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Testimony

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TAX ADMINISTRATION

IRS Has Opportunities to Address Longstanding Challenges

Statement of Jessica Lucas-Judy, Director, Strategic Issues

GAO-24-107129

Chairman Sessions and Chairwoman McClain, Ranking Members Mfume and Porter, and Members of the Subcommittees:

Thank you for the opportunity to discuss challenges the Internal Revenue Service (IRS) faces in providing quality taxpayer service and processing, and in protecting sensitive taxpayer and financial information.

IRS's mission is to provide American taxpayers with top-quality service by helping them understand and meet their tax responsibilities. As part of taxpayers' efforts to meet their tax and filing obligations, IRS receives a great deal of personal and financial information about individuals and businesses. Taxpayers must have confidence that IRS properly protects their personal and financial information.

IRS relies extensively on IT to carry out its mission. In fiscal year 2022, IRS collected more than $4.9 trillion in taxes, processed approximately 260 million tax returns, and issued more than $640 billion in refunds and outlays. IRS also relies on IT to annually process more than 5 billion information returns (e.g., the Form 1099 series and Form W-2) and to verify information taxpayers report on their income tax returns. IT systems support IRS's mission-related operations and information security controls protect the confidentiality of the sensitive taxpayer information that resides on those systems.

We have reported on security risks and deficiencies in IRS's safeguards of taxpayer information, including continuing information system security control deficiencies. These deficiencies have related to such areas as encryption and configuration of security settings. Such deficiencies can increase the risk of unauthorized access to, modification of, or disclosure of sensitive taxpayer data.[1]

We have also reported on IRS's ongoing operational challenges during recent filing seasons, including providing customer service and processing returns.[2]

In August 2022, Congress passed and the President signed the Inflation Reduction Act (IRA) which provided IRS with supplemental funding to

[1]GAO, *Financial Audit: IRS's FY 2022 and FY 2021 Financial Statements*, GAO-23-105564 (Washington, D.C.: Nov. 10, 2022).

[2]The tax filing season is generally between January and mid-April of each year.

remain available through the end of fiscal year 2031.[3] A portion of that amount appropriated was rescinded in June 2023, resulting in a total of more than $78 billion.[4] This funding, among other purposes, is to bolster taxpayer services and IT modernization and operations. This includes nearly $3.2 billion for taxpayer services, nearly $4.8 billion for Business Systems Modernization, and more than $25.3 billion for Operations Support, which includes the operation and maintenance of IRS's IT systems.

Upon IRA's enactment, the Secretary of the Treasury directed IRS to develop a plan for these funds. In response, IRS delivered its *Inflation Reduction Act Strategic Operating Plan*.[5] The plan presents an "IRA transformation vision," and five IRA transformation objectives. Each objective includes initiatives, key projects, and major milestones. The IRA also includes a provision for us to oversee the distribution and use of funds appropriated by the Act.[6]

My statement today summarizes several of our previously issued reports that have highlighted (1) IRS's performance during recent filing seasons, (2) IRS's challenges related to protecting sensitive taxpayer and financial information and reliance on legacy IT systems, and (3) actions IRS can take to improve taxpayer service, process returns more efficiently, and better protect sensitive taxpayer and financial information. In developing this testimony, we reviewed our previously issued reports and

[3]Pub. L. No. 117-169, § 10301, 136 Stat. 1818, 1831–1832 (2022). The IRA provided IRS with nearly $80 billion.

[4]The Fiscal Responsibility Act of 2023 rescinded over $1.389 billion of amounts appropriated for the IRS by Public Law 117-169. See Pub L. No. 118-5, § 251, 137 Stat. 10, 30 (2023).

[5]Department of the Treasury, Secretary of the Treasury, *Memorandum for Commissioner Rettig: IRS Operational Plan* (Washington, D.C.: Aug. 17, 2022); and Internal Revenue Service, *Internal Revenue Service Inflation Reduction Act Strategic Operating Plan: FY2023 – 2031*, Publication 3744 (April 2023).

[6]This testimony is part of an ongoing body of work in response to this provision. Pub. L. No. 117-169, § 70004, 136 Stat. at 2087.

recommendations.[7] More detailed information on our objectives, scope, and methodology for that work can be found in the issued reports. We also incorporated information on the agency's actions in response to our recommendations.

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

IRS Has Struggled to Provide Service, Process Tax Returns and Refunds, and Hire Staff in Recent Years

IRS Has Had Difficulty Meeting Taxpayer Service Needs

Prior to 2023, IRS struggled to provide service to taxpayers. IRS challenges included processing a backlog of prior year returns alongside incoming returns, answering taxpayer telephone calls, and addressing a backlog of taxpayer correspondence.

