for designated activities, benefits, or purposes and must be accounted for separately from the federal government's general revenues (refer to Note 12. Funds from Dedicated Collections).

R. Allocation Transfers

The IRS is a party to allocation transfers with other federal agencies as both a transferring (parent) entity and a receiving (child) entity. Allocation transfers are legal delegations by one federal entity of its authority to obligate budget authority and outlay funds to another federal entity. A separate Treasury Account Symbol (allocation account) is created as a subset of the parent fund account for tracking and reporting purposes. All allocation transfers of balances are credited to this account and subsequent obligations and outlays incurred by the child entity are charged to this allocation account as they execute the delegated activity on behalf of the parent entity. Financial activity related to these allocation transfers is reported in the financial statements of the parent entity, from which the underlying legislative authority, appropriations and budget apportionments are derived. The IRS allocates funds, as the parent entity, to the Department of Health and Human Services. The IRS receives allocation transfers, as the child entity, from the Department of Transportation's Federal Highway Administration, and Department of Health and Human Services.

S. Fiduciary Activities

Fiduciary activities are the collection or receipt, and the management, protection, accounting, investment, and disposition by the federal government of cash or other assets in which non-federal individuals or entities have an ownership interest the federal government must uphold. IRS fiduciary activities include the net collections for a taxable year from U.S. military and federal employees working in the U.S. territories of the Northern Mariana Islands, the U.S. Virgin Islands, Guam, and American Samoa. These fiduciary assets are not assets of the IRS (refer to Note 18. Fiduciary Activities).

T. Budgetary Terms

The purpose of federal budgetary accounting is to control, monitor, and report on funds made available to federal agencies by law and help ensure compliance with the law. Common budgetary terms applicable to IRS reporting are described below. Further information on the federal government's commonly used budgetary terms can be found in the "Budget Concepts" chapter of the Analytical Perspectives (www.whitehouse.gov/omb/budget/analytical-perspectives) volume of the President's Budget.

- **Appropriation**: A provision of law (not necessarily in an appropriations act) authorizing the expenditure of funds for a given purpose. Usually, but not always, an appropriation provides budget authority.

- **Resources**: Amounts available to incur obligations in a given fiscal year. Budgetary resources consist of new budget authority and unobligated balances of budget authority provided in previous years.
- **Obligation**: A binding agreement resulting in outlays, immediately or in the future. An agency incurs an obligation when it places an order, signs a contract for goods or services, or takes actions that will require the federal government to make payments to the public. Budgetary resources must be available before obligations can be incurred legally.
- **Offsetting Collections**: Collections that are offset against gross outlays and are credited to expenditure accounts. Normally, offsetting collections are authorized to be spent for the purposes of the account without further Congressional action. Offsetting collections usually result from business-like transactions with the public, including payments from the public in exchange for goods and services, reimbursements for damages, and gifts or donations of money to the U.S. government, and from intragovernmental transactions with other U.S. government accounts.
- **Offsetting Receipts**: Collections that are offset against gross outlays and are credited to receipt accounts. Unlike offsetting collections, offsetting receipts are not authorized to be credited to expenditure accounts. The legislation authorizing the offsetting receipts may earmark them for a specific purpose and either appropriate them for expenditure for the specific purpose or require them to be appropriated in annual appropriations acts before they can be spent. Like offsetting collections, they usually result from business-like transactions with the public. Receipts classified as undistributed offsetting receipts are offset against the budget authority and outlays of the federal government rather than any specific agency or subfunction.
- **Outlay**: A payment to liquidate an obligation and a measure of U.S. government spending. Outlays generally equal cash disbursements but also are recorded for cash-equivalent transactions, such as federal employee salary deductions. Not every disbursement is an outlay liquidating an obligation. For example, deposit funds are excluded from the budget and disbursements from deposit funds are recorded as reductions to receipts. Offsetting collections and offsetting receipts are deducted from gross outlays to calculate net outlays, which reflect the government's net transactions with the public.

U. Employee Compensation and Benefits

Accrued Annual, Sick and Other Leave

Annual and compensatory leave are accrued and expensed as earned and used. Each year, the IRS adjusts the balance in the accrued annual leave liability account to reflect current pay rates. Under the current budget execution rules, the accrued annual leave liability is reported as not covered by budgetary resources because the liability is not funded until leave is taken, or the amount is paid as a lump sum at the end of employment. Sick leave and other types of non-vested leave are expensed as used.

Federal Employees’ Compensation Act

The Federal Employees’ Compensation Act provides income and medical cost protection and other death benefits to beneficiaries for federal civilian employees with proper coverage who are injured on the job, have incurred work-related occupational diseases, and whose deaths were attributed to job-related injuries or occupational diseases. This program is administered by the Department of Labor, which pays valid claims and subsequently seeks reimbursement for claims paid. The accrued Federal Employees’ Compensation Act liability represents amounts due to the Department of Labor for claims paid on behalf of the IRS. The actuarial Federal Employees’ Compensation Act liability represents the liability for future workers’ compensation benefits, which includes the expected liability for death, disability, medical and miscellaneous costs for approved cases. The Department of Labor estimates the liability for future payments based on past events.

Employee Health and Life Insurance Benefits

IRS employees are eligible to participate in the Federal Employees’ Health Benefit Program and Federal Employees’ Group Life Insurance Program administered by the Office of Personnel Management. The Federal Employees’ Health Benefit Program offers a wide variety of group plans and coverages that are available to employees, retirees, and their eligible family members. The cost for each plan varies and is shared between the IRS and the employee.

An employee participating in the Federal Employees’ Group Life Insurance Program can obtain basic term life insurance by paying two-thirds of the cost and the IRS paying one-third. Additional coverage is optional, to be paid fully by the employee. The basic life coverage may continue into retirement if certain requirements are met. The IRS recognizes the full cost of providing these benefits.

Employee Pension Benefits

The IRS recognizes the full costs of providing future pension benefits to covered employees. Cost factors provided by the Office of Personnel Management estimate the full cost of providing the pension benefits. The excess of the full cost compared to contributions made by the IRS and its employees is recognized as imputed costs. The liabilities associated with these costs are reported by the Office of Personnel and Management, which administers the plans. Eligibility of employees to participate in the Civil Service Retirement System or the Federal Employees Retirement System is based on their hire date with the federal government and the IRS contributes a percentage of an employee’s basic pay towards their retirement plan.

All IRS employees are eligible to contribute to the Thrift Savings Plan, a defined contribution plan. For employees participating in the Federal Employees Retirement System, the IRS contributes 1% per year of the employee’s basic pay to the Thrift Savings Plan. In addition, the IRS matches voluntary employee contributions up to 3% of the employee’s basic pay and matches one-half of contributions between 3% and 5% of the employee’s basic pay. There are no agency contributions to the Thrift Savings Plan for Civil Service Retirement System participants. IRS contributions to the Thrift Savings Plan are recognized as current operating expenses.

Employee and Agency Pension Benefit Contribution Rates			
	Category	Employee	Agency
Civil Service Retirement System Rates	Regular	7.0%	7.0%
	Law enforcement officers	7.5%	7.5%
Federal Employees Retirement System Rates hired prior to January 1, 2013	Regular	0.8%	18.4%
	Law enforcement officers	1.3%	38.2%
Federal Employees Retirement System – Revised Annuity Rate hired January 1, 2013–December 31, 2013	Regular	3.1%	16.5%
	Law enforcement officers	3.6%	36.4%
Federal Employees Retirement System – Further Revised Annuity Rate hired January 1, 2014 or later	Regular	4.4%	16.5%
	Law enforcement officers	4.9%	36.4%

V. Changes in Presentation

Certain prior year financial statements and related notes presented in the current year comparative financial statements have been changed to conform with the current year presentation.

FY 2023 amounts that were previously reported in billions of dollars were changed to reflect IRS's decision to report all amounts in millions of dollars. This change affected the Statements of Custodial Activity, Note 16. Collections of Federal Tax Revenue, and Note 17. Federal Tax Refund and Outlay Activities. With this new presentation, additional lines have been added to the Statements of Custodial Activity related to custodial transfers and amounts retained by the IRS, which were collectively less than a billion dollars for FY 2023.

The Liabilities section of the Balance Sheets has been realigned to comply with a new OMB Circular A-136 requirement to present Post Employment Benefits Payable separately from Employee Salary, Leave, and Benefits Payable. Additionally, amounts within Note 8. Federal Employee Benefits Payable and Note 9. Other Liabilities were reclassified.

Within Note 19. Budget and Accrual Reconciliation, the table line item Applied Overhead and Cost Capitalization Offset has been reclassified from the Components of Net Cost Not Part of Net Outlays section to the Components of Net Outlays Not Part of Net Cost section based on changes in guidance from Treasury. These changes in presentation are not the result of a correction of an error or a change in accounting principle.

Note 2. Non-entity Assets

Non-entity assets are not available for use by the IRS. Federal Taxes Receivable, Net are collected for the U.S. government, but the IRS does not have the authority to spend them. Fund Balance with Treasury, as presented in this note, consists of offers-in-compromise and voluntary deposits received from taxpayers pending application of funds to taxpayer's account.

(In Millions)	2024	2023
INTRAGOVERNMENTAL		
Fund Balance with Treasury	$ 3,083	$ 3,245
Due from the General Fund of the U.S. Government	4,427	6,647
Total Intragovernmental	**7,510**	**9,892**
WITH THE PUBLIC		
Federal Taxes Receivable, Net	139,220	182,000
Other Receivables, Net	1	–
Total with the Public	**139,221**	**182,000**
Non-entity Assets	146,731	191,892
Entity Assets	65,460	84,900
Total Assets	**$ 212,191**	**$ 276,792**

Note 3. Fund Balance with Treasury

The status of Fund Balance with Treasury includes unobligated and obligated balances. Unobligated Balances, Available represent amounts in unexpired appropriations as of the end of the current fiscal year. Unobligated balances become available when apportioned by the Office of Management and Budget. Unobligated Balances, Unavailable represent amounts in expired appropriations and amounts not apportioned for obligation as of the end of the current fiscal year. The Obligated Balances Not Yet Disbursed represent the unpaid funds with budgetary obligations.

Non-Budgetary and Other Fund Balance with Treasury includes Deposit Funds and Clearing Accounts collections awaiting classification, as well as Section 1332 State Innovation Waiver Program funds where the grantee has not drawn down the funds per the terms of the grant (refer to Note 1.C. Fund Balance with Treasury).

(In Millions)	2024	2023
STATUS OF FUND BALANCE WITH TREASURY		
Unobligated Balances		
Available	$ 49,682	$ 75,078
Unavailable	706	901
Obligated Balance Not Yet Disbursed	3,554	3,730
Non-Budgetary and Other Fund Balance with Treasury		
Deposit Funds and Clearing Accounts	3,084	3,246
State Innovation Waiver Program	8,943	3,382
Advanced Clean Energy and Vehicle Program	42	–
Other	8	10
Fund Balance with Treasury	**$ 66,019**	**$ 86,347**

Note 4. Federal Taxes Receivable, Net

Federal taxes receivable are taxes due from taxpayers for which the IRS can support the existence of a receivable through either a taxpayer agreement or a court ruling determining an assessment. Federal Taxes Receivable, Net is the portion of federal taxes receivable estimated to be collectible and the corresponding liability is Due to the General Fund of the U.S. Government which is to be transferred when collected. The taxes receivable consists primarily of two categories:

- Delinquent tax assessments, penalties and interest not paid or abated, which were agreed to by the taxpayer and the IRS or upheld by the courts. As of September 30, 2024, the net delinquent unpaid assessments for this category was $66,619 million, an increase of $2,619 million from the $64,000 million reported for FY 2023.
- Nondeliquent assessments are detailed in Note 1.G. Federal Taxes Receivable, Net. As of September 30, 2024, all nondelinquent assessments are from Internal Revenue Code Section 965(h) which allowed taxpayers to elect to pay this tax on an eight-year installment schedule. As of September 30, 2024, net Federal taxes receivable for Internal Revenue Code Section 965(h) consist of $72,601 million, a decrease of $43,399 million from $116,000 million reported for FY 2023. The decrease was primarily due to yearly installment payments applied to these deferrals.

For taxes receivable, specific collectability methods were applied to each of the categories mentioned above to determine Allowance for Uncollectible Taxes Receivable:

- **Delinquent tax assessments**. In FY 2024, the $66,619 million in collectible delinquent tax assessments was derived from a three-year average (FY 2022–2024) to normalize the effect of year-to-year fluctuations including the FY 2024 collectible point estimate of $63,020 million (+/- $12,512 million). In FY 2023, the $64,000 million in collectible delinquent tax assessments was derived from a three-year average (FY 2021–2023) including the FY 2023 collectible point estimate of $60,000 million (+/- $12,200 million).
- **Internal Revenue Code Section 965(h) elections**. In FY 2024, the IRS considered indicators of financial health of the largest business modules (92.3% of the remaining unpaid deferral balance) along with industry specific data in determining the degree to which Internal Revenue Code Section 965(h) taxpayers are considered at-risk of non-payment. The FY 2024 overall collectability estimate for Internal Revenue Code Section 965(h) taxes receivable estimated collectability was 94.4% overall. The FY 2023 overall collectability estimate for Internal Revenue Code Section 965(h) was 94.2%.

(In Millions)	2024	2023
WITH THE PUBLIC		
Federal Taxes Receivable	$ 389,856	$ 404,000
Allowance for Uncollectible Taxes Receivable	(250,636)	(222,000)
Federal Taxes Receivable, Net	**$ 139,220**	**$ 182,000**

Note 5. Property and Equipment, Net

The following tables display property and equipment by asset class with corresponding cost and accumulated depreciation/amortization as of September 30, 2024 and 2023.

							2024
(In Millions)	Useful Life (Years)		Cost		Accumulated Depreciation/ Amortization		Net Book Value
ASSET CLASS							
Information Technology Equipment	3 to 7	$	745	$	(454)	$	291
Internal Use Software	2 to 15		3,957		(3,259)		698
Internal Use Software-in-Development	N/A		1,217		–		1,217
Leasehold Improvements	2 to 10		316		(143)		173
Vehicles	5		5		(3)		2
Non-Information Technology	8 and 10		67		(35)		32
Right-to-Use Equipment Lease	2 to 5		4		–		4
Investigative Equipment	10		4		(3)		1
Leasehold Improvements Construction-in-Progress	N/A		32		–		32
Property and Equipment, Net		**$**	**6,347**	**$**	**(3,897)**	**$**	**2,450**

							2023
(In Millions)	Useful Life (Years)		Cost		Accumulated Depreciation/ Amortization		Net Book Value
ASSET CLASS							
Information Technology Equipment	3 to 7	$	833	$	(547)	$	286
Internal Use Software	2 to 15		3,647		(3,081)		566
Internal Use Software-in-Development	N/A		695		–		695
Leasehold Improvements	2 to 10		290		(143)		147
Vehicles	5		5		(3)		2
Non-Information Technology	8 and 10		69		(46)		23
Investigative Equipment	10		4		(3)		1
Leasehold Improvements Construction-in-Progress	N/A		27		–		27
Property and Equipment, Net		**$**	**5,570**	**$**	**(3,823)**	**$**	**1,747**

The IRS holds an Energy Savings Performance Contract with a useful life of 17 years to align the amortization with the liability. This agreement is the only exception to the leasehold improvement useful life threshold in the table above. For more information on Right-to-Use leases, see Note 10. Leases. Capitalization criteria and other information regarding property and equipment are discussed in Note 1.H. Property and Equipment, Net.

Components of the Changes in Property and Equipment, Net

(In Millions)	2024	2023
Balance Beginning of Year	$ 1,747	$ 1,795
Capitalized Acquisitions	1,005	382
Dispositions	(18)	(32)
Depreciation Expense	(284)	(398)
Balance at End of Year	**$ 2,450**	**$ 1,747**

Note 6. Liabilities Not Covered by Budgetary Resources

Liabilities Not Covered by Budgetary Resources are from the receipt of goods and services, or occurrence of eligible events in the current or prior periods, for which revenue or other funds to pay the liabilities has not been made available through appropriations of the IRS.

Liabilities Covered by Budgetary Resources are liabilities which Congress has appropriated funds or funding is otherwise available to pay amounts due.

Liabilities Not Requiring Budgetary Resources are liabilities that have not in the past required, and will not in the future require, the use of budgetary resources. This includes liabilities for clearing accounts, non-fiduciary deposit funds, and accrued custodial collections.

(In Millions)	2024	2023
INTRAGOVERNMENTAL		
Unfunded Federal Employees' Compensation Act	$ 68	$ 67
Unfunded Unemployment Compensation for Federal Employees	1	1
Total Intragovernmental	**69**	**68**
WITH THE PUBLIC		
Unfunded Accrued Annual Leave	662	598
Actuarial Federal Employees' Compensation Act	377	392
Energy Savings Performance Contract	28	29
Right-to-Use Lease Liability	4	–
Total with the Public	**1,071**	**1,019**
Liabilities Not Covered by Budgetary Resources	1,140	1,087
Liabilities Covered by Budgetary Resources	14,229	11,325
Liabilities Not Requiring Budgetary Resources	142,304	185,246
Total Liabilities	**$ 157,673**	**$ 197,658**

Note 7. Due to the General Fund of the U.S. Government

Due to the General Fund of the U.S. Government reports General Fund assets held and managed on behalf of the U.S. government. These General Fund assets constitute resources available to meet the operating needs of the U.S. government. The Federal Taxes Receivable, Net is the portion of gross federal taxes receivable estimated to be collectible and will be transferred to the General Fund when collected. The Fund Balance with Treasury represents funds to administer the State Innovation Waiver Program. These funds are not available for use by the IRS (refer to Note 1.K. Due to the General Fund of the U.S. Government).

(In Millions)	2024	2023
INTRAGOVERNMENTAL		
Federal Taxes Receivable, Net	$ 139,220	$ 182,000
Fund Balance with Treasury	8,943	3,382
Other Receivables, Net	1	–
Due to the General Fund of the U.S. Government	**$ 148,164**	**$ 185,382**

Note 8. Federal Employee Benefits Payable

The following table provides additional detail of the Balance Sheets line items Federal Employee Salary, Leave, and Benefits Payable as well as Post-Employment Benefits Payable.

(In Millions)	2024	2023
WITH THE PUBLIC		
Unfunded Accrued Annual Leave	$ 662	$ 598
Accrued Funded Payroll	262	498
Employer Contributions for Thrift Savings Plan	9	19
Federal Employee Salary, Leave, and Benefits Payable	**$ 933**	**$ 1,115**
Actuarial Federal Employees' Compensation Act	$ 377	$ 392
Post-Employment Benefits Payable	**$ 377**	**$ 392**

Unfunded Accrued Annual Leave is a current liability not covered by budgetary resources. Accrued Funded Payroll and Employer Contributions for Thrift Savings Plan are current liabilities for personnel salaries and benefits. The Federal Employees' Compensation Act is administered by the Department of Labor to provide income and medical cost protection to covered employees who are injured on the job. The actuarial liability represents the estimated liability for future workers compensation resulting from past events, which is noncurrent and not covered by budgetary resources.