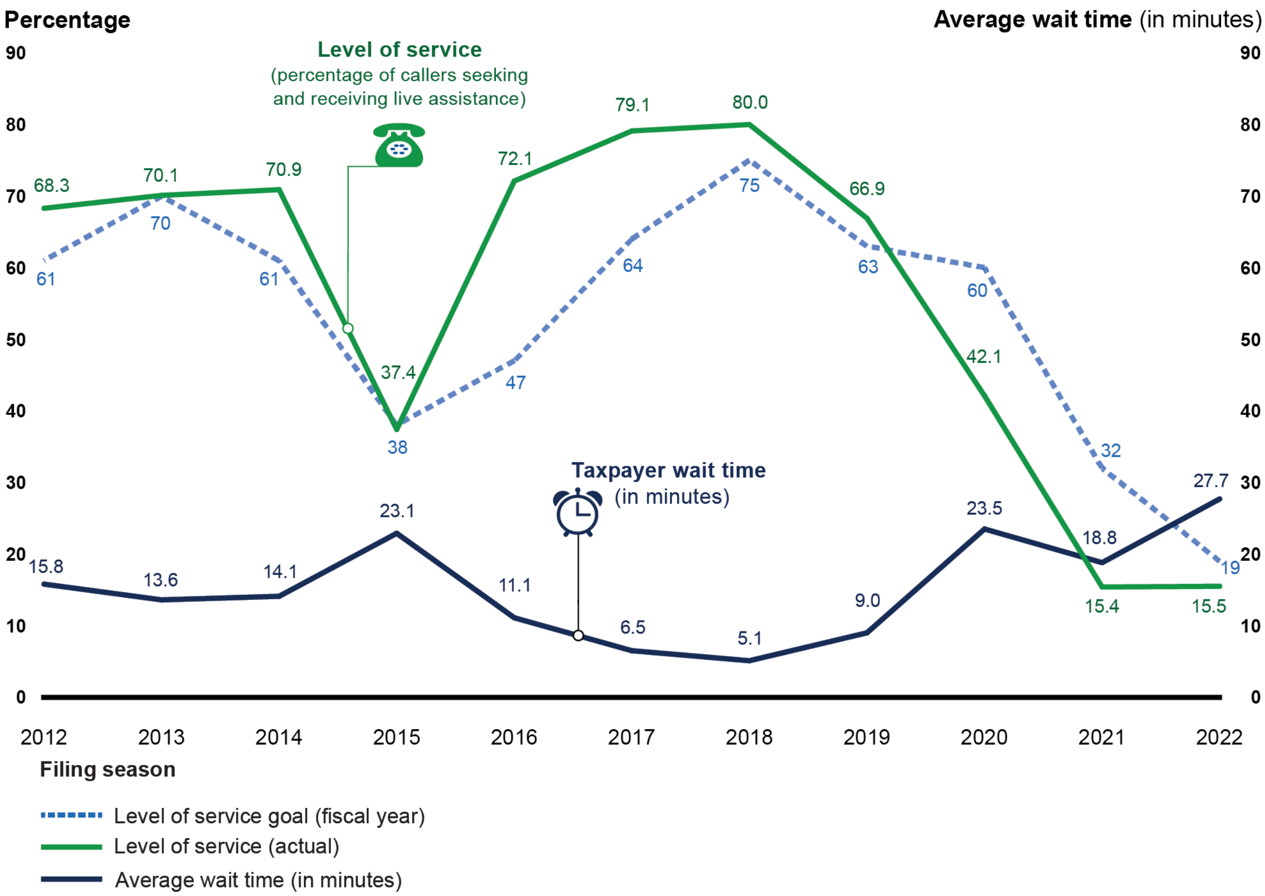
As we reported in December 2022, IRS customer service representatives answered less than one out of five taxpayer calls seeking live assistance during the 2022 filing season (see fig. 1).[8] IRS received approximately 64

[7]GAO, *Security of Taxpayer Information: IRS Needs to Address Critical Safeguard Weaknesses*, GAO-23-105395 (Washington, D.C.: Aug. 14, 2023); *Priority Open Recommendations: Internal Revenue Service,* GAO-23-106470 (Washington, D.C.: July 31, 2023); *Management Report: Improvements Needed in IRS's Financial Reporting and Information System Controls,* GAO-23-106401 (Washington, D.C.: May 25, 2023); *Information Technology: IRS Needs to Complete Modernization Plans and Fully Address Cloud Computing Requirements*, GAO-23-104719 (Washington, D.C.: Jan. 12, 2023); *2022 Tax Filing: Backlogs and Ongoing Hiring Challenges Led to Poor Customer Service and Refund Delays*, GAO-23-105880 (Washington, D.C.: Dec. 15, 2022); and *Tax Filing: 2021 Performance Underscores Need for IRS to Address Persistent Challenges,* GAO-22-104938 (Washington, D.C.: Apr. 11, 2022).