Note 9. Other Liabilities

The following table provides additional detail of Other Liabilities.

(In Millions)		2024		2023
INTRAGOVERNMENTAL				
Benefit Program Contributions Payable	$	72	$	151
Unfunded Federal Employees' Compensation Act		68		67
Accrued Expenses		30		32
Unfunded Unemployment Compensation for Federal Employees		1		1
Other Liabilities	**$**	**171**	**$**	**251**
WITH THE PUBLIC				
Accrued Expenses	$	429	$	581
Deposit Fund and Clearing Accounts		3,084		3,246
Energy Savings Performance Contract		28		29
Right-to-Use Lease Liability		4		–
Other Liabilities	**$**	**3,545**	**$**	**3,856**

The current liabilities not covered by budgetary resources for FY 2024 are Unfunded Federal Employees' Compensation Act for $30 million, Unfunded Unemployment Compensation for Federal Employees for $1 million, Energy Savings Performance Contract for $1 million, and Right-to-Use Lease Liability for $1 million (refer to Note 10. Leases). In FY 2023, the current liabilities not covered by budgetary resources for Unfunded Federal Employees' Compensation Act, Unfunded Unemployment Compensation for Federal Employees, and Energy Savings Performance Contract were $29 million, $1 million, and $1 million, respectively.

Note 10. Leases

Intragovernmental Leases

The Intragovernmental lease schedule presents the annual rental expense by asset category under lease agreements with the General Services Administration.

(In Millions)		2024
INTRAGOVERNMENTAL LEASE EXPENSE CATEGORY		
Office Space	$	631
Vehicles		13
Intragovernmental Leases, Expense	**$**	**644**

Right-to-Use Lease

The IRS holds a five-year lease for postage meter equipment with a commercial vendor. The net present value of the lease liability is $4 million and the postage meters are located at IRS facilities in all fifty states, Puerto Rico, and the U.S. Virgin Islands. The FY 2024 annual lease expense is less than $1 million and a vendor-provided discount rate of 2.17% was used to calculate the lease liability. The interest portion of the future lease payments due from FY 2025 through FY 2029 is less than $1 million each year (refer to Note 5. Property and Equipment, Net and Note 9. Other Liabilities). Lease disclosures in FY 2024 are not comparable to lease disclosures in FY 2023, due to the change in accounting principle described in Note 1.I. Leases. See the FY 2023 IRS Agency Financial Report for lease disclosures for the prior fiscal year.

Note 11. Commitments and Contingencies

The IRS is a party to legal actions that may ultimately result in settlements or decisions adverse to the federal government. As of September 30, 2024, the IRS is a party to a lawsuit categorized as reasonably possible where the claimant seeks the return of user fees paid to obtain a tax identification number plus interest. The range of loss is depicted in the table below.

(In Millions)		2024		2023
REASONABLY POSSIBLE				
Lower End Range of Loss	$	–	$	–
Upper End Range of Loss	$	246	$	246

There are no probable contingencies as of September 30, 2024 and 2023, respectively, that will require funding through the agency's budget. As such, no contingent liabilities are recognized in the financial statements. The IRS is a party in zero cases that are indeterminable in probability and range of loss as of September 30, 2024, and four cases indeterminable in probability and range of loss as of September 30, 2023. These cases include actions that argue malicious and negligent prosecution by the IRS.

Tort claims against federal agencies are administered and resolved by the Department of Justice with amounts necessary for resolution funded through the Treasury Judgment Fund. The Treasury Judgment Fund was enacted by Congress in 1956 as a permanent, indefinite appropriation for the payment of claims that did not have another funding source. The recognition of claims to be funded through the Treasury Judgment Fund represents a claim against the federal government as a whole and should not be interpreted as claims against the assets of an agency.

Note 12. Funds from Dedicated Collections

The IRS administers Funds from Dedicated Collections for Private Collection Agent Program, Special Compliance Personnel Program Account, Federal Tax Lien Revolving Fund, and Informant Payment Program. They are presented in accordance with SFFAS 27: Identifying and Reporting Earmarked Funds, as amended by SFFAS 43: Funds from Dedicated Collections: Amending SFFAS 27. There are no eliminations between the four Funds from Dedicated Collections for FY 2024 and FY 2023 (refer to Note 1.Q. Funds from Dedicated Collections).

						2024
(In Millions)		**Private Debt Collection**		**Other Dedicated Collections**		**Consolidated Funds from Dedicated Collections**
BALANCE SHEET						
Assets						
Intragovernmental						
Fund Balance with Treasury	$	293	$	8	$	301
Total Intragovernmental		**293**		**8**		**301**
Total Assets	**$**	**293**	**$**	**8**	**$**	**301**
Liabilities						
With the Public						
Federal Employee Salary, Leave, and Benefits Payable	$	4	$	–	$	4
Other Liabilities		5		–		5
Total with the Public		**9**		**–**		**9**
Total Liabilities		**9**		**–**		**9**
NET POSITION						
Cumulative Results of Operations		284		8		292
Total Liabilities and Net Position	**$**	**293**	**$**	**8**	**$**	**301**
STATEMENT OF NET COST						
Gross Costs	$	214		–	$	214
Earned Revenue		(64)		–		(64)
Net Costs of Operations	**$**	**150**	**$**	**–**	**$**	**150**
STATEMENT OF CHANGES IN NET POSITION						
Cumulative Results of Operations						
Beginning Balances	$	286	$	8	$	294
Intragovernmental Non-exchange Revenues		139		–		139
Imputed Financing		9		–		9
Net Costs of Operations		(150)		–		(150)
Net Change in Cumulative Results of Operations		**(2)**		**–**		**(2)**
Total Cumulative Results of Operations, Ending Balances	**$**	**284**	**$**	**8**	**$**	**292**

(In Millions)	Private Debt Collection	Other Dedicated Collections	2023 Consolidated Funds from Dedicated Collections
BALANCE SHEET			
Assets			
Intragovernmental			
Fund Balance with Treasury	$ 297	$ 8	$ 305
Advances and Prepayments	1	–	1
Total Intragovernmental	**298**	**8**	**306**
Total Assets	**$ 298**	**$ 8**	**$ 306**
Liabilities			
Intragovernmental			
Other Liabilities	$ 1	$ –	$ 1
Total Intragovernmental	**1**	**–**	**1**
With the Public			
Federal Employee Salary, Leave, and Benefits Payable	4	–	4
Other Liabilities	7	–	7
Total with the Public	**11**	**–**	**11**
Total Liabilities	**12**	**–**	**12**
NET POSITION			
Cumulative Results of Operations	286	8	294
Total Liabilities and Net Position	**$ 298**	**$ 8**	**$ 306**
STATEMENT OF NET COST			
Gross Costs	$ 124	$ –	$ 124
Earned Revenue	(98)	–	(98)
Net Costs of Operations	**$ 26**	**$ –**	**$ 26**
STATEMENT OF CHANGES IN NET POSITION			
Cumulative Results of Operations			
Beginning Balances	$ 173	$ 8	$ 181
Intragovernmental Non-exchange Revenues	138	–	138
Imputed Financing	1	–	1
Net Costs of Operations	(26)	–	(26)
Net Change in Cumulative Results of Operations	**113**	**–**	**113**
Total Cumulative Results of Operations, Ending Balances	**$ 286**	**$ 8**	**$ 294**

Private Debt Collection

Established under the American Jobs Creation Act of 2004, the Private Collection Agent program ended in March 2009. The remaining unobligated funds were retained by the IRS. The Fixing America's Surface Transportation Act, (Public Law 114-94), enacted in December 2015, amended Title 26 U.S. Code, Section 6306, requiring the IRS to enter one or more qualified tax collection contracts for the collection of outstanding inactive tax receivables in the Private Collection Agencies Program. This program has the authority to retain a portion of the delinquent tax collections to use for the costs performed under the contracts. The revenue is recognized as exchange revenue on the Statement of Net Cost. This exchange revenue for FY 2024 and FY 2023 totaled $139 million and $138 million, respectively. To reduce cash surplus and retained earnings, the IRS returned $75 million for FY 2024 and $40 million in FY 2023 to the general fund tax receipt accounts. The net exchange revenue totaled $64 million and $98 million for September 30, 2024 and 2023, respectively. The cumulative results of operations totaled $33 million and $63 million for September 30, 2024 and 2023, respectively.

The Fixing America's Surface Transportation Act amended title 26, U.S. Code, Section 6307, to establish the Special Compliance Personnel Program Account. The program requires hiring, training, and employment of special compliance personnel. A portion of the collections from outstanding inactive tax receivables funds the program. The revenue is recognized as non-exchange revenue on the Statement of Changes in Net Position. This non-exchange revenue totaled $139 million and $138 million for September 30, 2024 and 2023, respectively. The cumulative results of operations totaled $251 million and $223 million for September 30, 2024 and 2023, respectively.

Other Dedicated Collections

Section 112(a) of the Federal Tax Lien Act of 1966 established the Federal Tax Lien Revolving Fund to serve as the source of financing for the redemption of real property by the U.S. government. The forfeited property may be sold at auction to reimburse the revolving fund in an amount equal to the redemption. The net proceeds are applied to the outstanding tax obligation. As of September 30, 2024 and 2023, the cumulative results of operations total $8 million, respectively.

The Informant Payments Fund was established by the Taxpayer Bill of Rights of 1996 (Public Law 104-168). It provides for payments to individuals from the proceeds of amounts collected by reason of the information provided, and any amount collected shall be available for such payments. The custodial collection activities are reported in the Statement of Custodial Activity.

Note 13. Inter-Entity Costs

Imputed financing sources are recognized for goods or services received from other federal agencies without reimbursement from the IRS. This includes pension and other benefit costs administered by the Office of Personnel Management, costs of processing payments and collections by the Bureau of the Fiscal Service, and legal judgments paid by the Treasury Judgment Fund. Unreimbursed costs of goods and services other than those identified within this note are not included in the IRS financial statements.

(In Millions)		2024		2023
Fiscal Service Cost for Tax Collections and Refunds	$	1,260	$	1,168
Federal Employees Benefit Programs		1,181		919
Treasury Judgment Fund		–		7
Inter-Entity Costs	**$**	**2,441**	**$**	**2,094**

Note 14. Undelivered Orders at the End of the Period

Undelivered orders are the value of goods and services ordered and obligated, but not yet received. Amounts include any prepaid or advanced orders for which delivery or performance has not yet occurred.

	2024					
(In Millions)		Intragovernmental		With the Public		Total
Unpaid	$	445	$	2,357	$	2,802
Paid		1		15		16
Undelivered Orders at the End of the Period	**$**	**446**	**$**	**2,372**	**$**	**2,818**

	2023					
(In Millions)		Intragovernmental		With the Public		Total
Unpaid	$	375	$	2,102	$	2,477
Paid		3		15		18
Undelivered Orders at the End of the Period	**$**	**378**	**$**	**2,117**	**$**	**2,495**

Note 15. Statement of Budgetary Resources

The FY 2026 Budget of the U.S. Government presenting the actual amounts for the year ended September 30, 2024, has not been published as of the issue date of these financial statements and will be available at a future date on the Office of Management and Budget President's Budget webpage (www.whitehouse.gov/omb/budget/). A reconciliation of the FY 2023 Combined Statement of Budgetary Resources and the FY 2023 actual amounts in the FY 2025 Appendix, Budget of the U.S. Government for budgetary resources, new obligations and upward adjustments, distributed offsetting receipts and outlays, net is presented below.

(In Millions)		Budgetary Resources		New Obligations and Upward Adjustments (Total)		Distributed Offsetting Receipts		Outlays, Net
Combined Statement of Budgetary Resources	**$**	**92,505**	**$**	**16,526**	**$**	**314**	**$**	**15,204**
NOT IN THE BUDGET OF THE U.S. GOVERNMENT								
Expired Funds		(328)		–		–		–
Other		1		–		–		(2)
NOT IN THE COMBINED STATEMENT OF BUDGETARY RESOURCES								
Refundable Tax Credits, Interest Refunds to Taxpayers, and Other Outlays		257,837		257,837		–		239,683
Informant Payments		77		77		–		77
Budget of the U. S. Government	**$**	**350,092**	**$**	**274,440**	**$**	**314**	**$**	**254,962**

Refundable tax credits, interest refunds, other outlays, and informant payments total $257,914 million in appropriations. These appropriations are reported as refunds on the Statement of Custodial Activity and are not reported as budgetary resources on the Statement of Budgetary Resources.

Net Adjustments to Unobligated Balance, Brought Forward, October 1

(In Millions)	2024	2023
Unobligated Balance, Brought Forward from Prior Year	$ 75,979	$ 80,806
Adjustments to Unobligated Balance Brought Forward:		
Recoveries of Prior Year Unpaid Obligations	217	199
Recoveries of Prior Year Paid Obligations	39	30
Cancelled Authority	(123)	(94)
Transfers to Other Accounts	–	(7)
Unobligated Balance from Prior Year Budget Authority, Net	**$ 76,112**	**$ 80,934**

Net adjustments to the Unobligated Balance, Brought Forward, October 1 primarily includes current year activity related to downward adjustments of prior year undelivered orders and delivered orders, and cancelled authority.

Note 16. Collections of Federal Tax Revenue

The IRS collects tax revenues on behalf of the General Fund of the U.S. Government. Substantially all tax revenue collections are transferred to the General Fund of the U.S. Government, except tax revenue retained by the IRS pertaining to Private Debt Collection or transferred to the Department of the Interior. The Private Debt Collection earnings are further discussed in Note 12. Funds from Dedicated Collections. The IRS transfers revenues to the Department of the Interior for excise taxes collected for the Federal Aid in Wildlife Restoration Act.

	Tax Year				Fiscal Year	
(In Millions)	2024	2023	2022	Prior Years	2024***	2023
Individual Income, Federal Insurance Contributions Act, Self-Employment Contributions Act, and Other	$ 2,760,740*	$ 1,517,808	$ 89,085	$ 41,895	$ 4,409,528	$ 4,112,546
Corporate Income	303,265**	192,468	9,834	59,519	565,086	456,941
Excise	55,529	22,150	136	133	77,948	74,249
Estate and Gift	1,270	25,405	3,917	2,276	32,868	35,434
Railroad Retirement	5,366	1,524	11	28	6,929	7,218
Federal Unemployment	5,025	2,979	30	97	8,131	7,947
Collections of Federal Tax Revenue	**$ 3,131,195**	**$ 1,762,334**	**$ 103,013**	**$ 103,948**	**$ 5,100,490**	**$ 4,694,335**

*Includes other collections of $206 million.

**Includes tax year 2025 corporate income tax receipts of $14,836 million.

***FY 2024 totals represent the sum of collections for tax year's 2024–2022 and any prior years.

Note 17. Federal Tax Refund and Outlay Activities

Federal tax refunds and outlays include overpayments from taxpayers, payments for the various refundable credits, and other payments for the Basic Health Program and the State Innovation Waiver Program under the Patient Protection and Affordable Care Act of 2010.

	Tax Year				Fiscal Year	
(In Millions)	2024	2023	2022	Prior Years	2024*	2023
Individual Income, Federal Insurance Contributions Act, Self-Employment Contributions Act, and Other	$ 129,806	$ 303,781	$ 51,986	$ 23,066	$ 508,639	$ 610,995
Corporate Income	2,723	8,744	9,987	15,264	36,718	43,855
Excise	2,697	2,327	373	442	5,839	2,174
Estate and Gift	–	438	534	327	1,299	1,851
Railroad Retirement	–	5	–	27	32	15
Federal Unemployment	–	88	26	20	134	162
Federal Tax Refunds and Outlay Activities	**$135,226**	**$315,383**	**$ 62,906**	**$ 39,146**	**$552,661**	**$659,052**

*FY 2024 totals represent the sum of refunds and outlay activities for tax year's 2024–2022 and any prior years.

Note 18. Fiduciary Activities

The IRS has four fiduciary funds not reported on the Balance Sheets:

- Internal Revenue Collections for Northern Mariana Islands
- Coverover Withholdings – U.S. Virgin Islands
- Coverover Withholdings – Guam
- Coverover Withholdings – American Samoa

(In Millions)		**2024**		**2023**
Fiduciary Net Assets, Beginning of Year	$	46	$	41
Contributions		847		984
Disbursements to and on Behalf of Beneficiaries		(836)		(979)
Increase in Fiduciary Net Assets		11		5
Fiduciary Net Assets, End of Year	**$**	**57**	**$**	**46**

In Coverover Withholdings – U.S. Virgin Islands, the fiduciary net assets and end of year balances are pending a tax matter resolution.

Internal Revenue Code Section 7654 governs the tax coordination between the governments of the U.S. and the U.S. territories of the Northern Mariana Islands, the U.S. Virgin Islands, Guam, and American Samoa.

The collections of federal income taxes withheld from U.S. military and federal employees working in these U.S. territories are maintained in fiduciary funds of the IRS. The disbursements of these collections to these U.S. territory governments represent the transfer of the individual tax liability for a taxable year (refer to Note 1.S. Fiduciary Activities).

Note 19. Budget and Accrual Reconciliation

In accordance with SFFAS 53: Budget and Accrual Reconciliation: Amending SFFAS 7, and 24, and Rescinding SFFAS 22, the net cost of the programs and operations presented on an accrual basis must be reconciled to the net outlays presented on the budgetary basis during the reporting period. The accrual basis of accounting reports the net cost of resources used and includes information about costs arising from the consumption of assets and the incurrence of liabilities. Budgetary accounting reports the outlays of financial resources to acquire or provide goods and services.

The IRS transactions are recorded in budgetary and proprietary accounts, and because different accounting guidelines are used for budgetary and proprietary accounting, some transactions may appear in only one set of accounts. This reconciliation serves to identify costs paid for in the past and those to be paid in the future, and to assure integrity between budgetary and financial accounting.