[8]GAO-23-105880.

million calls during the 2022 filing season—a significant decline from the unprecedented 195 million calls IRS received during the 2021 filing season.[9] Even though call demand was lower during the 2022 filing season, customer service representatives answered fewer calls than during the prior year.

Figure 1: IRS Telephone Level of Service and Taxpayer Wait Times, Filing Seasons 2012 to 2022



Source: GAO analysis of Internal Revenue Service (IRS) data. | GAO-24-107129

Notes: Telephone level of service (actual) and average wait time data for the filing season are cumulative from January 1 of each year to April 21, 2012; April 20, 2013; April 19, 2014; April 25, 2015; April 23, 2016; April 22, 2017; April 21, 2018; April 20, 2019; July 15, 2020; May 17, 2021; and April 23, 2022. To account for a change in how IRS calculated level of service from 2014 to 2022, we

[9]We calculated the total number of taxpayer calls as those (1) answered by customer service representatives; (2) that used IRS's automated tools such as automated account information; and (3) where either the taxpayer attempted the call but abandoned it, received a busy signal, or IRS disconnected.

tested level of service data by year, removing data from lines that were excluded from IRS's level of service calculation. We found that removing data from these lines did not have a substantive effect on the overall level of service trend. During the 2020 filing season, IRS's telephone level of service varied significantly, in part, because from late March to late April 2020, IRS closed all processing and customer service sites due to the COVID-19 pandemic (GAO-21-251). Additionally, the level of service goal for fiscal year 2022 is shown at the level at which IRS was authorized to deliver—19 percent—and not its initial fiscal year 2022 goal of 30 percent.

Each year, IRS establishes a goal to answer a certain percentage of phone calls from taxpayers seeking live assistance, which it refers to as the "level of service." In September 2022, the Secretary of the Treasury announced that the IRA would enable IRS to hire 5,000 customer service representatives during 2023 to serve more taxpayers and reduce wait times.[10] Additionally, the Secretary announced that Treasury was committing IRS to an 85 percent level of service for the 2023 filing season, the highest in the last decade.

We are currently reviewing IRS's 2023 filing season performance. Treasury has publicly reported that IRS delivered an 87 percent level of service on its main taxpayer help line for the 2023 filing season.[11]

Additionally, we reported in December 2022 that IRS continued to struggle balancing responses to both telephone calls and written correspondence from taxpayers because many customer service representatives are responsible for both telephone and correspondence duties.

IRS's policy is to generally respond to correspondence within 30 days of receipt. Responses that take longer than 45 days are considered late, or what IRS calls overage. As of the end of the 2022 filing season, about 55 percent of IRS's correspondence inventory was overage. Minimizing overage correspondence is important because delayed responses may prompt taxpayers to write again, call IRS, or make an appointment for in-person service. Further, IRS is generally required to pay interest on refunds paid later than 45 days after the filing deadline; this includes refunds associated with correspondence, such as amended returns.

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[10]Department of the Treasury, *Remarks by Secretary of the Treasury Janet L. Yellen at the IRS Facility in New Carrollton, Maryland*, (Sept. 15, 2022).

[11]Department of the Treasury, *Inflation Reduction Act 1-Year Report Card: IRS Delivers Dramatically Improved 2023 Filing Season Service, Modernizes Technology, Pursues High-Income Individuals Evading Taxes*, (Aug. 16, 2023).

From January to September 2022, IRS reduced its prior year backlog of taxpayer correspondence from about 5 million to about 400,000. IRS used a combination of strategies to work through this inventory, including reassigning staff from answering phones to processing correspondence. However, partly as a result, IRS answered less than one in five calls during the 2022 filing season.

As part of our ongoing review of the 2023 filing season, we will report on IRS's performance in providing timely responses to taxpayer correspondence.

Manual Processing of Tax Returns Has Led to Refund Delays

To meet its mission, IRS must timely process tax returns and refunds. However, as we reported in 2021, IRS's reliance on manual processing resulted in a significant backlog, delays for taxpayers expecting refunds, and increased costs during the 2020 filing season.[12] These manual processes include staff handling and reviewing tax returns filed on paper as well as correcting errors on tax returns, regardless of how they are filed.

Manual processes continued to cause delays in the 2021 and 2022 filing seasons, with substantial errors associated with new tax credits for COVID-19 pandemic relief efforts.[13] IRS developed an automated tool that helped it manage some of these errors. However, each year, taxpayers make common errors that, in general, IRS staff must review and correct before the returns can be fully processed. As a result, the need for IRS staff to manually handle and review paper tax returns and those with errors continues to delay processing of tax returns and refunds.

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

[13]GAO-22-104938 and GAO-23-105880.