			2024
(In Millions)	**Intragovernmental**	**With the Public**	**Total**
Net Cost of Operations	**$ 7,179**	**$ 12,047**	**$ 19,226**
COMPONENTS OF NET COST NOT PART OF NET OUTLAYS			
Property and Equipment Depreciation	–	(284)	(284)
Property and Equipment Disposal and Reevaluation	–	(18)	(18)
Private Collection Agencies Revenue Not in Actual Offsetting Collections	64	–	64
Other	–	20	20
INCREASE/(DECREASE) IN ASSETS:			
Accounts Receivable	24	1	25
Advances, Prepayments and Inventory	(1)	–	(1)
(INCREASE)/DECREASE IN LIABILITIES			
Federal Employee Salary, Leave, and Benefits Payable	–	182	182
Post-Employment Benefits Payable	–	15	15
Other Liabilities	79	153	232
OTHER FINANCING SOURCES			
Federal Costs Imputed to the Agency	(2,441)	–	(2,441)
Transfers Out/(In) Without Reimbursement	(42)	–	(42)
Total Components of Net Cost Not Part of Net Outlays	(2,317)	69	(2,248)
COMPONENTS OF NET OUTLAYS NOT PART OF NET COST			
Acquisition of Capital Assets	–	118	118
Applied Overhead and Cost Capitalization Offset	–	883	883
Total Components of Net Outlays Not Part of Net Cost	–	1,001	1,001
Net Outlays	**$ 4,862**	**$ 13,117**	**$ 17,979**

(In Millions)	Intragovernmental	With the Public	Total
			2023
Net Cost of Operations	**$ 5,999**	**$ 11,229**	**$ 17,228**
COMPONENTS OF NET COST NOT PART OF NET OUTLAYS			
Property and Equipment Depreciation	–	(398)	(398)
Property and Equipment Disposal and Reevaluation	–	(32)	(32)
Private Collection Agencies Revenue Not in Actual Offsetting Collections	98	–	98
Other	–	33	33
INCREASE/(DECREASE) IN ASSETS:			
Accounts Receivable	(16)	–	(16)
Advances, Prepayments and Inventory	2	6	8
(INCREASE)/DECREASE IN LIABILITIES			
Federal Employee Salary, Leave, and Benefits Payable	–	(101)	(101)
Post-Employment Benefits Payable	–	11	11
Other Liabilities	(34)	(189)	(223)
OTHER FINANCING SOURCES			
Federal Costs Imputed to the Agency	(2,094)	–	(2,094)
Transfers Out/(In) Without Reimbursement	(6)	–	(6)
Total Components of Net Cost Not Part of Net Outlays	(2,050)	(670)	(2,720)
COMPONENTS OF NET OUTLAYS NOT PART OF NET COST			
Acquisition of Capital Assets	–	93	93
Applied Overhead and Cost Capitalization Offset	–	289	289
Total Components of Net Outlays Not Part of Net Cost	–	382	382
Net Outlays	**$ 3,949**	**$ 10,941**	**$ 14,890**

Note 20. IRA

The IRA funding gives the IRS the resources to transform tax administration and services to taxpayers and tax professionals, while updating technology capabilities and investing in new tools to enhance employee skills.

In FY 2024, the IRS obligated $5,535 million to strategically add staff, fund information technology transformation, and allow the IRS to undertake a wide variety of projects to transform how they perform their mission. In FY 2023, the IRS obligated $3,396 million to provide continued enhancement of services to taxpayers and improvements to business modernization and information systems.

In June 2024, the Further Consolidated Appropriations Act of 2024, Public Law 118-47, rescinded $20,200 million to the General Fund of the U.S. Government, resulting in a negative appropriation balance. The Fiscal Responsibility Act of 2023, Public Law 118-5, rescinded $1,389 million in September 2023.

Budgetary Resources Activity

(In Millions)		2024		2023
Budgetary Resources: Unobligated Balance Carried Forward from Prior Year	$	74,520	$	79,305
Other Changes to Budgetary Resources		28		–
Appropriations – Permanent Reductions – Current Year		(20,200)		(1,389)
Budgetary Resources Obligated (less)		(5,535)		(3,396)
Budgetary Resources: Ending Unobligated Balance to be Carried Forward	**$**	**48,813**	**$**	**74,520**
Outlays, Net	$	4,834	$	2,321

Financial Resources Activity

(In Millions)		2024		2023
Fund Balance with Treasury	$	50,667	$	75,700
Property and Equipment	$	48	$	14
Accounts Payable, With the Public	$	8	$	4
Federal Employee Salary, Leave, and Benefits Payable	$	54	$	50
Other Liabilities, Intragovernmental	$	15	$	4
Other Liabilities, With the Public	$	190	$	178
Unexpended Appropriations	$	50,400	$	75,464
Cumulative Results of Operations	$	48	$	14
Undelivered Orders at the End of the Period	$	1,587	$	944

The Statements of Budgetary Resources major budget account funding provides resources for the Statements of Net Cost major programs:

- Service to the Taxpayer,
- Enforcement of Tax Legislation, and
- Transformation of Business Systems.

The Statements of Net Cost programs receive funding from the Statements of Budgetary Resources Other budget accounts including the Private Debt Collections user fees and the IRA for Energy Security and Direct E-File.

	Major Programs		
Major Budget Accounts	**Service to Taxpayer**	**Enforcement of Tax Legislation**	**Transformation of Business Systems**
Taxpayer Service	X		
Enforcement		X	
Business Modernization			X
Operations Support	X	X	X
Other			
Private Debt Collection		X	
IRS Miscellaneous Retained Fees (User Fees)	X	X	
IRA Energy Security	X		
IRA Direct E-File	X		

Combining Statement of Budgetary Resources by Major Budget Account

(In Millions)	Taxpayer Services	Enforcement	Business Modernization	Operations Support	Other	Total
						2024
BUDGETARY RESOURCES						
Unobligated Balance from Prior Year Budget Authority, Net	$ 2,782	$ 44,167	$ 4,002	$ 24,191	$ 970	$ 76,112
Appropriations (Discretionary & Mandatory)	3,390	(15,034)	-	3,890	436	(7,318)
Spending Authority from Offsetting Collections (Discretionary & Mandatory)	27	76	-	71	-	174
Total Budgetary Resources	**$ 6,199**	**$ 29,209**	**$ 4,002**	**$ 28,152**	**$ 1,406**	**$ 68,968**
STATUS OF BUDGETARY RESOURCES						
New Obligations and Upward Adjustments (Total)	$ 4,146	$ 6,544	$ 1,286	$ 6,336	$ 268	$ 18,580
Unobligated Balance, End of Year						
Apportioned, Unexpired Accounts	1,942	22,588	2,560	21,470	1,115	49,675
Exempt from Apportionment, Unexpired Accounts	–	–	–	–	7	7
Unapportioned, Unexpired Accounts	51	1	147	172	12	383
Unexpired Unobligated Balance, End of Year	1,993	22,589	2,707	21,642	1,134	50,065
Expired Unobligated Balance, End of Year	60	76	9	174	4	323
Unobligated Balance, End of Year (Total)	**2,053**	**22,665**	**2,716**	**21,816**	**1,138**	**50,388**
Total Budgetary Resources	**$ 6,199**	**$ 29,209**	**$ 4,002**	**$ 28,152**	**$ 1,406**	**$ 68,968**
OUTLAYS, NET						
Outlays, Net (Total) (Discretionary & Mandatory)	$ 4,192	$ 6,501	$ 1,128	$ 6,228	$ 276	$ 18,325
Distributed Offsetting Receipts	-	-	-	-	(346)	(346)
Agency Outlays, Net (Discretionary & Mandatory)	**$ 4,192**	**$ 6,501**	**$ 1,128**	**$ 6,228**	**$ (70)**	**$ 17,979**

(In Millions)	Taxpayer Services	Enforcement	Business Modernization	Operations Support	Other	Total
						2023
BUDGETARY RESOURCES						
Unobligated Balance from Prior Year Budget Authority, Net	$ 3,369	$ 46,005	$ 4,882	$ 25,701	$ 977	$ 80,934
Appropriations (Discretionary & Mandatory)	2,880	3,776	10	4,181	575	11,422
Spending Authority from Offsetting Collections (Discretionary & Mandatory)	27	53	–	69	–	149
Total Budgetary Resources	**$ 6,276**	**$ 49,834**	**$ 4,892**	**$ 29,951**	**$ 1,552**	**$ 92,505**
STATUS OF BUDGETARY RESOURCES						
New Obligations and Upward Adjustments (Total)	$ 3,915	$ 5,680	$ 899	$ 5,827	$ 205	$ 16,526
Unobligated Balance, End of Year						
Apportioned, Unexpired Accounts	2,322	44,070	3,984	23,967	728	75,071
Exempt from Apportionment, Unexpired Accounts	–	–	–	–	7	7
Unapportioned, Unexpired Accounts	–	–	–	–	612	612
Unexpired Unobligated Balance, End of Year	2,322	44,070	3,984	23,967	1,347	75,690
Expired Unobligated Balance, End of Year	39	84	9	157	–	289
Unobligated Balance, End of Year (Total)	2,361	44,154	3,993	24,124	1,347	75,979
Total Budgetary Resources	**$ 6,276**	**$ 49,834**	**$ 4,892**	**$ 29,951**	**$ 1,552**	**$ 92,505**
OUTLAYS, NET						
Outlays, Net (Total) (Discretionary & Mandatory)	$ 3,809	$ 5,322	$ 641	$ 5,234	$ 198	$ 15,204
Distributed Offsetting Receipts	–	–	–	–	(314)	(314)
Agency Outlays, Net (Discretionary & Mandatory)	**$ 3,809**	**$ 5,322**	**$ 641**	**$ 5,234**	**$ (116)**	**$ 14,890**

Other Claims for Refunds

The IRS estimates amounts (principal and interest) that may be paid as claims for tax refunds pending judicial review by the federal courts or internally by Appeals. In FY 2024, the total estimated payout for claims pending judicial review by the federal courts is $905 million and by Appeals is $3,476 million. In FY 2023, the total estimated payout for claims pending judicial review by the federal courts was $1,137 million and by Appeals was $1,275 million. To the extent judgments against the government in these cases prompt other similarly situated taxpayers to file similar refund claims, these amounts could become significantly greater.

Federal Taxes Receivable, Net

In accordance with the SFFAS 7: Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting, some unpaid assessments do not meet the criteria for financial statement recognition as discussed in Note 1.G. Federal Taxes Receivable, Net and Note 1.K. Due to the General Fund of the U.S. Government. Although compliance assessments and write-offs are not considered receivables under federal accounting standards, they represent legally enforceable claims of the IRS acting on behalf of the federal government. There is, however, a significant difference in the collection potential of these categories.

The components of the total unpaid assessments and derivation of Federal Taxes Receivable, Net were as follows:

(In Millions)	2024	2023
Total Unpaid Assessments	$ 566,020	$ 574,000
Compliance Assessments	(90,131)	(94,000)
Write-Offs	(86,033)	(76,000)
Gross Federal Taxes Receivable	389,856	404,000
Allowance for Uncollectible Taxes Receivable	(250,636)	(222,000)
Federal Taxes Receivable, Net	**$ 139,220**	**$ 182,000**

The total unpaid assessments as of September 30, 2024, decreased $7,980 million since September 30, 2023, due primarily to a decrease in Gross Federal Taxes Receivable partially offset by an increase in financial Write-Offs.

The decrease in Gross Federal Taxes Receivables is primarily due to Internal Revenue Code Section 965(h) payments partially offset by an increase to delinquent unpaid assessments. In FY 2024, total unpaid assessments include $76,868 million of nondelinquent taxes receivable in Internal Revenue Code Section 965(h) tax, which is collectible based on the type of taxpayer and the financial health of large dollar businesses. The nondelinquent Internal Revenue Code Section 965(h) component refers to taxpayers who elected to pay their Internal Revenue Code Section 965(h) tax on an eight-year installment schedule. In FY 2023, total unpaid assessments included $125,000 million of nondelinquent taxes receivable in both Internal Revenue Code Section 965(h) and Uncollected Branded Prescription Drugs.

The $42,780 million decrease in net taxes receivables is primarily due to the $43,399 million reduction in nondeliquent taxes receivable in Internal Revenue Code Section 965(h).

In FY 2024, the IRS cannot reasonably estimate the allowance for uncollectible amounts pertaining to the value of pre-assessment work in process. In accordance with federal accounting standards, IRS does not include the compliance assessments amount in taxes receivable.

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OTHER **INFORMATION**

SECTION A: SUMMARY OF FINANCIAL STATEMENT AUDIT AND MANAGEMENT ASSURANCES

The following table summarizes the results of the IRS's FY 2024 financial statement audit, as well as management's assurances regarding conformance with the Federal Managers' Financial Integrity Act of 1982 and compliance with the Federal Financial Management Improvement Act of 1996.

Table 1: Summary of Financial Statement Audit

Audit Opinion: Unmodified

Restatement: No

Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Total Material Weaknesses	0	0	0	0	0

Table 2: Summary of Management Assurances

Effectiveness of Internal Control Over Financial Reporting
(Federal Managers' Financial Integrity Act of 1982 Section 2)
Statement of Assurance: Unmodified

Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Total Material Weaknesses	0	0	0	0	0

Effectiveness of Internal Control Over Operations

(Federal Managers' Financial Integrity Act of 1982 Section 2)
Statement of Assurance: Unmodified

Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Total Material Weaknesses	0	0	0	0	0

Conformance with Federal Financial Management System Requirements

(Federal Managers' Financial Integrity Act of 1982 Section 4)
Statement of Assurance: Federal systems conform, except for instances of non-conformance, to financial management system requirements.

Non-Conformances	Beginning Balance	New	Resolved	Reassessed	Ending Balance
Unpaid Assessments[1]	1	0	0	0	1
Information System Controls[1]	1	0	1	0	0
Total Non-Conformances	2	0	1	0	1

[1]Refer to Independent Auditor's Report in Part 2 of this report.

Compliance with Federal Financial Management Improvement Act of 1996 Section 803(a)

	Agency	Auditor
1. Federal Financial Management System Requirements	Lack of Substantial Compliance Noted	Lack of Substantial Compliance Noted
2. Applicable Federal Accounting Standards	No Lack of Substantial Compliance Noted	No Lack of Substantial Compliance Noted
3. U.S. Standard General Ledger at Transaction Level	No Lack of Substantial Compliance Noted	No Lack of Substantial Compliance Noted

Federal Managers' Financial Integrity Act of 1982 and Federal Financial Management Improvement Act of 1996 Requirements

The Federal Managers' Financial Integrity Act of 1982 requires agencies to establish and maintain internal control to ensure that federal programs operate efficiently, effectively, and in compliance with laws and regulations. In support of the Treasury Secretary's Assurance Statement, the Commissioner must evaluate and report annually on (a) whether there is reasonable assurance that the IRS's controls are achieving their intended objectives, and (b) material weaknesses in the IRS's controls (Federal Managers' Financial Integrity Act of 1982, Section 2). The Commissioner must evaluate and report separately on whether the IRS's financial management systems comply with government-wide requirements (Federal Managers' Financial Integrity Act of 1982, Section 4). The Federal Managers' Financial Integrity Act of 1982 requires agencies to implement and maintain financial management systems that comply substantially with federal financial management systems requirements. The requirements of the Act serve as an umbrella under which other reviews, evaluations, and audits should be coordinated and considered to support management's assertion about the effectiveness of internal controls over operations, reporting, and compliance with laws and regulations.

As of September 30, 2024, the IRS had no material weaknesses under Section 2 or Section 4 of the Federal Managers' Financial Integrity Act of 1982. However, the IRS had one instance of nonconformance with the federal financial management systems requirements of Section 4 of the Act. This nonconformance also constitutes a lack of substantial compliance with the federal financial management system requirements - as reported above – under Federal Financial Management Improvement Act of 1996 Section 803(a). The IRS is actively working on resolving this nonconformance, and additional information can be found in the Management's Discussion and Analysis – Analysis of Systems, Controls and Legal Compliance and the Financial Information – Independent Auditor's Report.

SECTION B: TAX BURDEN, TAX GAP, AND TAX EXPENDITURES

Tax Burden

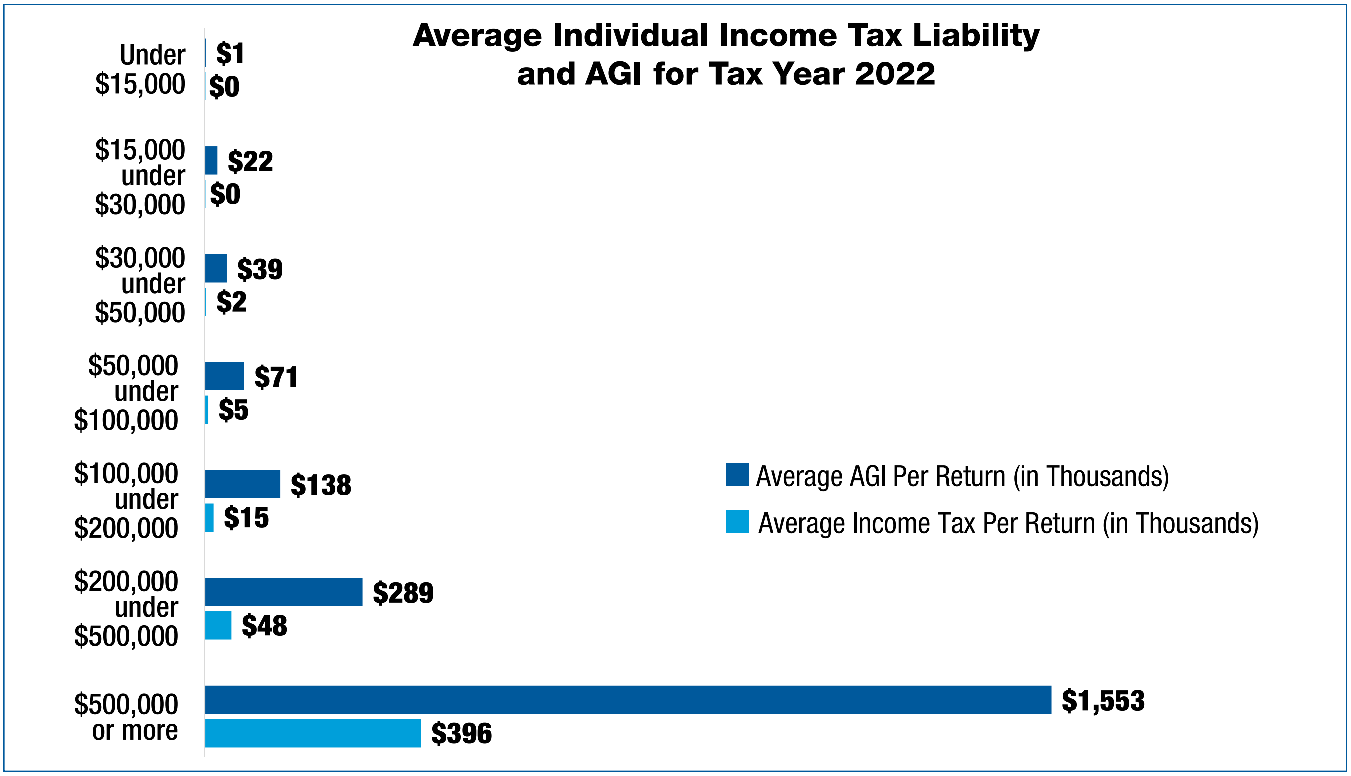
The Internal Revenue Code provides for progressive rates of tax, whereby higher incomes are generally subject to higher tax rates. The following pages present, in both graph and table format, various income levels and tax liability levels reported by individuals and corporations. That is, these amounts do not account for tax burdens that taxpayers do not report on their returns. This information is the most recent available for individuals (Tax Year 2022) and corporations (Tax Year 2021). For individuals, the information illustrates, in both percentage and dollar terms, the tax burden that taxpayers bear by varying levels of adjusted gross income (AGI). The corporate information illustrates, for varying corporate asset categories, the tax burden borne by these entities as a percentage of taxable income. The following graphs and charts are representative of more detailed data and analyses available from the IRS Statistics of Income Office.

The IRS Statistics of Income Office compiled statistics on stratified probability samples of income tax returns or other forms filed with the IRS. As returns are filed and processed for tax purposes, they are assigned to sampling classes (strata) based on such criteria as: industry, presence or absence of a tax form or schedule, and various income factors or other measures of economic size (such as total assets, total receipts, size of gift, and size of estate). The samples are selected from each stratum over the appropriate filing periods.

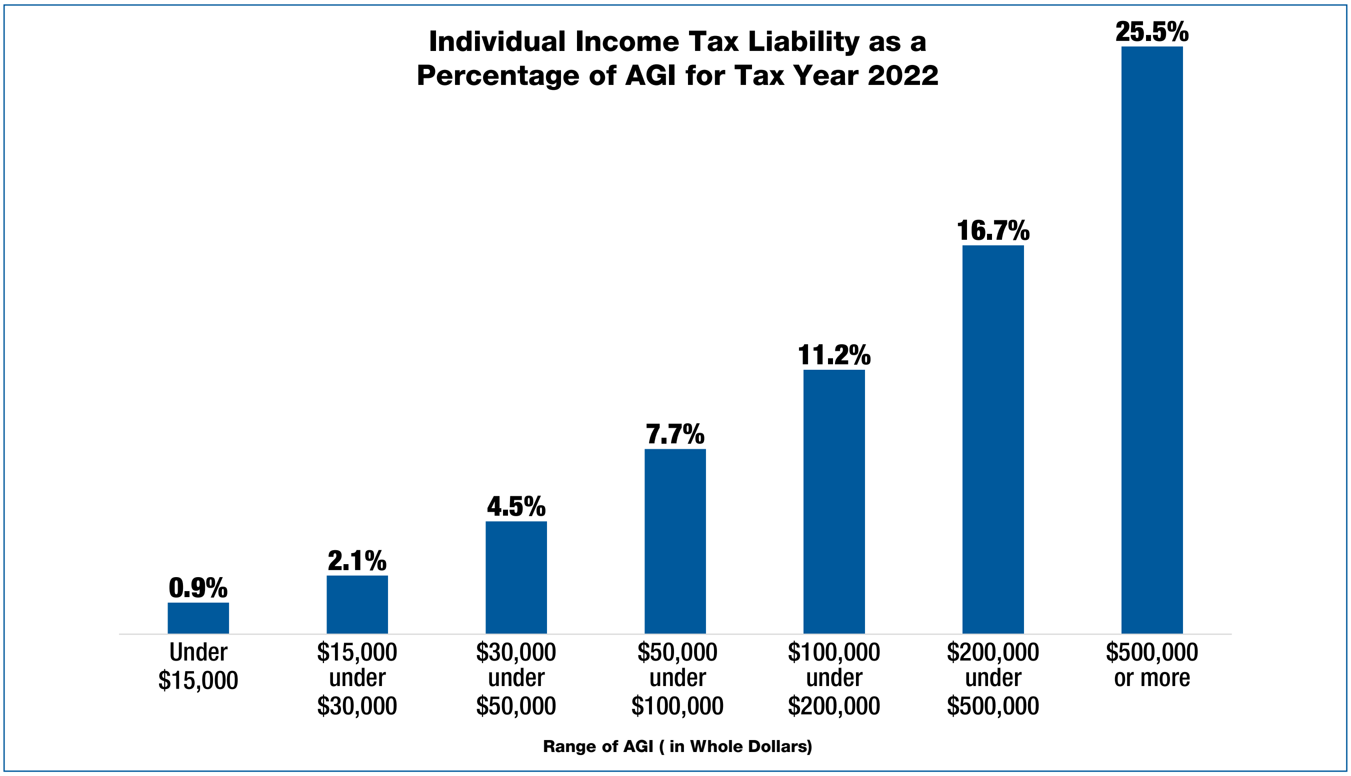
The table below presents individual income tax liability by levels of AGI. All figures below are estimates and based on sampling provided by the IRS Statistics of Income Office. All negative AGI under $15,000 are treated as zero-dollar amounts.

Individual Income Tax Liability for Tax Year 2022

AGI	Number of Taxable Returns (In Thousands)	AGI (In Millions)	Total Income Tax (In Millions)	Average AGI Per Return (In Whole Dollars)	Average Income Tax Per Return (In Whole Dollars)	Income Tax as a Percentage of AGI
Under $15,000	29,840	$ 41,952	$ 377	$ 1,406	$ 13	0.9%
$15,000 under $30,000	25,099	558,008	11,917	22,232	475	2.1%
$30,000 under $50,000	29,027	1,144,446	51,632	39,427	1,779	4.5%
$50,000 under $100,000	38,987	2,782,106	213,183	71,360	5,468	7.7%
$100,000 under $200,000	25,887	3,567,048	397,758	137,793	15,365	11.2%
$200,000 under $500,000	10,018	2,891,065	483,057	288,587	48,219	16.7%
$500,000 or more	2,479	3,849,333	981,999	1,552,777	396,127	25.5%
Totals	161,337	$14,833,958	$2,139,923			



Average Individual Income Tax Liability and AGI for Tax Year 2022
Under $15,000
$1
$0
$15,000 under $30,000
$22
$0
$30,000 under $50,000
$39
$2
$50,000 under $100,000
$71
$5
$100,000 under $200,000
$138
$15
$200,000 under $500,000
$289
$48
$500,000 or more
$1,553
$396
Average AGI Per Return (in Thousands)
Average Income Tax Per Return (in Thousands)



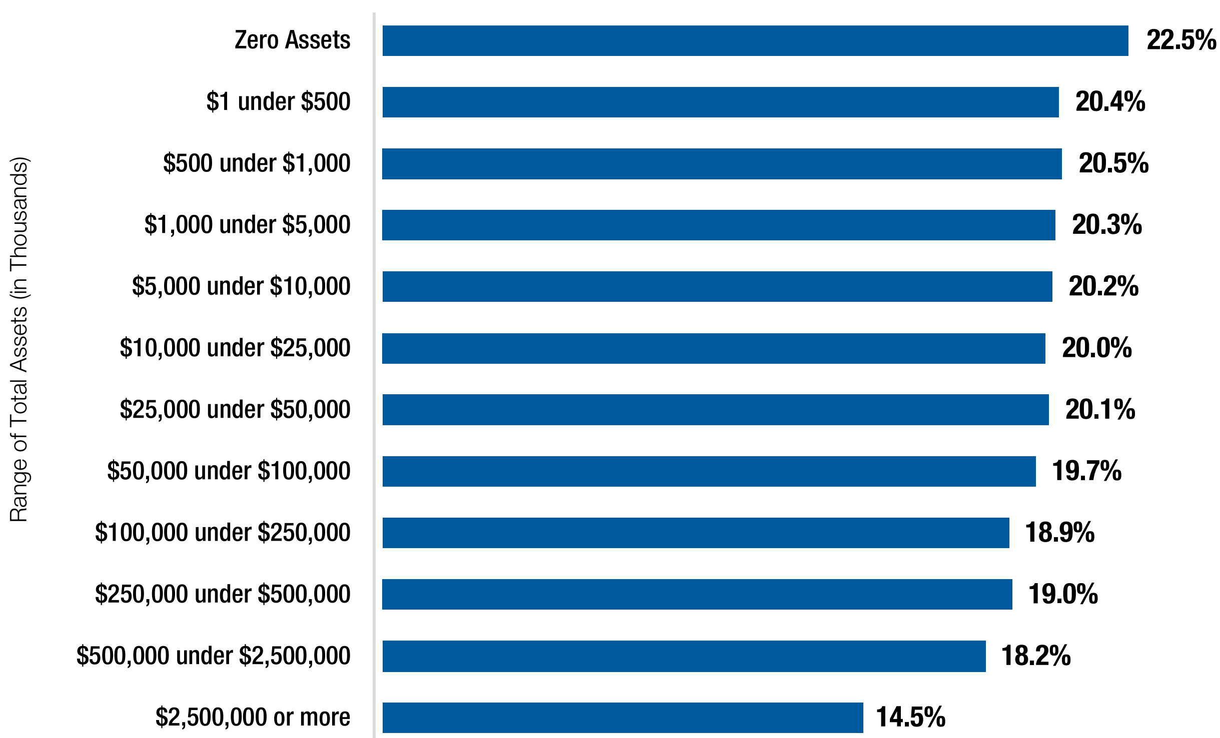
Individual Income Tax Liability as a Percentage of AGI for Tax Year 2022
0.9%
2.1%
4.5%
7.7%
11.2%
16.7%
25.5%
Under $15,000
$15,000 under $30,000
$30,000 under $50,000
$50,000 under $100,000
$100,000 under $200,000
$200,000 under $500,000
$500,000 or more
Range of AGI (in Whole Dollars)

The table below presents corporation income tax liability by total assets. All figures below are estimates and based on sampling provided by the IRS Statistics of Income Office.

Corporate Income Tax Liability for Tax Year 2021

Total Assets (In Thousands)	Income Subject To Tax (In Millions)	Total Income Tax After Credits (In Millions)	Percentage Of Income Tax After Credits To Taxable Income
Zero Assets	$ 36,888	$ 8,286	22.5%
$1 under $500	8,903	1,814	20.4%
$500 under $1,000	6,161	1,264	20.5%
$1,000 under $5,000	25,182	5,120	20.3%
$5,000 under $10,000	16,461	3,333	20.2%
$10,000 under $25,000	27,838	5,577	20.0%
$25,000 under $50,000	24,753	4,973	20.1%
$50,000 under $100,000	27,941	5,497	19.7%
$100,000 under $250,000	43,788	8,280	18.9%
$250,000 under $500,000	40,240	7,633	19.0%
$500,000 under $2,500,000	176,908	32,255	18.2%
$2,500,000 or more	1,986,987	287,371	14.5%
Totals	**$ 2,422,050**	**$ 371,403**	

Corporate Tax Liability as a Percentage of Taxable Income for Tax Year 2021



Tax Gap

The gross tax gap is the amount of true tax liability for a given tax year not paid voluntarily and/or timely. The IRS released new tax gap projections for Tax Year 2022 showing a projected gross tax gap of $696 billion. The TY 2022 projected gross tax gap is $12 billion lower than the revised TY 2021 projection of $708 Billion.

The IRS develops tax gap estimates on a periodic basis. A particular challenge for tax gap estimation is the time it takes to collect certain compliance data, especially data on underreporting that come from completed audits. This results in a timing difference between when the compliance behavior occurred and the development of tax gap estimates. To address this issue, the IRS produces annual tax gap projections to provide more current tax gap information. In October 2024, the IRS issued tax gap projections for Tax Year 2022 and revised projections for Tax Years 2020 and 2021. Reports on the tax gap (www.irs.gov/statistics/irs-the-tax-gap) are published on the IRS website by the Research, Applied Analytics and Statistics Division.

There are three primary sources of noncompliance:

4. Nonfiling tax gap (the tax not paid on time by those who do not file required returns on time).
5. Underreporting tax gap (the net understatement of tax on timely filed returns).
6. Underpayment tax gap (the amount of tax reported on timely filed returns not paid on time).

The projected gross tax gap of each of these components is $63 billion for nonfiling, $539 billion for underreporting, and $94 billion for underpayments (detail may not add to the total due to rounding). The gross tax gap can be grouped by type of tax, as follows:

- $514 billion for individual income tax.
- $50 billion for corporation income tax.
- $127 billion for employment tax.
- $5 billion for estate tax.

The net tax gap is the gross tax gap less tax subsequently paid either voluntarily paid late or collected through IRS administrative and enforcement activities. As a result, the net tax gap is the portion of the gross tax gap that will not be paid. The portion of gross tax gap that is projected to be eventually collected is $90 billion, resulting in a net tax gap of $606 billion. The projection by type of tax is:

- $68 billion for individual income tax.
- $10 billion for corporation income tax.
- $8 billion for employment tax.
- $4 billion for estate tax.

Tax Expenditures

The Congressional Budget and Impoundment Control Act of 1974 (Public Law 93-344) defines tax expenditures as “revenue losses attributable to provisions of the federal tax laws which allow a special exclusion, exemption or deduction from gross income or which provide a special credit, a preferential rate of tax or a deferral of tax liability.” Tax expenditures are the foregone federal revenue resulting from deductions and credits provided in the Internal Revenue Code. Since tax expenditures directly affect funds available for government operations, decisions to forego federal revenue are as important as decisions to spend federal revenue.

While the term *revenue losses* is used in the statutory definition, tax expenditures have traditionally been measured as reductions in federal tax revenues relative to normal baseline provisions of an individual and corporate income tax system, which were properly approved and authorized by Congress to accomplish identified policy objectives, recognizing that federal tax revenues would be reduced.

In accordance with SFFAS 52: Tax Expenditures, narrative disclosures, and information regarding tax expenditures are reported in the Consolidated Financial Report of the U.S. government. Such disclosures do not apply to the financial statements of component reporting entities such as the IRS. Tax expenditures also do not affect the reporting in the Budget of the U.S. government or any other special purpose report.

TIGTA Identified Management and Performance Challenges Facing the IRS for FY 2025

This section contains management and performance challenges identified by TIGTA, as required by the Reports Consolidation Act of 2000, and the IRS's response.

TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION

U.S. DEPARTMENT OF THE TREASURY

WASHINGTON, D.C.

October 15, 2024

MEMORANDUM FOR SECRETARY YELLEN

FROM: Heather M. Hill *Heather Hill*
Acting Inspector General

SUBJECT: Management and Performance Challenges Facing the Internal Revenue Service for Fiscal Year 2025

The Reports Consolidation Act of 2000 requires that the Treasury Inspector General for Tax Administration (TIGTA) summarize, for inclusion in the annual *Department of the Treasury Agency Financial Report*, its perspective on the most serious management and performance challenges confronting the Internal Revenue Service (IRS).

Each year, we evaluate IRS programs, operations, and management functions to identify the most vulnerable areas in the Nation's tax system. The Inflation Reduction Act of 2022 (IRA) significantly impacted the IRS by providing the opportunity and funding to transform all aspects of its operations over the next decade.

The IRS issued a long-term Strategic Operating Plan (SOP) in April 2023 that outlines its vision for the future of tax administration. The first update to the SOP was issued in May 2024 and described the IRS's accomplishments in the past year. Additionally, it included a document that summarized the current work underway and outlined the IRS's plans to make fundamental changes using IRA funding.

However, achieving all the objectives reflected in the SOP will be the main challenge facing the IRS in the future, especially given recent funding cuts. These transformation efforts are a significant undertaking, which impact all other management challenges discussed in this memorandum.

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For Fiscal Year (FY) 2025, we have identified the IRS's top management and performance challenges as:

- Managing IRA Transformation Efforts;
- Protection of Taxpayer Data and IRS Resources;
- Tax Law Changes;
- Taxpayer Service;
- Human Capital;
- Information Technology Modernization;
- Tax Compliance and Enforcement;
- Tax Fraud and Improper Payments; and
- Taxpayer Rights.

The following information detailing the management and performance challenges is provided to promote the economy, efficiency, and effectiveness of the IRS's administration of the Nation's tax laws.

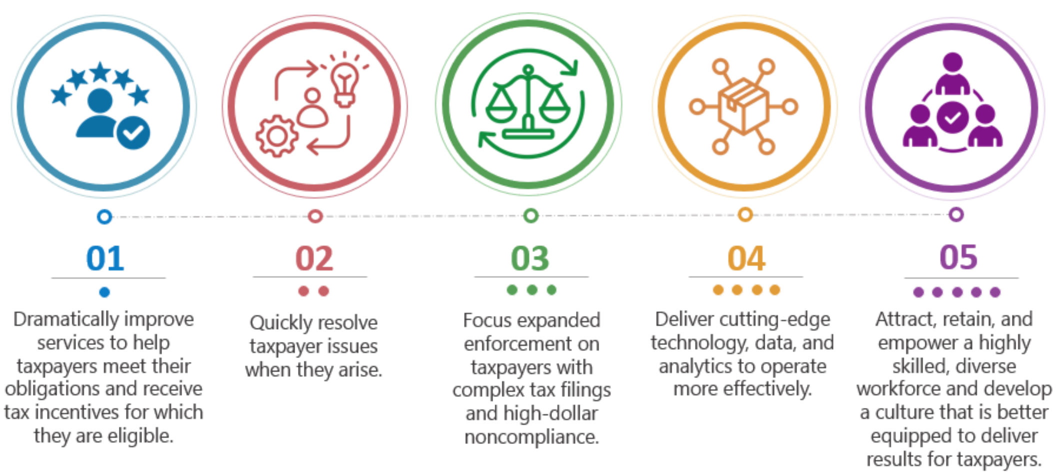
MANAGING IRA TRANSFORMATION EFFORTS

What's the challenge?

The IRS has historically struggled to fulfill long-term plans to transform the organization. IRA originally authorized $79.4 billion in supplemental funding for the IRS through September 2031 to help transform tax administration by improving taxpayer service, updating computer systems, and increasing compliance and enforcement actions against high-income taxpayers and large corporations. Congress subsequently rescinded $21.6 billion, leaving $57.8 billion in IRA funding remaining. If funding cuts continue, the IRS will have to make difficult decisions on what to prioritize to improve its operations and how to serve taxpayers.

What progress has the IRS made?

The IRS was required to develop a SOP detailing how IRA resources will be spent over the next decade. The SOP has five objectives that will be accomplished through a series of initiatives and projects.



In May 2024, the IRS published a supplement with additional details in three areas: 1) vision for a transformed IRS, 2) priorities for FYs 2024 and 2025, and 3) budget and staffing. The supplement provides information on the projects and outcomes the IRS expects to deliver over the next 12 to 18 months, including progress on digitalization, efforts to implement an IRS-run free electronic filing tax return system called Direct File, enforcement activities, and efforts to modernize information technology and improve employee tools.