IRS Has Faced Challenges Hiring Employees, but Direct Pay Authority Helped IRS Meet its Hiring Goals

In March 2019, we reported on challenges IRS faced in hiring employees for hard-to-fill positions, including lengthy hiring time frames.[14] IRS had determined that continuing to make short-term, largely nonstrategic human capital decisions was unsustainable.

One way IRS sought to address these issues was to develop a strategic workforce plan and associated workforce planning initiative. However, IRS's implementation of its workforce planning initiative was behind schedule and on hold, as of March 2019. Officials told us that resource constraints and fewer staff with strategic workforce planning skills due to attrition required IRS to largely abandon strategic workforce planning activities. As a result, IRS lacked information about what mission critical skills it had on board, where skills gaps existed, and what skills will be needed in the future.

Early in the 2022 filing season, IRS continued to experience challenges in hiring enough staff to support critical filing season work.[15] As we reported previously, IRS has struggled to hire sufficient returns processing staff to support the influx of incoming or unexpected work, such as millions of backlogged returns from the 2020 and 2021 filing seasons.[16]

In early 2022, both the Office of Personnel Management and Congress provided IRS with direct hire authority—authority for IRS to bypass typical federal hiring requirements such as competitive rating, veterans' preference, and applicant ranking procedures.[17] Direct hiring helps agencies meet immediate hiring needs by reducing the time it takes to get new staff working. In August 2022, IRS officials stated that overall, direct hiring has been effective. For example, IRS officials stated that in May 2022, the agency met its goal to hire about 4,300 customer service representatives during fiscal year 2022, and immediately began hiring for

[14] GAO, *Internal Revenue Service: Strategic Human Capital Management Is Needed to Address Serious Risks to IRS's Mission,* GAO-19-176 (Washington, D.C.: Mar. 26, 2019). For example, in fiscal year 2017, IRS identified tax examiners—a broad term for staff who may handle customer service and returns processing functions to support the filing season—as one of several mission-critical occupations at risk of skills gaps.

[15] GAO-23-105880.

[16] See, for example, GAO-22-104938 and GAO-21-251. With an ongoing backlog of work at the start of the 2022 filing season, IRS had an urgent need to hire additional staff for returns processing jobs.

[17] Consolidated Appropriations Act, 2022, Pub. L. No. 117-103, 136 Stat. 49, 247 (2022).

fiscal year 2023. We are continuing to examine IRS's use of direct hire authority as part of our review of the 2023 filing season.

We further reported that IRS's attrition rate for critical filing season staff was high relative to the agency's overall attrition. As of mid-June 2022, IRS reported that the attrition rate for returns processing staff was about 16 percent (1,750 staff) compared to IRS's overall attrition rate of about 7.5 percent. Additionally, IRS-wide data show that the agency loses about 23 percent of new recruits within 2 or 3 years.

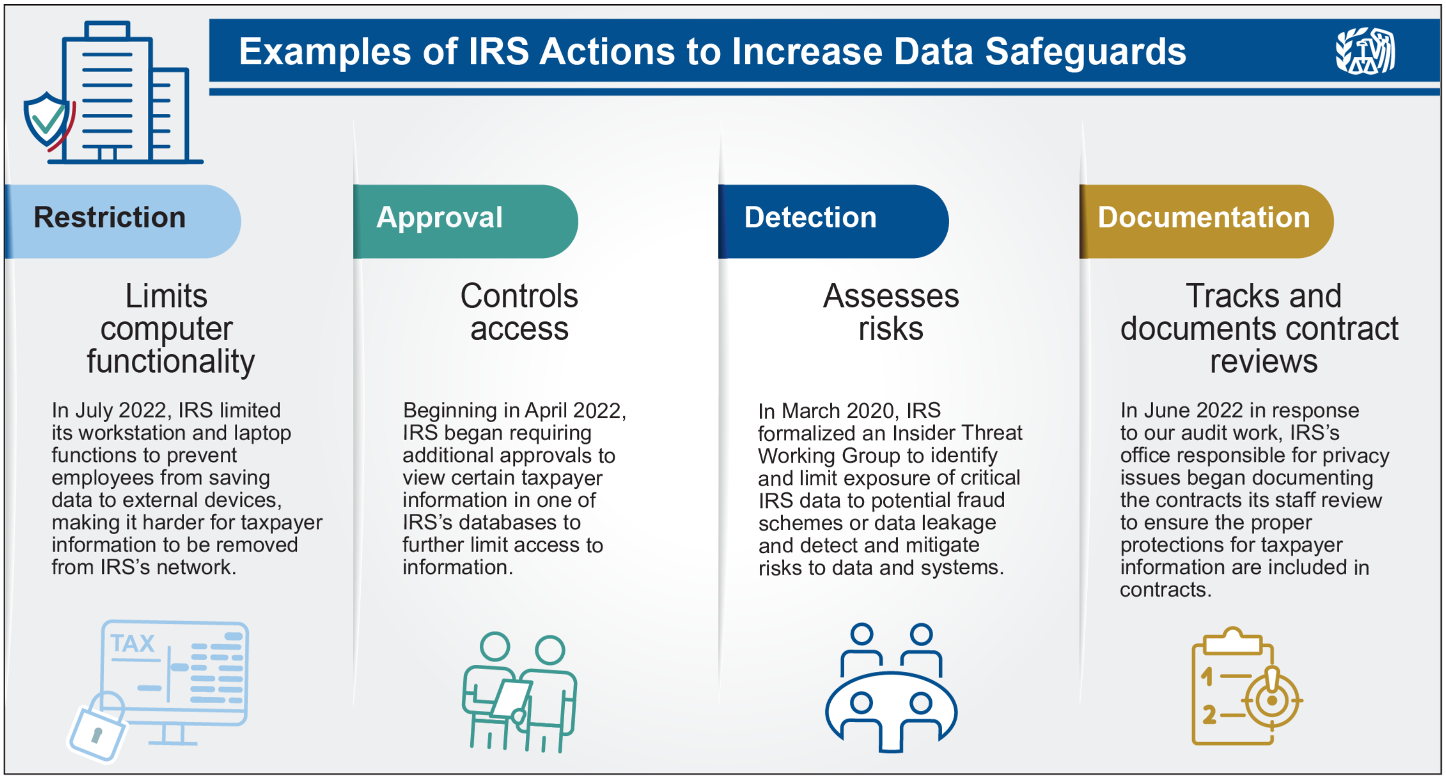
Protections for Taxpayer and Financial Information Have Substantial Gaps and Reliance on Legacy IT Systems Creates Additional Security Risks

IRS Has Made Improvements but Information Security Weaknesses Place Taxpayer and Financial Information at Risk

As we reported in August 2023, IRS has implemented safeguards to protect taxpayer information—such as information it receives during the filing season—but needs to further address weaknesses. Between the start of fiscal year 2010 and March 2023, we issued 451 recommendations to IRS related to protecting taxpayer information. As of October 2023, IRS had taken steps to address the gaps in safeguards we identified and implemented 85 percent of our recommendations.

IRS has implemented new safeguards to better protect taxpayer information. For example, in July 2022, IRS began requiring its staff to re-establish their access to taxpayer information in certain IT systems and obtain Senior Executive Service approval for this access. IRS's new safeguards relate to restricting access to taxpayer information, requiring approval to see this information, detecting risks, and documenting contract reviews (see fig. 2).

Figure 2: Examples of IRS Actions to Increase Data Safeguards



Sources: GAO analysis of Internal Revenue Service (IRS) information; bsd studio/stock.adobe.com and FourLeafLover/stock.adobe.com. | GAO-24-107129

However, as we reported in August 2023, IRS could improve oversight of contractors accessing taxpayer information; monitoring of willful unauthorized access, attempted access, or inspection of federal tax information—UNAX—cases; and implementing IT controls. We discuss our recommendations related to these deficiencies later in the statement.

- **Oversight of contractors**. IRS did not have a training completion goal for courses related to protecting taxpayer information for contractors. Contractors had training completion rates of less than 75 percent of all courses in this area, well below employee completion rates. For example, 66 percent of the approximately 14,000 contractors assigned the Insider Threat Awareness training completed the course (see fig. 3). As a result, IRS contractors are at increased risk of being unprepared to handle taxpayer information. Further, we found that some IRS officials responsible for overseeing contractors did not know how to report UNAX and unauthorized disclosure incidents.

Figure 3: IRS Contractor and Employee Training Completion Rate, Fiscal Year 2021

	IRS Annual Cybersecurity Awareness Training	Insider Threat Awareness	Privacy, Information Protection & Disclosure	UNAX Awareness
Contractor training	74%	66%	69%	69%
Employee training	≥97%	≥97%	≥97%	≥97%

Source: GAO analysis of Internal Revenue Service (IRS) Integrated Talent Management System data. | GAO-24-107129

- **Monitoring of UNAX cases**. IRS's monitoring of UNAX prevention efforts is limited by its incomplete inventory of systems that process or store taxpayer information. The lack of completeness limits IRS's visibility into all its systems that store and process taxpayer information. The incomplete inventory also hamstrings IRS's ability to target training and monitor UNAX case trends because IRS's Privacy, Governmental Liaison and Disclosure office does not have important contextual information—the number of employees authorized to access taxpayer information. A complete listing of systems that store or process taxpayer information, would provide the Privacy, Governmental Liaison, and Disclosure office with the ability to identify the number of employees authorized to access taxpayer information in each business unit. This, in turn, would enable that office to identify offices where there is a high rate of UNAX based on the number of employees accessing taxpayer information. Additionally, IRS does not monitor trends of IRS contractor UNAX cases.
- **Implementing IT controls**. Several information security weaknesses present risks to taxpayer data. IRS will have limited assurance that taxpayer information on certain IRS systems will be protected until the agency (1) develops appropriate security assessment and authorization documents for the system that tracks affluent taxpayers' risk of tax noncompliance, (2) implements procedures to determine when taxpayer information should no longer be stored in two research systems based on authorized retention periods; and (3) assesses the risk of its method for sharing data with external entities.