As of June 2024, the IRS spent nearly $7 billion (12 percent) of its IRA funding. IRS officials indicated that $2 billion of the spent funds covered annual appropriation shortfalls for pay raises, inflationary increases in existing contracts, and other current services. The IRS Commissioner indicated that with no anticipated increase in annual appropriations for FY 2025 to account for inflation, the IRS will once again need to use IRA resources for normal operating expenses. As a result, the IRS will likely use all IRA funds before 2031.

What key recommendations have the IRS implemented?

- As a result of our review of IRS efforts to scan paper-based tax returns into a digital format, the IRS evaluated potential benefits, challenges, and costs to do so.
- As a result of our findings that the IRS was not capturing the total cost of the Direct File pilot, the IRS ensured that the salaries and benefits of IRS employees who were participating in the Direct File Task Force were expensed against the $15 million IRA allocation.[1]

What ongoing work does TIGTA have to address the challenge?

Our IRA Oversight Plan outlines how we will review the IRS's IRA implementation. We continue to provide a quarterly and cumulative snapshot of IRA spending. Additionally, we will assess the IRS's efforts to monitor and measure milestones for operational initiatives and related projects outlined in the SOP, and the impact on transformation efforts should delays occur.

We planned 38 reviews to address this challenge.

Because modernizing IRS information technology underpins all service and enforcement improvements, we plan to provide an overview of the IRS's use of IRA funding for business systems modernization projects from Fiscal Year 2022 through Fiscal Year 2024. Additionally, we will continue to evaluate the IRS's progress to digitize paper-filed tax returns. We will continue to evaluate the Direct File tool.

We also initiated reviews to assess the management oversight of certain IRA contracts, such as those pertaining to information technology. This work will help ensure that IRA contract stakeholders comply with all regulations, policies, and procedures and that information technology projects are not delayed.

[1] Throughout this document, we include recommendations the IRS reported implementing. We have not confirmed their implementation.

PROTECTION OF TAXPAYER DATA AND IRS RESOURCES

What's the challenge?

The IRS accumulates vast amounts of data as it annually processes hundreds of millions of tax returns and other forms. Much of this data is sensitive and stored in different computer systems available to IRS employees and contractors.

Without effective security controls, computer systems are vulnerable to human error or actions committed with malicious intent. For example, the IRS identifies and mitigates more than 1.4 billion cyberattacks annually. TIGTA investigates potentially illicit activity against IRS computer systems, such as individuals using IRS online portals to carry out fraudulent schemes.

In addition, preventing unauthorized access to and disclosure of sensitive taxpayer information continues to be a challenge for the IRS. Our Office of Investigations has conducted an average of 175 of these investigations per year. One involved a former IRS contractor, Charles Littlejohn, who was sentenced to five years in prison in January 2024 for disclosing thousands of tax returns without authorization. Littlejohn accessed and stole tax returns and return information for a high-ranking government official and related entities and individuals and disclosed this information to a news organization. Littlejohn separately stole tax returns and return information associated with thousands of the nation's wealthiest individuals and disclosed this information to a second news organization.

In July 2023, we identified that nearly 92,000 IRS employees and contractors were authorized to access one or more of the 276 computer systems that contain sensitive data. We found 279 users still had access to at least one sensitive system despite no longer being employed by the agency. However, network access was removed for each of these individuals, which reduces the risk that a user can access a sensitive system. We also found that 19 contractors retained access to one or more sensitive systems despite having an unfavorable background investigation.

What progress has the IRS made?

Audit logs are files containing data that show a chronological record of system activities and are invaluable in the detection, investigation, and remediation of cyber threats. These logs provide both TIGTA and the IRS information necessary to detect unauthorized access to IRS systems and data to reconstruct events for potential criminal investigations. The IRS is implementing a tool that will enable it to organize its information technology to identify where the IRS does or does not meet audit log requirements, apply those requirements, and track its progress.

What key recommendations have the IRS implemented?

- Ensured access to sensitive systems was immediately suspended or disabled when contractors were identified as having an unfavorable background determination.
- Developed and implemented a plan to ensure that audit log data is collected from all systems that contain sensitive information, as required.

What ongoing work does TIGTA have to address the challenge?

We planned 19 reviews to address this challenge.

We plan to assess the IRS's processes and procedures it used to alert individual and business taxpayers of the unauthorized disclosures by IRS contractor Charles Littlejohn. We also plan to inspect how taxpayer data is protected at Volunteer Income Tax Assistance sites. We will determine if cloud-computing security controls prevent the loss of sensitive data and assess the IRS's efforts to provide effective governance, management, and oversight of forthcoming artificial intelligence.

TAX LAW CHANGES

What's the challenge?

Annually implementing new tax law changes – especially those enacted shortly before taxpayers begin filing returns – complicates the IRS's processing of tax returns. Tax law changes require the IRS to update computer programming, often in a short timeframe. For example, we reported on the IRS's efforts to implement employer tax credits, such as the Employee Retention Credit (ERC) included in pandemic relief legislation. We found that the IRS did not have enough time to make computer programming changes to identify potentially erroneous or fraudulent claims because the tax return filing season was already underway when the legislation was enacted. In fact, the IRS did not begin processing ERC claims until 12 months after the credit was enacted, due to a lack of updated programming and procedural guidance. As a result, a backlog of ERC claims developed. As of April 2024, the IRS reported 1.4 million ERC claims waiting to be worked.

Changes to tax laws also require the IRS quickly create tax forms, instructions, or new processes. For example, the American Rescue Plan Act gave taxpayers the ability to receive some of their estimated Tax Year 2021 Child Tax Credit in advance. The IRS estimated the advance payments based on prior year tax return information and other information but in some cases, taxpayers did not get the full amount of the credit for which they were eligible.

The IRS also must communicate and provide guidance to taxpayers and tax professionals about tax law changes. For example, the IRA contains 36 tax provisions that affect individual and business taxpayers. One of these provisions is the Corporate Alternative Minimum Tax, which is a new tax on financial statement income. Given the complexities of this tax law, we found that 118 IRS employees spent more than 21,000 hours on notice publication and taxpayer guidance.

What progress has the IRS made?

The IRS took several actions to implement IRA tax provisions that affected Processing Year 2023. These actions included creating or revising 71 tax products, creating or modifying 78 electronic filing business rules, and developing a communication and outreach plan to educate and inform taxpayers and tax professionals about tax law changes.

The IRS has also made some progress administering the ERC. Because these claims are filed on paper, the IRS developed a process to capture key data to analyze the backlogged inventory. IRS employees manually transcribed data from each ERC claim while the IRS worked on a more efficient and accurate technology solution that allowed for systemic transcription of key data elements. The captured data were analyzed by the IRS's Research, Applied Analytics, and Statistics function to evaluate the potential risk of questionable, invalid, potentially ineligible, or overstated claims. Beginning in February 2024, the IRS exclusively used its technology solution to transcribe ERC claims.

The IRS also updated identity theft filters and identified more than 155,000 tax returns claiming potentially erroneous ERC, preventing $487 million in refunds from being issued during Processing Years 2021 through 2023.

What key recommendations have the IRS implemented?

- During our review of the Advanced Child Tax Credit, we found some taxpayers were eligible but did not receive the credit. In response, the IRS reviewed these cases and took appropriate actions to ensure taxpayers received the correct amount.
- Updated the programming for three business rules used to verify the accuracy of calculations of qualified small business payroll tax credits for the 2024 Filing Season.

What ongoing work does TIGTA have to address the challenge?

We are evaluating whether the IRS timely and accurately processed individual paper and electronically filed tax returns during the 2024 Filing Season. We are also conducting reviews of clean vehicle credits, the IRA transferability and elective payment provisions, and the Social Security tax deferral passed as part of pandemic relief legislation.

We planned 10 reviews to address this challenge.

7

TAXPAYER SERVICE

What's the challenge?

Every year, millions of taxpayers seek assistance from the IRS via its telephone helplines, Taxpayer Assistance Centers (TAC), IRS.gov, social media platforms, and volunteer tax return preparation sites. As of March 2024, taxpayers made more than 18 million attempts to contact the IRS by calling the various customer service toll-free telephone assistance lines. Additionally, the IRS anticipated assisting about 2 million taxpayers at its TACs in FY 2024.

The IRS acknowledged that it has been unable to meet all demands for taxpayer services. By using IRA funds, the IRS plans to reshape the taxpayer experience, making it easier and more convenient. This includes taxpayers having convenient access to their data and finding it easier to interact with the IRS via electronic filing, expanded online accounts, telephone, in-person, and chat assistance. However, IRA funding for taxpayer services is expected to run out by FY 2026, which could negatively impact any improvements made.

The IRS also surveys taxpayers to identify what it is doing well and areas for improvement to deliver quality service to taxpayers. However, certain IRS functions are generally not using the results of customer satisfaction surveys to make improvements.

What progress has the IRS made?

As of December 2023, the IRS spent nearly $1 billion to hire additional customer service representatives to answer telephone calls and to staff TACs. According to the IRS, this enabled the agency to meet the Secretary of the Treasury's expectations for the 2023 Filing Season by reducing the average wait time to answer a taxpayer's call from 30 minutes to approximately 3 minutes.

With additional staff, the IRS again offered Saturday service at select TACs and expanded hours on certain weekdays at many TAC locations to assist more taxpayers during the 2024 Filing Season.

The IRS improved taxpayer service to underserved, underrepresented, and rural communities. In June 2023, the IRS began offering Community Assistance Visits to aid underserved taxpayers in need of in-person assistance. The IRS partnered with local media outlets to advertise the locations, dates, and the types of services to be offered. During Calendar Year 2023, the IRS offered this service in nine locations.

What key recommendations have the IRS implemented?

- Updated the "IRS Face-to-Face Saturday Help" webpage to improve visibility of events in search results on IRS.gov and external search engines.
- Established processes to continually evaluate the resources available and/or needed to provide quality customer service on all toll-free telephone lines and reduce the number of available lines as needed.

What ongoing work does TIGTA have to address the challenge?

We planned 33 reviews to address this challenge.

We are assessing the accuracy of service and taxpayers' experience during the extended weekday and Saturday hours offered by TACs. Additionally, we are evaluating whether the IRS's toll-free telephone lines are operational, and whether taxpayers can get simple, fast, accessible, and courteous customer service.

We will also assess the effectiveness and efficiency of self-assistance kiosks located at the TACs and the availability and accessibility of customer service options for taxpayers living abroad.

HUMAN CAPITAL

What's the challenge?

The IRS aims to attract, retain, and empower a highly skilled, diverse workforce to deliver results to taxpayers. This includes delivering growth and learning opportunities by developing attractive career pathways for all employees, integrating training and skill-building, and better equipping managers to lead high-performing teams.

The IRA transformation plan allocated $8.2 billion to address workforce needs. These funds will be invested in hiring in tax enforcement, taxpayer service, and information technology.

However, hiring has been difficult. The IRS was granted multiple authorities to expedite hiring and fill job vacancies when a critical hiring need or a severe shortage of candidates exists. However, we found that hiring has been delayed because of workload constraints, miscommunication, security checks exceeding their targeted completion time, and limitations in the IRS's hiring management system. We have also reported that the IRS has an average three-year attrition rate of 8.5 percent which is higher than the average for federal agencies.

What progress has the IRS made?

As of June 2024, the IRS reported that the largest portion of IRA expenditures was for employee compensation totaling approximately $2.8 billion and contractor advisory and assistance services totaling approximately $2.6 billion. Most of the labor costs (approximately $1.3 billion) were to hire more customer service representatives to answer telephone calls and employees to staff the TACs.

The IRS anticipates having 89,727 full-time equivalents in FY 2025, which increases to 102,500 by FY 2029.[2] The planned increase in staffing will be funded from the IRS's annual appropriation and the IRA supplemental funding.

What key recommendations have the IRS implemented?

- Improved communication across business units to share information relative to hiring needs.
- The IRS formalized a new approach to incorporate future workforce needs with human resources strategies, including the identification of mission-critical positions on a recurring basis and the use of special payment incentives to recruit and retain highly skilled non-IT organization employees.

What ongoing work does TIGTA have to address the challenge?

We planned 6 reviews to address this challenge.

We are reviewing the IRS's efforts to implement efficient hiring processes that will fill critical program vacancies. Additionally, we are assessing the IRS's implementation of the IRS University as its primary training resource. We also plan to review the IRS's efforts to attract a talented and diverse workforce and review the IRS's efforts to improve the onboarding process.

INFORMATION TECHNOLOGY MODERNIZATION

What's the challenge?

The modernization of IRS information technology and business systems is essential to fulfilling its mission of providing America's taxpayers with top quality service, helping them understand and meet their tax responsibilities, and enforcing the law with integrity and fairness. However,

[2] A full-time equivalent is a measure of labor hours in which one full-time equivalent is equal to eight hours multiplied by the number of days in a particular fiscal year.

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the IRS continues to maintain some of the oldest information technology systems in the federal government.

IRA allocated $4.8 billion to Business Systems Modernization, and as of June 2024, the IRS has spent $1.6 billion. One of the five objectives in the SOP is to deliver cutting-edge technology, data, and analytics to operate more effectively. The SOP outlined 13 related milestones but we found that only seven (54 percent) were completed during FY 2023.

A significant portion of the modernization process involves addressing new and additional security requirements, which add costs and complexity to new systems. Historically, the IRS has had challenges implementing effective security and audit logs when implementing new technologies. Incomplete or ineffective security requirements can create vulnerabilities and make detection of attacks and exploitations more difficult to identify.

Federal agencies can use shared services to address their modernization needs. For example, agencies are required to expand the use of shared services to enable broader use and adoption of cloud computing. Cloud computing is the delivery of computing services – including servers, storage, databases, networking, software, analytics, and intelligence – over the Internet to offer faster innovation, flexible resources, and economies of scale. When an application hosted in the cloud has unidentified internal control deficiencies or unmonitored security weaknesses, it can potentially lead to the disclosure of sensitive data.

We found that the IRS was not maintaining appropriate separation of duties for certain roles related to cloud systems. The agency also did not follow guidance meant to prevent conflicts of interest, increasing the risk of inappropriate actions and errors.

What progress has the IRS made?

The IRS is working to streamline data processes and increase data efficiency, including publishing an initial artificial intelligence powered Enterprise Data Catalog. The Catalog provides a comprehensive view of data assets and should enable data sets to be standardized so they can be used for efficient discovery, understanding, and lineage tracking.

In addition, several significant data assets were added to the IRS's Enterprise Data Platform. This new platform delivers universal data access for users and systems at the enterprise level, as well as provides an analytics platform for users.

What key recommendations have the IRS implemented?

- We found that the IRS's cloud application inventory reporting was decentralized, which the IRS has since centralized to improve accuracy.

- Ensured that all applications operating in the cloud obtained approval of the governance board.[3]

What ongoing work does TIGTA have to address the challenge?

We planned 14 reviews to address this challenge.

The SOP calls for a standard case management platform that will be more technologically efficient and improve the IRS's ability to resolve taxpayer issues. The IRS's Enterprise Case Management program intends to deliver such technology, and we are currently assessing efforts to migrate dozens of legacy case management systems to the Enterprise Case Management platform and decommission legacy systems.

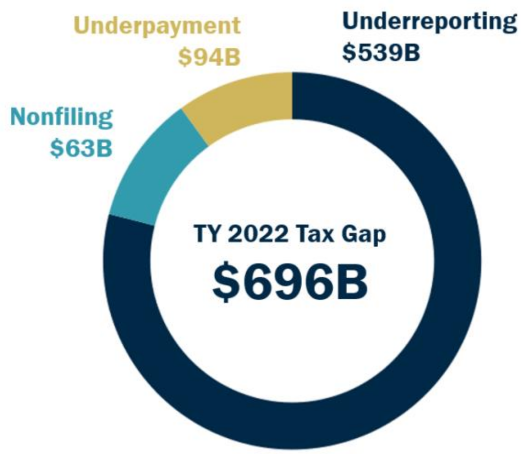
Additionally, we have on-going and planned work in other information technology areas, such as determining whether the IRS effectively and efficiently processes information technology incident tickets and evaluating efforts to modernize the Business Master File (the information technology system storing business tax return data).

TAX COMPLIANCE AND ENFORCEMENT

What's the challenge?

One of the IRS's key responsibilities is to ensure taxpayer compliance with the Internal Revenue Code. This is important because small declines in compliance:

- cost the country billions of dollars in lost revenue; and
- shift the tax burden from those who do not pay their taxes to those who pay their taxes on time every year.



The difference between the estimated amount of tax legally owed by taxpayers and the amount they voluntarily and timely pay is known as the Tax Gap. The IRS noted that the rising complexity of tax administration and sophisticated tax evasion schemes have outpaced the IRS's ability to close the Tax Gap.

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[3] A governance board ensures that goals are achieved and that projects are within their defined scope, schedule, and budget. In addition, a governance board approves risk response plans and milestone exits and resolves escalated issues.

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The IRS has expanded enforcement on taxpayers with complex tax filings and high-dollar noncompliance. The agency also intends to increase its focus on taxpayers with complex issues and complex returns where audit rates are low, such as those related to large partnerships, large corporations, and high income and high-wealth individuals.

Certain tax credits can be challenging for the IRS to administer. For example, unscrupulous individuals have been known to file fraudulent tax returns claiming improper Fuel Tax Credits (FTC)[4] to reduce taxes or receive improper refunds. In fact, the IRS regularly identifies the FTC on its annual "Dirty Dozen" list of the worst tax scams.

What progress has the IRS made?

The IRS is taking swift and aggressive action to improve tax compliance in areas where the agency did not have adequate resources prior to IRA funding. In late 2023, the IRS launched a new initiative to collect revenue from 1,600 taxpayers with more than $1 million in income that owed more than $250,000 in taxes. In September 2024, the IRS reported that this initiative recovered $1.1 billion from nearly 80 percent of these taxpayers.

We reported that the IRS is using data analytics to help select and expand its audit coverage of large corporations by starting an additional 60 audits of the largest corporate taxpayers. Additionally, the IRS has initiated a compliance effort focusing on large corporations with foreign entities that have patterns that could indicate an improper use of transfer pricing to avoid reporting U.S. profits. The IRS noted that transfer pricing audits often result in significant proposed adjustments to taxes owed. From October 2017 through July 2023, the average adjustment for transfer pricing was $219 million.

Additionally, IRS Criminal Investigation has taken advantage of analytics tools to address virtual currency noncompliance. During Fiscal Years 2018 to 2023, it investigated 390 cases involving virtual currency and completed 224 cases where it recommended prosecution.

What key recommendations have the IRS implemented?

- Established a process to use Tax Gap data annually to identify opportunities to better align resources that more effectively narrow the net Tax Gap.
- Ensured that the FTC examination workplan addresses questionable higher dollar FTC claims without a business purpose.

[4] The FTC is a tax credit that may be claimed for various nontaxable uses of fuel, including farming and off-highway business use.

What ongoing work does TIGTA have to address the challenge?

We planned 36 reviews to address this challenge.

The Secretary of the Treasury stated that any additional resources provided by IRA "shall not be used to increase the share of small businesses or households below a $400,000 threshold that are audited relative to historical levels." Consequently, the IRS Commissioner highlighted plans to rebalance its enforcement activities and modify its Earned Income Tax Credit (EITC) audit selection process (a tax credit intended for lower-income taxpayers). We will review the IRS's examination plan and the changes to EITC case selection processes to ensure they are fair and equitable and to assess compliance with the Secretary of Treasury's directive.

Additionally, we will assess the processes for the safeguarding and disposition of digital assets seized by IRS Criminal Investigation as well as for identifying and recovering fraudulent ERC payments after they complete IRS processing.

TAX FRAUD AND IMPROPER PAYMENTS

What's the challenge?

One of the IRS's objectives in its SOP is to help taxpayers meet their obligations and receive the tax incentives for which they are eligible with fewer inadvertent errors and improper payments. An improper payment is any payment that should not have been made, was made in an incorrect amount, or was made to an ineligible recipient. The IRS estimates billions of dollars in fraudulent or improper payments are made each year. For example, in FY 2023, the IRS reported estimated improper payments associated with its four high-priority programs susceptible to improper payments as:

- EITC - $21.9 billion
- American Opportunity Tax Credit - $1.7 billion
- Net Premium Tax Credit - $1 billion
- Additional Child Tax Credit - $500 million

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What progress has the IRS made?

The IRS continues to increase the number of fraudulent tax returns detected and stopped. As of February 2024, the IRS reported that it identified more than 32,600 tax returns with approximately $273 million claimed in fraudulent refunds and prevented the issuance of nearly $263 million (96 percent) of those refunds.

For the 2024 Filing Season, the IRS is using 282 filters to detect potential identity theft tax returns and prevent the issuance of fraudulent refunds. Tax returns identified by these filters are held during processing until the IRS can verify the taxpayer's identity. As of February 2024, the IRS reported that it identified nearly 2 million tax returns with refunds totaling approximately $16.5 billion for additional review using the identity theft filters. As of that same date, the IRS confirmed more than 15,000 tax returns as fraudulent and prevented the issuance of $180.5 million in fraudulent refunds.

What key recommendations have the IRS implemented?

- Implemented procedures to assess the frivolous filing penalty to deter improper FTC claims without a business purpose.

- We previously identified more than 3,500 returns with potentially erroneous Child and Dependent Care Credits totaling $6.8 million because they had obviously invalid Taxpayer Identification Numbers for the care providers. The IRS updated its programming to identify taxpayers who reported an invalid care provider Taxpayer Identification Number when claiming this credit.

What ongoing work does TIGTA have to address the challenge?

Our Cybercrime Investigations Division found that Employer Identification Numbers are being used in various financial-related crimes. Therefore, we are assessing how the IRS is processing applications for Employer Identification Numbers to prevent their use for potentially invalid or fraudulent purposes.

We planned 36 reviews to address this challenge.

We plan to determine the effectiveness of IRS programs designed to resolve suspected individual identity theft cases, evaluate continued efforts to detect and prevent business identity theft, and assess efforts to detect and prevent tax refund fraud related to Schedule C, *Profit or Loss from Business*.

TAXPAYER RIGHTS

What's the challenge?

As the IRS seeks to transform its operations and interactions with taxpayers, it must ensure that all taxpayers are treated equitably. Additionally, as the IRS plans to increase compliance efforts, it must protect the rights of taxpayers and promote tax fairness. For example, as the IRS changes how it selects returns and identifies issues for examination, including integrating artificial intelligence into case selection, it must consider the potential for disparate treatment of taxpayers.

The IRS continues to dedicate resources to comply with the taxpayer rights provisions of the IRS Restructuring and Reform Act of 1998, which include the right for taxpayers to be properly notified before certain enforcement actions occur (like a lien or a levy).

What progress has the IRS made?

We found the IRS was compliant with the legal requirements to provide notice to taxpayers of their right to decline to extend the assessment statute of limitations or to request that any extension be limited to a specific timeframe or to specific issues. In addition, we determined that the IRS redacted certain taxpayer information when responding to Freedom of Information Act requests in 99 percent of the requests we reviewed, an improvement from the prior year.

What key recommendations have the IRS implemented?

- Communicated to employees the need to maintain documentation that taxpayers and/or their representatives are properly advised of their rights when requesting certain extensions.

- Identified certain accounts where overpayments were being held because of Failure to File penalties and released the overpayments where warranted.

What ongoing work does TIGTA have to address the challenge?

We planned 11 reviews to address this challenge.

Each year, we complete statutorily mandated reviews involving computer security, taxpayer rights, and privacy issues. This includes evaluating whether the following actions were done in compliance with the Internal Revenue Code, Treasury Regulations, or IRS procedures: liens, seizures, and direct contact of taxpayers and their representatives.

Conclusion

This memorandum is provided as our annual summary of the most serious major management and performance challenges confronting the IRS in FY 2025. TIGTA's Fiscal Year 2025 Annual Audit Plan and Fiscal Year 2025 Inspections and Evaluations Program Plan contain our proposed reviews.

cc: Deputy Secretary of the Treasury
Assistant Secretary for Management
Deputy Chief Financial Officer
Commissioner of Internal Revenue

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Appendix: Significant TIGTA Reports Referenced

TIGTA, Report No. 2024-308-306, *Review of the Corporate Alternative Minimum Tax Implementation Identified Weaknesses in the Pre-Rulemaking Process* (Sept. 2024).

TIGTA, Report No. 2024-2S8-055, *Progress of Information Technology Modernization Efforts* (Sept. 2024).

TIGTA, Report No. 2024-100-053, *Customer Satisfaction Survey Results Are Not Used Effectively to Improve Taxpayer Services* (Sept. 2024).

TIGTA, Report No. 2024-300-037, *Fiscal Year 2024 Statutory Review of Compliance With Notice of Federal Tax Lien Filing Collection Due Process Procedures* (Aug. 2024).

TIGTA, Report No. 2024-400-045, *Large Multinational Corporations Benefit From the Complexity of Tax Laws* (Aug. 2024).

TIGTA, Report No. 2024-300-030, *Virtual Currency Tax Compliance Enforcement Can Be Improved* (July 2024).

TIGTA, Report No. 2024-100-022, *Taxpayer Assistance Centers Generally Provided Quality Service, but Additional Actions Are Needed to Reduce Taxpayer Burden* (May 2024).

TIGTA, Report No. 2024-IE-R020, *Quarterly Snapshot: The IRS's Inflation Reduction Act Spending Through June 30, 2024* (Sept. 2024).

TIGTA, Report No. 2024-408-024, *Interim Results of the 2024 Filing Season* (Apr. 2024).

TIGTA, Report No. 2024-IE-R008, *Assessment of Processes to Grant Access to Sensitive Systems and to Safeguard Federal Tax Information* (Feb. 2024).

TIGTA, Report No. 2024-300-001, *The Innocent Spouse Program Needs Improved Guidance for Employees and Increased Communication With Taxpayers* (Oct. 2023).

TIGTA, Report No. 2024-200-005, *The IRS Has Improved Audit Trail Collection; However, Not All Audit Trail Data Are Being Collected and User Account Controls Need Improvement* (Oct. 2023).

TIGTA, Report No. 2021-46-043, *Implementation of Tax Year 2020 Employer Tax Credits Enacted in Response to the COVID-19 Pandemic* (July 2021).

TIGTA Report No. 2024-400-068, *Management Took Actions to Address Erroneous Employee Retention Credit Claims; However, Some Questionable Claims Still Need to be Addressed* (Sept. 2024).

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IRS Response to TIGTA Identified Management and Performance Challenges Facing the IRS for FY 2025

The IRS appreciates TIGTA's management and performance challenges as valuable feedback as the IRS enhances taxpayer services and promotes fairness in enforcement activities.

After enactment of the IRA, the IRS developed a detailed SOP (www.irs.gov/strategicplan) that consists of five transformational objectives and 42 initiatives that the IRS will be implementing through FY 2031 when the funding expires. In FY 2024, the IRS made progress on many areas highlighted in the SOP, and many more are in progress as the IRS works to modernize the way it serves taxpayers through improved technology, better service, and fairer enforcement. The IRS faces a challenge in executing its long-term vision for transforming tax administration amid ongoing budgetary pressures. Originally, the IRA appropriated $79.4 billion in supplemental funding through 2031 to improve taxpayer services, modernize information technology systems, and enhance enforcement activities focused on high-income taxpayers and large corporations. However, subsequent recissions have reduced that total by $21.6 billion, leaving $57.8 billion to achieve this monumental transformation. Despite these cuts, the IRS remains committed to delivering on its core objectives.

Challenge 1 – Managing IRA Transformation Efforts

The IRS has implemented an operating model with supporting processes to manage the transformation effort, which is inclusive of the projects being implemented under the SOP. The IRS uses a ServiceNow Implementation Methodology tool to capture all project data and generate reports for the governance bodies. The governance process is three-tiered and provides the oversight, monitoring, and decision making needed to manage the transformation. Additionally, the IRS has established an Enterprise Transformation Roadmap which articulates IRS leadership priorities for transformation by way of outcomes and annual key results.

Digitization of paper-filed tax returns is a cornerstone of the IRS's modernization efforts. The IRS replaced outdated scanning equipment and is installing automated mail-sorter machines in the six highest-volume IRS locations. Once digitized, tax return data is processed throughout the IRS in a digitally optimized manner. Historical documents are also digitized and made digitally available for both taxpayers and IRS employees. In FY 2024, the IRS processed more than 11.8 million pieces of paper, reducing processing times and ensuring that taxpayers receive faster service. Taxpayers will also be able to digitally reply to IRS notices that do not have a payment or filing requirement via the IRS's Document Upload Tool.

Modernizing the IRS is no small task; it requires balancing improvements in taxpayer services with the need for more robust enforcement and up-to-date technology. As detailed in its SOP, the IRS's vision is to make it easier for taxpayers to meet their obligations and to address noncompliance more effectively and use advanced data analytics to drive decision-making. These efforts are already showing progress in many areas; however, funding shortfalls pose challenges.

As the IRS navigates financial constraints, the challenge remains on how to maintain momentum on critical modernization efforts without sacrificing ongoing operations. Should additional budget cuts materialize, the IRS's ability to complete its transformation by 2031 may be severely impacted, requiring further difficult decisions about prioritization. Through its oversight, the IRS will continue to monitor these developments closely, ensuring that the IRS stays on track to meet its goals while using its IRA funding effectively.

Challenge 2 – Protection of Taxpayer Data and IRS Resources

The IRS manages vast amounts of sensitive taxpayer data across its systems. As technology evolves and cybersecurity threats increase, the protection of taxpayer data and efficient use of resources remain critical priorities for the IRS. As the IRS continues to modernize its systems, safeguarding taxpayer data from both internal and external threats remains essential to maintaining the integrity of its operations and the trust of taxpayers.

In FY 2024, the IRS improved its process for removing system access of departing employees and contractors. The IRS streamlined its process for handling employee separations, to ensure a secure and efficient way of timely removing system access. Utilizing the Business Entitlement Access Request System, an automated workflow is initiated to remove the employee from all IRS systems. Further, the IRS has improved its process for removing system access of departing employees and contractors. To strengthen these processes, the IRS is developing additional training for contracting officer's representatives to ensure adherence to established separation procedures and timelines following negative background determinations. The IRS is also evaluating the feasibility of automating these processes to streamline the access removal process, which would require integrating disparate IRS systems and Treasury's personnel system.

The IRS improved its process for preventing unauthorized access to, and disclosure of, sensitive taxpayer information. Network access for 279 separated users identified by TIGTA was disabled, and all system-level user accounts were purged. The IRS has an ongoing effort to improve the processes for the identification and resolution of any user accounts that have not been timely purged. The IRS is working to implement a tool that will organize information technology to identify whether the IRS meets audit log requirements, applies those requirements, and tracks progress.

Challenge 3 – Tax Law Changes

Tax law changes present a significant challenge to the IRS. The IRS must quickly modify its systems, processes, and guidance, often with tight deadlines. This is particularly challenging when tax law changes are close to the start of the tax filing season or worse, when changes are made during the filing season. Tax law changes require the IRS to issue timely, clear guidance to taxpayers and tax professionals about new and revised forms, instructions, and publications, all while conducting outreach and education to promote compliance.

One tax law change was to the Child Tax Credit. For tax year 2024, the refundable portion of the tax credit, known as the Additional Child Tax Credit, increased from tax year 2023. Informing taxpayers of these types of tax law changes is an IRS priority. Many refundable tax credits, including the Additional Child Tax Credit, are designed to benefit low- and middle-income families.

Informing taxpayers of changes helps ensure that they have the information needed to accurately claim the credit, avoid delays from errors, and provide essential financial support. To make sure taxpayers are notified and receive the full amount of Advance Child Tax Credit for which they are eligible, the IRS continues to conduct proactive outreach through different modes of communication to meet taxpayers where they are.

In FY 2025, the IRS will continue to review legislation and update tax forms, instructions, and publications with the tax law changes and other forms of guidance that taxpayers and tax professionals need. Annually, between mid-October and mid-November, the IRS launches Get Ready for Taxes (www.irs.gov/getready), a communication campaign that focuses on helping individual taxpayers prepare for the upcoming filing season. This is a highly effective channel to communicate and provide guidance to taxpayers and tax professionals regarding tax law changes.

Challenge 4 – Taxpayer Service

During the 2024 filing season, the IRS answered more than one million additional phone calls than the prior year and achieved a nearly 88% level of service while maintaining an average call wait time of three minutes. The IRS has focused on ensuring its toll-free customer support lines are staffed with highly trained customer service representatives in each location. The IRS began using conversation routing on some of the phone lines, which allows taxpayers to speak the reason for their call. This change simplified the customer experience, allowing a verbal statement to replace traditional menu-based, touch-tone navigation for call routing. In 2025, the IRS will continue rolling out conversational routing to other phone lines.

The IRS has improved the ability for taxpayers to perform more functionalities from home. While the self-assistance kiosks located in Taxpayer Assistance Centers are effective in serving taxpayers, many of the functionalities conducted through the kiosks can be done through applications available on IRS.gov and accessible by smartphones. The IRS is considering how to best maintain and potentially expand kiosk-like technology to support taxpayers who may not have access to smartphones/mobile browsers or who have difficulty using the technology.

The IRS also launched its new Direct File Pilot to the public. The Direct File Pilot provided a free, easy-to-use, secure option for taxpayers in 12 states with simple tax situations to file their taxes directly with the IRS using smartphones, laptops, tablets, or desktop computers. Although it supported limited tax situations, 19 million taxpayers were eligible to use the tool, and over 140,000 taxpayers have successfully used the system.

In addition, the IRS continues to ensure availability and accessibility to those taxpayers living abroad by partnering with the U.S. Department of State to answer questions of taxpayers living abroad in selected countries and providing telephone assistance to international callers on tax laws and account related questions. Taxpayers needing to authenticate their identities have 24-hour-a-day access through Secure Access Digital Identity. In addition, the View My Audit Status Tool, released in July 2024, provides taxpayers with real-time status updates of their audits through their Individual Online Account. The IRS is progressing toward deployment of an unauthenticated International Chatbot by the end of FY 2025. This chatbot would assist international callers with automated web-based support by providing general answers and information to common concerns. Further plans include an authenticated live chat service, currently targeted for deployment in FY 2026, which would allow international taxpayers to avoid toll number charges by communicating directly with an assistor through a text-based chat.

The IRS is always looking for ways to improve its service to taxpayers. In FY 2024, the IRS made several changes to questions asked through surveys conducted to elicit more specific feedback to make improvements. For FY 2025, the IRS will review the results of external customer satisfaction surveys and incorporate any actionable and useful suggestions into products for release in the following tax season.

As previously identified, the IRS has used both IRA funds and annual appropriations to enhance the taxpayer experience. However, IRA funding for taxpayer services is expected to run out by FY 2026, negatively impacting future taxpayer service.

Challenge 5 – Human Capital

In FY 2024, the IRS delivered a revitalized recruitment strategy, which included securing a strategic recruitment contractor who developed recruiter bootcamp training and performed a labor market analysis. The IRS implemented a robust recruitment strategy including advertising blitzes, in-person and virtual hiring events, and virtual information sessions to target accounting students, current accountants, and current employees, resulting in the hiring of 6,144 revenue agents, of which 3,305 were external hires. These new hires consisted of 83% of the FY 2024 growth and attrition hiring goal.

The IRS's efforts to improve the onboarding process included an in-person orientation program developed to provide new IRS employees the information and tools needed to successfully transition into the IRS. This program resulted in the stand up of 12 orientation teams and the successful onboarding of 6,763 external hires in FY 2024. Ask Me Anything is a new pilot project implemented to hear directly from new hires about what did and did not work during their onboarding experience. The IRS held six sessions in FY 2024, which included external hires, reemployed annuitants, and Pathways program hires. The Ask Me Anything project will be expanded across the IRS in 2025 and the IRS will use information gathered from these sessions to improve the onboarding experience.

To effectively monitor employee retention, the IRS rigorously tracks employee separations and monitors overall attrition on a regular basis. Actions are taken to analyze quantitative and qualitative data received from various surveys. Over the next three years, the IRS will develop and implement engagement and retention strategies that are driven by a deeper analysis of workforce trends. Dedicated staffing resources will be used to leverage qualitative employee feedback from routinely administered surveys such as the Federal Employee Viewpoint Survey, New Employee Entrance Survey, Treasury Exit Survey, and IRS Employee Pulse Survey. Data obtained from these surveys will be used to continuously monitor the employee experience, employee engagement, and environmental issues impacting the workplace culture to institute changes across the IRS, including impacts to the health and safety of IRS employees.

The IRS will implement the IRS University's federated model structure in FY 2025. The federated operating model combines the training expertise of human resources with the technical expertise of the business units to create high quality learning, ensuring that learning-related decisions are made through a collaborative process. The vision for IRS University is to become the standard-bearer for learning excellence by improving or implementing multiple efforts that serve the IRS, including instructor readiness programs, on-the-job instruction, expanded classroom availability, modernized classroom equipment, the incorporation of more adult-learner concepts and feedback loops, as well as the alignment of IRS competency models for job series. The IRS University's structure is designed to directly support mission-critical learning, assist employees across the IRS with career growth, and provide enhanced customer service to individual learners and IRS organizations.