Similarly, we found IRS could continue to improve its controls over financial reporting, including information system controls, as we reported in May 2023. Our fiscal year 2022 audit of IRS's financial statements identified five new deficiencies in internal control over financial reporting.[18] Two deficiencies related to information system controls, two deficiencies related to tax refunds, and one deficiency related to safeguarding assets. We discuss our recommendations related to these deficiencies later in the statement.

- **Information system controls**. We found that IRS did not adequately monitor audit logs for certain financial and supporting systems creating a risk of unauthorized access to, modification of, or disclosure of financial and sensitive taxpayer data and disruption of critical operations. We also found that IRS did not configure a database to meet a security configuration setting, creating a risk that this database is not operating securely or as intended.
- **Tax refunds**. We found that IRS did not follow (1) the Department of the Treasury's Bureau of the Fiscal Service requirement for certifying officers to complete the Fiscal Service Certifying Officer Training before renewal of their designation and (2) its established procedures for addressing and correcting two error codes generated on tax returns. These deficiencies create a risk of erroneous and fraudulent disbursements.
- **Safeguarding assets**. We found IRS did not timely provide the information needed to support a variety of financial transactions for refunds, abatements, and tax assessments, creating a risk that assets become lost or subject to theft, inappropriate disclosure, or misuse.

We also determined that 32 recommendations from our prior years' reports related to internal control over financial reporting remained open as of the end of fiscal year 2022. These recommendations primarily related to information system controls. The new and continuing control deficiencies related to information systems and safeguarding assets increase the risk of unauthorized access to, modification of, or disclosure of financial and sensitive taxpayer data and disruption of critical operations. The new and continuing control deficiencies related to transaction cycles, such as tax refunds, increase the risk of financial statement misstatements.[19]

[18] GAO-23-106401.

[19] A transaction cycle is a set of business transactions that processes control activities to provide reasonable assurance that relevant financial statement assertions are met.

Key Elements of IRS's Modernization Planning Were Missing or No Longer Valid

In addition to its safeguard weaknesses and control gaps, IRS also relies on legacy systems, further contributing to security risks. Legacy technology systems can contribute to security risks, unmet mission needs, a shortage of staff with specialized skills, and increased costs.[20]

As we reported in January 2023, IRS depends extensively on IT to carry out its mission and responsibilities, and in doing so, uses a significant number of outdated or aging applications, software, and hardware assets.[21] Reliance on legacy IT assets can contribute to security risks, unmet mission needs, staffing issues, and increased costs.

As of August 2022, IRS had 21 IT initiatives—including nine that are associated with legacy systems—in its modernization portfolio and had documented plans for each of these initiatives. These plans included milestones and descriptions of work to be completed—two of the three key elements that, when included in a modernization plan, increase the likelihood of success.

However, the plans for six of the nine initiatives did not address the other key element—the disposition of legacy systems—potentially limiting IRS's savings and efficiency for these initiatives. While officials stated they would address this element, they did not provide time frames for doing so. Establishing time frames for completing the disposition of legacy systems would increase IRS's accountability for performing this activity, which in turn could lead to greater savings and efficiency. We discuss our recommendations related to these deficiencies later in the statement.

In addition, IRS's suspension of six of the initiatives resulted in these having unknown expected completion dates. This is particularly concerning for two suspended initiatives associated with the replacement and retirement of the 60-year-old Individual Master File (IMF)—IRS's authoritative data source for individual tax account data. IRS will face mounting challenges while it continues to rely on IMF, which has software written in an archaic language requiring specialized skills that are increasingly difficult to find. According to officials, suspending the initiatives was due to IRS's determination to shift resources to higher priorities. Staff members working on these initiatives were reassigned to other projects. IRS has been working to replace IMF for well over a decade and had announced in 2022 that its target completion date for

[20] GAO-23-104719.

[21] GAO-23-104719.

replacing IMF was 2030. While, according to IRS, as of April 2023, the six suspended programs were still inactive, the *Inflation Reduction Act Strategic Operating Plan* identified a new retirement date of fiscal year 2028 for the IMF.