Challenge 6 – Information Technology Modernization

In FY 2024, the IRS took actions to ensure all applications with personally identifiable information or federal tax information were sending audit trail data to a repository.

The IRS Next Generation Enterprise Security Audit Trails program did not effectively identify and track all systems and applications with personally identifiable information and federal tax information. In FY 2024, the IRS corrected those issues to ensure audit trail data are collected in the data repository. The IRS consolidated the plans, directives, and process documentation into a formal event logging plan to communicate the delivery strategy for addressing auditing requirements. The IRS automated the disablement of inactive user accounts in accordance with policies and procedures outlined in Internal Revenue Manual 10.8.24, Cloud Computing Security Policy (www.irs.gov/irm/part10/irm_10-008-024r), moving from a manual cyclical process to an automated real-time process. The IRS implemented annual recertification procedures to ensure that continued authorization is appropriate. The process of completing implementation of the automatic tracking tool to demonstrate compliance with OMB Memorandum M-21-31 is ongoing.

In addition, the IRS standardized the information system taxonomy across the enterprise to ensure the Next Generation Enterprise Security Audit Trails program has a complete and accurate inventory of systems for its data repository. The IRS will also ensure that the program periodically validates receipt of required audit trail data from all source systems.

The IRS began migrating legacy case management systems to the Enterprise Case Management platform in support of decommissioning legacy case management systems. The IRS is developing 10 projects for migration in FY 2025.

The IRS is continually improving, implementing, and expanding modernization of its technology and tools to enhance the experience, options, and efficiency for employees, taxpayers, and tax practitioners as well increasing the security of its systems and data. These advancement are having a significant impact on serving taxpayers and practitioners and the effectiveness of employee interactions. Modernization will continue through the decade with the commitment of targeted IRA funding.

The Individual Master File modernization is targeted for completion in FY 2028. This effort involves upgrading the core tax processing system that feeds data to 250 systems as well as improving individual taxpayer account management functions and data distribution. The Individual Master File modernization plan has multiple initiatives that will deliver incremental benefits to both taxpayers and systems that rely on individual taxpayer data, leading to the full retirement of the Individual Master File. The modernization of the Business Master File, which stores and manages information about business taxpayers, is targeted to be completed in FY 2029. These targets are dependent on consistent and available funding to support the full modernization effort.

Challenge 7 – Tax Compliance and Enforcement

As tax laws grow more complex and sophisticated tax schemes emerge, the IRS must continuously adapt its compliance strategies to close the tax gap and promote fairness for all taxpayers.

In FY 2024, the IRS took important measures to overhaul its efforts to ensure fairness in tax compliance by shifting more attention onto high-income earners, partnerships, large corporations, and promoters abusing the nation's tax laws. The IRS is using improved technology and artificial intelligence to better detect cheating, identify emerging compliance threats, and improve case selection tools to avoid burdening taxpayers with needless audits. The IRS has prioritized high-income cases, intensifying its work on taxpayers with total positive income above $1 million and have more than $250,000 in recognized tax debt. The IRS also opened examinations of 76 of the largest partnerships in the U.S. over a range of industries, such as real estate investment partnerships, publicly traded partnerships, large law firms, and hedge funds. On average, each of these partnerships had more than $10 billion in assets.

The complex structures and tax issues presented by large partnerships require a focused approach to best identify the highest risk issues and apply resources accordingly. The IRS expanded its Large Partnership Compliance Program, with examinations of some of the largest and most complex partnership returns in the filing population, to include additional large partnerships. The IRS collaborated with experts in data science and enforcement in refining its artificial intelligence, which was crucial in identifying potential compliance risks in the areas of partnership tax, general income tax and accounting, and international tax. The IRS is ensuring that audit rates will not increase for taxpayers earning less than $400,000 a year, compared to historical rates.

In addition, the IRS focused on protecting all taxpayers from scams and schemes. When it comes to protecting honest taxpayers from scammers and fraudsters, the IRS is on the side of the taxpayers. The IRS will continue its aggressive work warning consumers about emerging scams and schemes and ensuring that unscrupulous tax preparers do not exploit people who claim important tax credits.

The IRS has taken crucial steps with Employee Retention Credit compliance. The Employee Retention Credit program increasingly became the target of aggressive marketing by unscrupulous promoters who caused some businesses to claim the credit when they were ineligible. In FY 2024, the IRS reopened its Employee Retention Credit Voluntary Disclosure Program for a limited time. Running through November 2024, the program allows businesses a chance to correct improper payments of the credit at a 15% discount and avoid future audits, penalties, and interest. During the first phase of the disclosure program, there were more than 2,600 applications from Employee Retention Credit recipients that disclosed $1.09 billion worth of credits. The IRS plans to mail up to 30,000 new letters to reverse or recapture potentially more than $1 billion in improper Employee Retention Credit claims. Following its moratorium on Employee Retention Credit payments, the IRS has begun processing about 400,000 claims, representing about $10 billion of eligible claims.

In FY 2024, the IRS assembled a team of employees across various business units to assess compliance risks and develop strategies to detect and prevent improper individual Fuel Tax Credit claims. The team proposed an enterprise response using cross-business unit resources and developed compliance filters to detect and prevent fraudulent claims in the pre-refund stage, while continuing to investigate high-risk, post-refund cases related to fraud, identity theft, and frivolous filers.

The number of taxpayers using virtual currency as a payment method is growing. Each time a taxpayer uses virtual currency as a medium of exchange, there may be taxable consequences. The IRS has seen an increase in virtual currency for nefarious endeavors or to avoid tax reporting obligations. However, the anonymity of virtual currency complicates the IRS's enforcement efforts. In FY 2024, the IRS took advantage of various analytics tools and began developing a strategic plan to address virtual currency noncompliance, including a process to safeguard and dispose of digital assets. This process involves transferring digital assets from a target's wallet to a government-owned hard wallet, which is a physical device that houses the digital asset. The final step of this process involves liquidating the assets and depositing the proceeds into the Treasury Forfeiture Fund.

Expanded enforcement efforts in FY 2024 included the pursuit of balance sheet discrepancies for partnerships with at least $10 million in assets and the use of artificial intelligence to assist with the selection of 76 of the largest partnerships for audit. The IRS expanded compliance efforts on the U.S. subsidiaries of foreign companies that distribute goods in the U.S. and use transfer pricing rules year after year to report losses that are engineered through the improper use of these rules to avoid reporting an appropriate amount of U.S. profits. Monitoring the progress of these efforts utilizing artificial intelligence and subject matter expertise in areas such as cross-border issues will be the focus for FY 2025.

The IRS has invested heavily in hiring and training, specifically leveraging direct hire authority for accountants, engineers, economists, data scientists, attorneys, and tax experts with specialized skills to examine the returns of large corporations, complex partnerships, and high-income individuals. New tools and technology, combined with investments in training, will ensure our workforce has the necessary capabilities to tackle increasingly complex work. The IRS has expanded training for managers, increasing their ability to support employees and the IRS mission. Updating compliance training programs is a top priority for 2025. These training programs will ensure employees are prepared to work more complex returns, including those of high-income and high-wealth taxpayers. We will continue to support the IRS mission to provide America's taxpayers top quality service by helping them understand and meet their tax responsibilities and enforce the law with integrity and fairness to all while building a 21st century tax agency.

Challenge 8 – Tax Fraud and Improper Payments

Reducing improper payments of refundable tax credits, such as the Earned Income Tax Credit, Additional Child Tax Credit, American Opportunity Tax Credit, and Premium Tax Credit, continues to be a challenging priority for the IRS. The IRS historically allocated a disproportionate amount of its enforcement resources to audit returns that claim one or more refundable tax credits. This created several challenges. Lower-income taxpayers, who make up the majority of those claiming refundable tax credits, were disproportionately audited (at about three times the rate of other taxpayers). This treatment runs counter to the IRS's mission of fairness to all. In addition, over-reliance on pre-refund audits to resolve basic errors results in interest costs to the U.S. government by delaying the issuance of refunds to taxpayers. To address these improper payments, the IRS is increasing taxpayer outreach and education, in lieu of conducting additional pre-refund audits on refundable tax credits. Helping taxpayers submit accurate filings upfront will increase payment accuracy while reducing administrative burdens for both the IRS and taxpayers. The following are highlights of these efforts:

- The IRS has initiated its Refundable Credits Return Preparer Strategy, shifting its focus to approximately 24,000 noncompliant tax return preparers. This strategy includes identifying patterns of noncompliance; using data analytics to identify ghost preparers, or preparers who have not signed a return; conducting focused correspondence examinations, outbound calls, and post-refund client audits; and working with the clients of ghost preparers to resolve any discrepancies.
- The IRS organizes *Earned Income Tax Credit Awareness Day*, a nationwide effort to educate taxpayers on their eligibility for the Earned Income Tax Credit and how to file accurate returns. These events use social media and community outreach to communicate with taxpayers. By providing this information upfront, the IRS helps minimize inadvertent errors, which is a key root cause of improper payments.

Through its annual *Nationwide Tax Forums* and *Refundable Credit Summits*, the IRS provides tax professionals, federal and state partners, and taxpayer advocates with up-to-date information about refundable tax credits. These events improve knowledge on eligibility rules and correct filing procedures and ensure that a wide range of preparers and tax advisors help their clients file accurate returns. In its FY 2024 annual improper payments compliance audit, TIGTA found that the IRS was largely compliant with the reporting requirements contained in the Payment Integrity Information Act of 2019; however, the IRS still has not satisfied the act's goal to reduce improper payment rates to less than 10% for its refundable tax credits. TIGTA noted in previous audits that increasing improper payment rates are not the result of internal control weaknesses that the IRS can address. The root causes of these improper payments are the complex eligibility requirements for the credits, the IRS's reliance on taxpayer self-reported information, and the IRS's lack of access to necessary information to validate and confirm the accuracy of these credit claims before issuing a refund. Despite the IRS's initiatives to reduce improper payment rates, a meaningful reduction is unlikely without independent data sources through which the IRS can verify taxpayer-provided information and additional time and resources for the IRS to address any issues identified.

In FY 2024, the IRS has been expanding its efforts to prevent the fraudulent and improper use of employee identification numbers, introducing several online tools and digital services to streamline employee identification number applications. To track and control employee identification numbers and reduce the risk of misuse in fraudulent schemes, the IRS limited employee identification number issuance to one per responsible party per day, requiring that the responsible party have a valid taxpayer identification number. Additionally, the IRS improved its Business Tax Account services, making it more accessible for business owners to manage employee identification number related tasks, such as downloading business entity transcripts. This process streamlines the process for legitimate users and allows the IRS to monitor and detect irregularities.

For the 2024 filing season, the IRS completed an annual refresh of key identity theft models and modified existing filters to find potential identity theft tax returns and prevent the issuance of fraudulent tax refunds. The IRS holds tax returns identified by these filters during processing until the IRS can verify and confirm data points to prevent the issuance of a fraudulent refund. Original business returns are run through the filters. Data associated with amended business returns may be exposed in various databases for manual queries for compliance selection. For 2025, these models are being reviewed and updated to continue successfully stopping tax-related identity theft for individuals and businesses.

Given the large volume of filings related to Schedule C, Profit or Loss from Business, detecting and preventing fraud is crucial to protecting public funds and ensuring that refunds are issued only to eligible taxpayers. In FY 2024, the IRS detected and prevented Schedule C refund fraud utilizing intervention methods, such as pre-refund audits and post-refund actions. In addition, the IRS monitors fraud in both its Individual Master File and Business Master File claims processing. The IRS dedicates resources to various compliance strategies and offers technical and legal assistance in refund fraud investigations.

Challenge 9 – Taxpayer Rights

The IRS is committed to ensuring that taxpayers are treated fairly, have access to clear information, and receive proper assistance when resolving tax issues. The IRS continues to prioritize the protection of taxpayer rights while implementing new enforcement strategies and modernizes its systems.

The IRS is expanding enforcement efforts related to high-income individuals, large corporations, and partnerships to reverse the historically low audit rates and limited focus on the wealthiest individuals in the years predating the IRA. The IRS is adding staff and important technology to ensure that all taxpayers pay the correct amount of taxes. The complex structures and tax issues presented by large partnerships require a focused approach to best identify the highest risk issues and apply resources accordingly. The IRS expanded its Large Partnership Compliance Program, with examinations of some of the largest and most complex partnership returns in the filing population. The IRS collaborated with experts in data science and enforcement in refining its artificial intelligence, which was crucial in identifying potential compliance risks in the areas of partnership tax, general income tax, and accounting and international tax.

To ensure fairness in audit selection, the IRS established the Risk Identification Control Board, which governs case selection methods and ensures the enforcement selection process is equitable and fair to all taxpayers under Internal Revenue Manual 1.2.1.2.36, Policy Statement 1-236, Fairness and Integrity in the Enforcement Selection (www.irs.gov/irm/part1/irm_01-002-001#idm139798980183744). During FY 2024, the IRS issued interim guidance to communicate artificial intelligence governance and principles for case selection governance.

The IRS is committed to fair and effective collection of taxes owed through all means allowed by law. However, the IRS continues to face challenges in ensuring timely notifications of liens and preventing premature levy actions while improving compliance with legal and procedural requirements. As TIGTA noted in its report, FY 2024 Mandatory Review of Compliance with Legal Guidance when Conducting Seizures of Taxpayers' Property, the IRS generally complies with the legal requirements surrounding liens and taxpayer communication. The IRS largely complies with Internal Revenue Code requirements to ensure that Notices of Federal Tax Lien are issued and mailed on time and uses its automated systems to manage lien filings and track enforcement actions. However, noticeable lapses remain, particularly with notification delays and improper levy actions. The IRS continues to find ways to improve its seizure process and ensure the rights of taxpayers are protected. In FY 2024, the IRS improved its procedures regarding communications with affected taxpayers and ensured that there was an advisory review of all cases for technical accuracy prior to seizure.

SECTION D: GRANTS PROGRAM

The IRS has three grant programs: Volunteer Income Tax Assistance, Low Income Taxpayer Clinics, and Tax Counseling for the Elderly. The summary table below shows the total number and balances of federal grants and cooperative agreement awards for which closeout has not yet occurred and the period of performance has elapsed by more than two years.

(Number of Actual Agreements and Amount in Whole Dollars)

Category	2–3 Years	4–5 Years	More than 5 Years
Number of Grants/Cooperative Agreements with Zero Dollar Balances	357	12	–
Number of Grants/Cooperative Agreements with Undisbursed Balances	101	30	–
Total Amount of Undisbursed Balances	$ 1,762,964	$ 315,189	$ –

The IRS continues to make the closeout of awards a priority every fiscal year. The IRS did see an increase in the number of expired grant and cooperative agreements with a period of performance over two years from 343 in FY 2023 to 500 in FY 2024. Grant recipients have not correctly completed and submitted all progress reporting forms and financial forms in the Payment Management System, which continues to be a challenge to the closeout of awards. Other factors include competing priorities, employee turnover and challenges associated with integrating a new grants management system. The program offices are reviewing closeout procedures and are dedicated to closing out the remaining accounts in FY 2025.

SECTION E: REFUNDABLE TAX CREDITS AND OTHER OUTLAYS AND SOCIAL SECURITY AND MEDICARE TAXES

Refundable Tax Credits and Other Outlays

To offer tax relief to certain individuals and businesses, Congress provides assistance in the form of tax credits. The economic benefit for most tax credits is limited to the taxpayer's tax liability; these tax credits are termed non-refundable. In contrast, refundable tax credits are fully payable to the taxpayer, even if the credit exceeds the tax liability. Refundable tax credits provide greater economic benefits because the taxpayer realizes the full amount of the credit, regardless of the underlying tax liability.

The following overview summarizes the refundable tax credits and other outlays programs the IRS administers and pays, describing refundable tax credits in existence for many years and those created more recently by Congress.

Premium Tax Credit

Persons who purchase health insurance coverage through the Health Insurance Marketplace may be eligible for the Premium Tax Credit. In general, a person is eligible for the refundable tax credit if they:

- buy health insurance through the Marketplace,
- are ineligible for coverage through an employer or government plan,
- are within certain income limits,
- do not file a Married Filing Separately tax return (unless they meet specific criteria that allow certain victims of domestic abuse to claim the Premium Tax Credit using the Married Filing Separately filing status), and
- cannot be claimed as a dependent by another person.

Eligible individuals may elect to have some or all of their estimated credit paid in advance directly to their insurance company to lower the amount they must pay out-of-pocket for their monthly premiums. Or, they may elect to receive all of the credit when they file their tax return. Each person who receives the benefit of a credit advance or who wishes to claim the credit must file an income tax return.

Earned Income Tax Credit

Under the Tax Reduction Act of 1975, Congress enacted the earned income tax credit. The earned income tax credit is a refundable tax credit available to eligible low to moderate income working individuals and families to offset the burden of social security taxes and to provide an incentive to work. To qualify, taxpayers must meet certain requirements and file an annual tax return, even if they did not have sufficient income to meet regular tax return filing requirements.

Additional Child Tax Credit

The child tax credit was enacted in 1997 by the Taxpayer Relief Act of 1997 to help ease the financial burden that families incur when they have children. The additional child tax credit is a refundable portion of the child tax credit and is available for eligible taxpayers subject to additional criteria with respect to wage limits and qualifying children. Currently, the additional child tax credit allows eligible taxpayers to apply up to $1,600 of the $2,000 child tax credit per qualifying child as a refundable tax credit for tax years 2023 and 2024.

State Innovation Waiver Program

Starting January 1, 2017, states can apply for a waiver under Section 1332 of the Patient Protection and Affordable Care Act of 2010. The waivers enable states to implement innovative ways for providing access to quality health care to their residents. The coverage must be at least as comprehensive and affordable as would be provided absent the waiver. In addition, states must extend coverage to a comparable number of residents as would be provided coverage absent a waiver and must not increase the federal deficit. Pass through funding is the foundation of the waivers, which will grant states the equivalent of the forgone financial assistance they otherwise would receive absent the waiver, such as the Premium Tax Credit (Internal Revenue Code Section 36B) and the Small Business Health Insurance Tax Credit (Internal Revenue Code Section 45R).

Interest on Tax Refunds

The IRS pays interest on refunds sent later than 45 days from the original filing deadline of the federal tax return. Additionally, interest is generally paid on amended returns that result in a refund. Returns that have been examined and show an overpayment also result in the payment of interest. The interest rate on overpayments is adjusted quarterly.