Implementing GAO Recommendations Can Help IRS Better Meet its Mission and Implement its Inflation Reduction Act Strategic Operating Plan

Recommendations to IRS for Improving Taxpayer Services

In July 2023 we reported on a number of priority recommendations intended to help IRS deliver high-quality customer service, making it easier for taxpayers to voluntarily file their tax returns and pay taxes owed.[22] Taking action on these recommendations would help IRS efficiently use resources to meet its taxpayer service goals and implement relevant portions of its *Inflation Reduction Act Strategic Operating Plan*. These priority recommendations include:

- **Estimating and communicating time frames for resolving IRS's correspondence backlog**. IRS agreed with the recommendation and has begun to take action to implement it. Although it resolved the backlog of 2021 paper tax returns, as of the end of the 2022 filing season, its correspondence inventory was more than three times higher than in 2019. For the 2022 filing season, IRS reported that it continued to work toward reducing its correspondence inventory by hiring additional staff and redirecting existing staff to this work, among other efforts. However, IRS's inventory of taxpayer correspondence remained high heading into the 2023 filing season. As of October 2023, IRS's status of operations webpage provides some wait times for its backlog of work, such as more than 20 weeks for taxpayers waiting for amended individual returns to be processed. However, IRS

[22]For the full list of related priority recommendations, see GAO-23-106470.

does not provide estimated time frames for other correspondence types, including if a taxpayer responded to a notice.

- **Identify and develop options for free online tax return filing**. IRS originally disagreed with this recommendation and said it did not have sufficient funding to do this. However, in August 2022, Congress provided IRS with $15 million in the IRA to study the possibility of an IRS-run system.[23] In May 2023, IRS issued its report to Congress on the potential for a free direct file system. IRS concluded that there is taxpayer interest in such an option and IRS is technically capable of delivering such a system. However, IRS noted that doing so would require additional resources and add complexity to IRS operations. In October 2023, IRS announced it will conduct a pilot program that will provide eligible taxpayers with the choice to electronically file their 2023 federal tax return for free, directly with the agency. IRS plans to use this pilot program to gather data on issues identified in the report before deciding whether to deploy a full-scale direct file system.[24]
- **Identify agency-wide and division performance goals for an improved taxpayer experience and identify performance measures with targets for improving taxpayer experience**. IRS generally agreed with these recommendations. In its January 2021 *Taxpayer First Act Report to Congress*, IRS identified a new framework of strategic goals and objectives for improving the taxpayer experience and some high-level service performance measures with targets for improving the taxpayer experience.[25] However, the report did not specify related performance goals aligned with strategic goals for assessing progress in improved taxpayer experience outcomes, particularly in the divisions that provide taxpayer services.

Recommendation to IRS to Help Address Human Capital Challenges

We recommended that IRS fully implement its workforce planning initiative, which IRS had delayed due to competing IRS priorities, lack of workforce planning skills among its human capital staff, and delays in implementing necessary IT tools.[26] As of May 2023, IRS intends to

[23]Pub. L. No. 117-169, § 10301(1)(B), 136 Stat. at 1832.

[24]We have ongoing work reviewing IRS's Direct File efforts.

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

[26]GAO-19-176.

implement the plan by March 2024. Full implementation of the initiative would provide a comprehensive inventory of IRS's current workforce. IRS could use that information to develop competency and staffing requirements. This, in turn, would help IRS conduct agency-wide activities for identifying and addressing skills gaps.

Recommendations to IRS and Congress to Help IRS More Efficiently Process Tax Returns

We have made several recommendations to IRS that could improve its processing of tax returns and refunds and implement relevant portions of its *Inflation Reduction Act Strategic Operating Plan*.

- **Digitize information from paper returns**. In July 2018, we reported that to control costs, IRS transcribed a limited amount of information provided by paper filers into its computer databases. This practice limited the amount of information readily available for enforcement and other tax administration activities that rely on digitized information. As a result, we recommended that IRS implement the most cost-effective method to digitize information provided by taxpayers who file returns on paper.[27] IRS agreed with our recommendation and reported that it has made significant progress scanning and e-filing paper returns. According to IRS, during the 2023 filing season it scanned 225 times more forms than in 2022. In August 2023, IRS announced an initiative to allow taxpayers the option to digitally submit all paper returns, and by filing season 2025, IRS aims to digitize all paper-filed returns when received, consistent with our recommendation.
- **Improve e-filing**. In March 2021, we reported that taxpayers were not making full use of IRS's electronic options for filing business-related returns.[28] During the 2020 filing season, IRS provided an e-file option for 25 of its 43 business-related tax forms. However, many businesses continued using paper forms even when e-file was an option. We recommended that IRS determine what actions it could take to address the barriers to e-filing, and implement those actions, as feasible. As of February 2023, IRS reported it had identified barriers to e-filing but had not yet taken action to address them due to competing priorities. Addressing barriers to e-filing business returns could help IRS reduce the volume of more costly paper-based work and improve services to business filers.

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

[28]GAO-21-251.