Basic Health Program

Section 1331 of the Patient Protection and Affordable Care Act of 2010 gives states the option of creating a health benefits coverage program for low-income residents who would otherwise be eligible to purchase coverage through the Health Insurance Marketplace. The Basic Health Program gives states the ability to provide more affordable coverage for these low-income residents and improve continuity of care for people whose income fluctuates from Medicaid and Children’s Health Insurance Program levels. These subsidies, which are federal government outlays, are not tax credits and are not reported on the recipient’s federal income tax return.

American Opportunity Tax Credit

The American opportunity tax credit program allows a credit for qualified education expenses paid for eligible students. Eligible taxpayers can claim 100% of the first $2,000 of qualified education expenses paid for each student and 25% of the next $2,000 of qualified education expenses paid for that student for a maximum annual credit of $2,500 per eligible student as a nonrefundable tax credit. If the credit brings the tax liability to zero, then a taxpayer, based on additional eligibility requirements, can apply 4% of any remaining amount of their credit allowance, up to $1,000, as a refundable tax credit and may receive a refund from IRS.

Build America and Recovery Zone Bonds Payments

The American Recovery and Reinvestment Act of 2009 (Public Law 111–5), Section 1531, allowed state and local governments to issue Build America Bonds between February 17, 2009, and December 31, 2010. These tax credit bonds, which include Recovery Zone Bonds, differ from tax-exempt governmental obligation bonds in two principal ways: (1) interest paid on tax credit bonds is taxable; and (2) a portion of the interest paid on tax credit bonds takes the form of a federal tax credit. The bond issuer may elect to receive a direct payment in the amount of the tax credit. This federal subsidy payment provides state and local governments lower net borrowing costs. The subsidy allowed them to reach more sources of borrowing than they could with more traditional tax-exempt or tax credit bonds.

New Clean Vehicle Credit

The IRA modified nonrefundable Clean Vehicle Tax Credits under Internal Revenue Code Section 30D. For new qualified clean vehicles purchased from eligible entities after December 31, 2023, an eligible taxpayer may elect to transfer their tax credit to the eligible entity selling qualified clean vehicles. Once an electing taxpayer takes possession of the vehicle, the eligible transferee may claim and receive a refund from the IRS for 100% of credit allowance in advance of filing their federal tax return. The vehicle transfer election and advanced payment program is currently available until December 31, 2032.

Corporate Alternative Minimum Tax Credit

The Tax Cuts and Jobs Act of 2017 (Public Law 115–97) repealed the corporate alternative minimum tax effective January 1, 2018. It also added Internal Revenue Code section 53(e) which allowed corporations to treat their aggregated prior year alternative minimum tax amounts as refundable tax credits in future tax years beginning after 2017 and before 2022. This allowed corporations the opportunity to receive a refundable credit between 2017 and 2022 for 50% of the alternative minimum tax paid (the prior year minimum tax credit), which could be carried forward and claimed against their regular corporate tax liability in future tax years, to the extent such liability exceeds alternative minimum tax in a particular year. The Coronavirus Aid, Relief, and Economic Security Act of 2020 (Public Law 116–136), as amended, allowed 100% of the unused prior credit to be refunded in tax year beginning in 2018 or 2019.

Sick & Paid Family Leave Credit, Employee Retention Credit, and Consolidated Omnibus Budget Reconciliation Act

The sick and paid family leave credit is part of COVID-19 legislation that provided tax relief to employers who paid sick and family leave to their employees during the COVID-19 pandemic. Under the Families First Coronavirus Response Act of 2020 (Public Law 116-127), eligible employers are entitled to tax credits for wages paid for certain leave taken by employees related to the COVID-19 pandemic. The Families First Coronavirus Response Act of 2020, as amended, extended tax credits to eligible small and midsize employers that reimburse the cost of providing qualified sick and family leave wages to eligible employees for periods of leave beginning April 1, 2020, through March 31, 2021. The American Rescue Plan Act of 2021 (Public Law 116–260) superseded the Families First Coronavirus Response Act of 2020 and provided similar credits for wages paid for periods of leave beginning April 1, 2021, through September 30, 2021. The requirements for the sick and paid family leave credit are different depending on the time period for which an employer claims the credit.

The Coronavirus Aid, Relief, and Economic Security Act of 2020 (Public Law Public Law 116–136) provides relief for eligible employers that had employees and were affected by the COVID-19 pandemic. The employee retention credit is a refundable tax credit for eligible employers who paid qualified wages to their employees during the COVID-19 pandemic. Under Coronavirus Aid, Relief, and Economic Security Act of 2020, the credit is available to eligible employers that paid qualified wages to employees after March 12, 2020, and before January 1, 2021. The Taxpayer Certainty and Disaster Tax Relief Act of 2020 amended and extended the employee retention credit for the first and second calendar quarters of 2021. The American Rescue Plan of 2021 modified and extended the employee retention credit for the third and fourth quarters of 2021. The Infrastructure Act of 2021 (Public Law 117-58) terminated the employee retention credit for wages paid in the fourth quarter of 2021 for employers that are not recovery startup businesses. The requirements for the employee retention credit are different depending on the time period for which an employer claims the credit.

The Consolidated Omnibus Budget Reconciliation Act of 1986 (Public Law 99-272) is a federal law that obligates eligible employers with group health plans to offer eligible employees and their dependents the right to continue coverage under a group plan in certain circumstances where the coverage otherwise would cease. The American Rescue Plan Act of 2021 requires certain employers to offer this coverage for free to certain individuals between April 1, 2021 and September 30, 2021. The American Rescue Plan Act of 2021 provides tax credits to employers to offset the cost of that coverage.

Qualified School Construction Bonds

Congress created Qualified School Construction Bonds to help schools raise funds to renovate and repair buildings, invest in equipment and current technology, develop more challenging curricula, and train teachers. Proceeds from the bonds may be used to acquire land provided that the facility to be constructed with the same issue of Qualified School Construction Bonds will be located on the land. The tax credit portion of these bonds depends on the issuance date of the bonds, the number of bonds outstanding, and the time remaining until their redemption.

Elective Payment for Energy Property and Electricity Produced

Section 13801 of the IRA created Section 6417 to the Internal Revenue Code to allow applicable entities to elect to receive any of 12 specified energy production or investments credits as a payment to such entity regardless of the entity's tax liability. In general, the applicable entities are treated as making a payment against tax equal to the amount of the applicable energy credit which may result in a payment to the applicable entities.

Recovery Rebate Credit

The Coronavirus Aid, Relief, and Economic Security Act of 2020 (Public Law 116–136) established 2020 recovery rebates for certain individuals in the form of a tax credit. Additionally, the Consolidated Appropriations Act, 2021 added 2021 recovery rebate credit provisions and modified the 2020 recovery rebate credit provisions. Recovery rebate credits for individuals are refundable credits for those who missed out on one or more economic impact payments that were automatically issued by the IRS in 2020 and 2021. Individuals who did not receive either the correct amount or the full amount of an economic impact payment may be eligible to claim a recovery rebate credit for tax years 2020 and 2021 by filing a tax return to make their claim.

Previously Owned Clean Vehicles Credit

The IRA modified nonrefundable Clean Vehicle Tax Credits under Internal Revenue Code Section 25E. For previously owned qualified clean vehicles purchased from eligible entities after December 31, 2023, an eligible taxpayer may elect to transfer their tax credit to the eligible entity selling qualified clean vehicles. Once an electing taxpayer takes possession of the vehicle, the eligible transferee may claim and receive a refund from the IRS for 100% of credit allowance in advance of filing their federal tax return. The vehicle transfer election and advanced payment program is currently available until December 31, 2032.

New Clean Renewable Energy Bonds

New Clean Renewable Energy Bonds may be issued by public power utilities, electric cooperatives, certain lenders that finance renewable energy projects, and government entities (states, cities, counties, territories, and Indian tribal governments). New Clean Renewable Energy Bonds were originally structured as tax credit bonds. The Hiring Incentives to Restore Employment Act changed New Clean Renewable Energy Bonds from tax credit bonds to direct subsidy bonds similar to Build America Bonds. The issuer pays the investor a taxable coupon and receives a rebate from Treasury.

Qualified Zone Academy Bonds

Congress created Qualified Zone Academy Bonds to rehabilitate or repair the public-school facility in which the academy is established to: provide equipment for use at such academy; develop course materials for education to be provided at such academy; and train teachers and other school personnel in such academy. Qualified Zone Academy Bonds may not be used for new construction. The tax credit portion of these bonds depends on the issuance date of the bonds, the number of bonds outstanding, and the time remaining until their redemption.

Qualified Energy Conservation Bonds

Qualified Energy Conservation Bonds may be issued by state, local, and tribal governments to finance qualified energy conservation projects. A minimum of 70% of a state's allocation must be used for governmental purposes and the remainder may be used to finance private activity projects. Qualified Energy Conservation Bonds were originally structured as tax credit bonds. However, the Hiring Incentives to Restore Employment Act of 2010 changed Qualified Energy Conservation Bonds from tax credit bonds to direct subsidy bonds similar to Build America Bonds. The Qualified Energy Conservation Bonds issuer pays the investor a taxable coupon and receives a rebate from Treasury.

Advanced Manufacturing Investment Credit

The Creating Helpful Incentives to Produce Semiconductor Act of 2022 added Internal Revenue Section 48D, the Advanced Manufacturing Investment Tax Credit. This credit is designed to incentivize manufacturers of semiconductors and semiconductor manufacturing equipment within the U.S. The advanced manufacturing investment credit for any taxable year is generally equal to 25% of an eligible taxpayer's qualified investment in a qualified advanced manufacturing facility. Additionally, eligible taxpayers may elect to receive the credit allowance as a payment against their tax liability when filing their annual federal tax return in lieu of claiming a general business credit. Partnerships and S corporations may also chose an elective payment election provided special rules apply.

Child and Dependent Care Tax Credit

Child and Dependent Care Tax Credit was created by the American Rescue Plan. The credit, for 2021, expands the child and dependent care credit by making the credit refundable. Additionally, Child and Dependent Care Tax Credit increased the limit on qualifying expenses from $3,000 for one child and $6,000 for two or more children to $8,000 and $16,000, respectively. For Tax Year 2021, the Child and Dependent Care Tax Credit increased the maximum credit amount for one qualifying child from $3,000 to $8,000, and the maximum credit amount for two or more qualifying dependents was increased from $6,000 to $16,000. The refundable tax credit increased the amount for employer-provided dependent care assistance which can be excluded from gross income. For tax years before and after 2021, the credit is $5,000 for all tax filing statuses other than married filing separately, $2,500 for married filing separately. For Tax Year 2021, the credit was $10,500 for all tax filing statuses other than married filing separately, $5,250 for married filing separately.

Health Coverage Tax Credit

The federal Health Coverage Tax Credit was created by the Trade Act of 2002 to help certain displaced workers and certain retirees pay for health insurance. Those eligible to claim the credit fall into one of two categories: 1) trade-impacted workers who lost their jobs because of increased imports or a shift in production to another country and are classified as Trade Adjustment Assistance or Alternative Trade Adjustment Assistance, and 2) individuals whose pensions are being paid by the Pension Benefit Guaranty Corporation, are at least 55 years of age, and not entitled to Medicare.

The Health Coverage Tax Credit, authorized in the Trade Adjustment Assistance Reform Act of 2002, first became effective for coverage months beginning after August 6, 2002. The tax credit later expired for coverage months after 2013. The Trade Adjustment Assistance Reauthorization Act of 2015 restored the Health Coverage Tax Credit retroactively for 2014 coverage, erasing the hiatus in its duration and extended it for coverage through the end of 2019. On December 20, 2019, Congress passed House Resolution 1865, Further Consolidated Appropriations Act of 2020, which included an extension of the Health Coverage Tax Credit program through December 31, 2020.

Health Coverage tax Credit legislation was extended again, through December 31, 2021, under the Taxpayer Certainty and Disaster Tax Relief Act of 2020, Section 134. Eligible participants were responsible for paying 27.5% of their insurance premium while the IRS was responsible for paying the remaining 72.5%.

The Health Coverage Tax Credit monthly program was only available to individuals who were determined eligible by the Department of Labor or Pension Benefit Guaranty Corporation, enrolled in qualified health coverage, and had an approved Health Coverage Tax Credit monthly vendor. These vendors were Health Plan Administrators or Third-Party Administrators who were willing to provide direct deposit information to accept health insurance premiums on their member's behalf.

Cost Sharing Reduction

In addition to the Premium Tax Credit, individuals who purchased a qualified health care plan through the Marketplace could qualify for Cost Sharing Reduction based on their family income. This lowered the amount they had to pay for out-of-pocket costs such as deductibles, coinsurance, and copayments. In FY 2018, based upon an attorney general legal opinion, Department of Health and Human Services discontinued the Cost Sharing Reduction Program. The IRS activity only reflects the recovery amounts from insurance companies Centers for Medicare and Medicaid Services has collected.

Payments of Refundable Tax Credits and Other Outlays

The table below shows payments of refundable tax credits in excess of tax liabilities and other outlays in FY 2024 and FY 2023.

(In Millions)	2024	2023
Premium Tax Credit*	$ 98,746	$ 70,309
Earned Income Tax Credit	60,011	55,468
Additional Child Tax Credit	26,247	28,768
State Innovation Waiver Program	8,108	1,876
Interest On Tax Refunds	5,308	10,229
Basic Health Program	3,342	10,422
American Opportunity Tax Credit	2,474	2,612
Build America and Recovery Zone Bonds	2,138	2,470
New Clean Vehicle Credit	1,941	–
Corporate Alternative Minimum Tax Credit	932	3,097
Sick & Paid Family Leave, Employee Retention Credit, and Consolidated Omnibus Budget Reconciliation Act	776	51,522
Qualified School Construction Bonds	562	533
Elective Payment for Energy Property and Electricity Produced	469	–
Recovery Rebate Credit	232	1,965
Previously Owned Clean Vehicles Credit	219	–
New Clean Renewable Energy Bonds	35	38
Qualified Zone Academy Bonds	34	115
Qualified Energy Conservation Bonds	29	30
Advanced Manufacturing Investment Credit	10	–
Child and Dependent Care Tax Credit	1	228
Health Coverage Tax Credit	–	11
Cost Sharing Reduction**	(1)	(8)
Refundable Tax Credits and Other Outlays	**$ 211,613**	**$ 239,685**

* Includes advanced amounts for the Premium Tax Credit. Beginning in FY 2015, preliminary outlay amounts are adjusted upward or downward based on information from tax returns. In FY 2024 and FY 2023, total Premium Tax Credit advances disbursed by the Centers for Medicare and Medicaid Services totaled $117,023 and $85,954, respectively. The FY 2024 and FY 2023 advanced amounts were adjusted downward based on tax return information.

** Negative amount represents funds the Centers for Medicare and Medicaid Services recovered from insurance companies.

Social Security and Medicare Taxes

The Federal Insurance Contributions Act provides for a federal system of old-age, survivors, disability, and hospital insurance benefits. Payments to trust funds established for these programs are financed by payroll taxes on employee wages and tips, employers' matching payments, and a tax on self-employment income.

A portion of Federal Insurance Contributions Act benefits involve old-age, survivors, and disability payments. These benefits are funded by the social security tax, which is 12.4% for calendar years 2024 and 2023. Employees and employers each pay 6.2% on wages and tips. In calendar year 2024, the rate was applied on wages and tips up to $168,600 and $160,200 in calendar year 2023. These benefits are also funded by a self-employment tax of 12.4% on self-employment income up to $168,600 and $160,200, for calendar years 2024 and 2023, respectively.

Remaining benefits under the Federal Insurance Contributions Act pertain to hospital benefits (referred to as Medicare) and are funded by a separate 1.45% tax on all wages and tips and the employer matching contribution of 1.45%, for a total of 2.9%. Self-employed individuals pay a Medicare tax of 2.9% on all self-employment income. Beginning in 2013, an additional Medicare tax of 0.9% was collected on earned individual income of more than $200,000 and earned income of more than $250,000 for married couples filing jointly.

Social security taxes collected by the IRS were approximately $1,274,350 million and $1,201,330 million in FY 2024 and FY 2023, respectively. Medicare taxes collected by the IRS were approximately $389,670 million and $358,140 million in FY 2024 and FY 2023, respectively. Social Security taxes and Medicare taxes are included in the Individual Income, Federal Insurance Contributions Act, Self-Employment Contributions Act and Other financial statement line on the Statement of Custodial Activity.

APPENDICES

APPENDIX A: GLOSSARY OF ACRONYMS

Acronym usage is minimized to the greatest extent possible in this publication. Acronyms are generally not used in financial statements or tables. Commonly understood acronyms and those used to a great extent throughout the document are defined here for the reader's convenience.

AGI	Adjusted Gross Income
CFO	Chief Financial Officer
COVID-19	Coronavirus Disease 19
FY	Fiscal Year
IRA	Inflation Reduction Act of 2022
IRS	Internal Revenue Service
SFFAS	Statement of Federal Financial Accounting Standards
SOP	Internal Revenue Service Inflation Reduction Act Strategic Operating Plan FY 2023–2031
SOP Annual Update Supplement	2024 IRA Strategic Operating Plan Annual Update Supplement
TIGTA	Treasury Inspector General for Tax Administration
Treasury	Department of the Treasury
U.S.	United States

APPENDIX B: AWARDS AND ACKNOWLEDGEMENTS

Certificate of Excellence in Accountability Reporting

In May 2024, AGA presented the IRS its second Certificate of Excellence in Accountability Reporting award for its FY 2023 Agency Financial Report (www.irs.gov/pub/irs-prior/p5456--2023.pdf). This award is the highest form of recognition in federal government financial management and performance accountability reporting. As a second-time winner of this distinguished award, the IRS is honored to be recognized for demonstrating the highest standards in financial and performance accountability reporting. The IRS also received recognition with a Best-In-Class award for Excellent Overall Management's Discussion and Analysis for outstanding explanation of the strategic plan, providing performance measures for all goals and effectively addressing prior year comments provided by the AGA's review panel. These awards are a significant accomplishment that showcases the IRS's reporting excellence in the financial management community.

Acknowledgements

Year-round efforts to compile the IRS's financial statements and accompanying notes, implement and monitor internal controls, address improper payments, and manage the financial statement audit demonstrates the IRS as a responsible steward of public funds. This report could not have come together without the work of everyone's contributions. The CFO's office partners with representatives in almost every IRS function to develop the Agency Financial Report. The IRS offers special thanks to Media and Publications for their contributions in the design and production of this report.

APPENDIX C: CONTACT INFORMATION AND ACCESSIBILITY

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- The Right to Pay No More than the Correct Amount of Tax
- The Right to Challenge the IRS's Position and Be Heard
- The Right to Appeal an IRS Decision in an Independent Forum
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