We have also made recommendations to Congress that could help IRS process returns more efficiently.

- **Broaden math error authority**. Broadening IRS's authority to correct simple tax return errors could facilitate correct tax payments and help IRS avoid costly, burdensome audits. Congress has expanded IRS's math error authority several times under certain circumstances but not as broadly as we recommended in February 2010.[29] We maintain that a broader authorization of math error authority with appropriate controls that would enable IRS to correct obvious noncompliance would be less intrusive and burdensome to taxpayers than audits. This would potentially help taxpayers who under-claim tax benefits to which they are entitled.
- **Establish professional requirements for paid preparers**. Multiple bills have been introduced in Congress to establish professional requirements for paid tax preparers, as we recommended in April 2014 and November 2022.[30] As of October 2023, no further action has been taken on these bills in the current Congress. Establishing professional requirements for paid tax preparers may increase the accuracy of tax returns they prepare and potentially reduce the tax gap.

Recommendations to Help IRS Better Protect Sensitive Taxpayer and Financial Information

Strong protections for taxpayers' personal and financial information are critical to maintaining public confidence in the tax system, avoiding data breaches that expose sensitive information to fraudsters, and minimizing disruptions to IRS operations.

The security of taxpayer information could be strengthened by implementing our recommendations. Increasing oversight of contractors who access taxpayer information and assist IRS in many of its activities and responsibilities will help IRS know when contractors are not meeting their training requirements so it can take appropriate action to help ensure they complete briefings. Further, providing training and guidance to the employees responsible for day-to-day oversight of contractors would give assurance that those employees will report incidents timely and

[29]GAO, *Recovery Act: IRS Quickly Implemented Tax Provisions, but Reporting and Enforcement Improvements Are Needed*, GAO-10-349 (Washington, D.C.: Feb. 10, 2010).

[30]GAO, *Paid Tax Return Preparers: IRS Efforts to Oversee Refundable Credits Helps Protect Taxpayers but Additional Actions and Authority Are Needed,* GAO-23-105217 (Washington, D.C.: Nov. 30, 2022); and *Paid Tax Return Preparers: In a Limited Study, Preparers Made Significant Errors*, GAO-14-467T (Washington, D.C.: Apr. 8, 2014).

accurately. Improvements in IRS's monitoring of UNAX prevention efforts would also support the security of taxpayer information by enabling IRS to ensure it has implemented safeguards on all relevant systems and by providing information that could be used to target UNAX prevention efforts. Finally, addressing gaps in IT controls will help give IRS information on security risks and how to respond to those risks. IRS generally agreed with these recommendations and said it plans to act on them.

IRS needs to address the 51 recommendations related to internal control over financial reporting that remained unimplemented following our fiscal year 2022 audit of IRS's financial statements. In particular, implementing the 40 recommendations related to information system control deficiencies that remained unimplemented following our fiscal year 2022 audit of IRS's financial statements would increase the security of key systems relevant for storing, processing, and transmitting taxpayer and administrative financial information. For example, implementing them would reduce the risk of unauthorized access to, modification of, or disclosure of financial and sensitive taxpayer data and disruption of critical operations.

Finally, implementing our recommendations related to establishing time frames for addressing the disposition of legacy systems for modernization initiatives would provide IRS accountability for completing dispositions of legacy systems and help reduce the risks of relying on legacy systems. IRS agreed with these recommendations and plans to document a complete modernization plan.

In summary, IRS has faced challenges in recent years meeting taxpayer service demand and ensuring financial systems and sensitive taxpayer data are protected. The IRA included a substantial amount of funding for IRS to address challenges related to providing quality customer service, protecting taxpayer and financial data, and modernizing IT systems. In refining and carrying out its *Inflation Reduction Act Strategic Operating Plan*, IRS should work toward implementing our open recommendations, particularly those we have highlighted as being of the highest priority. While IRS has reduced backlogs of tax returns and taxpayer correspondence left over from filing seasons during the COVID-19 pandemic, it must take further actions to meet taxpayer service needs and make progress toward an improved taxpayer experience. Further, addressing critical weaknesses, including weaknesses in contractor training, information system controls, and contractor oversight, can better ensure the security of taxpayer information.

Chairman Sessions and Chairwoman McClain, Ranking Members Mfume and Porter, and Members of the Subcommittees, this completes my prepared statement. I would be pleased to respond to any questions that you may have at this time.

GAO Contact and Staff Acknowledgments

If you or your staff have any questions about this testimony, please contact Jessica Lucas-Judy, Director, Strategic Issues at (202) 512-6806 or LucasJudyJ@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this statement. In addition to the contact named above, Erin Saunders-Rath (Assistant Director), Dawn Bidne, Mark Kehoe, and Jennifer Stratton made key contributions to the testimony. Other staff who made key contributions to the reports cited in the testimony are identified in the source products.

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