

**WRITTEN TESTIMONY OF
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BEFORE THE
HOUSE WAYS AND MEANS COMMITTEE
SUBCOMMITTEE ON OVERSIGHT
ON THE FILING SEASON AND IRS OPERATIONS
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INTRODUCTION

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

Taxpayer service remains the most significant IRS priority, and we have implemented many new, innovative strategies in an effort to improve our overall level of service and processing of our unprecedented current and projected inventories. The pandemic presented the IRS with a confluence of novel and critical demands on the same set of limited resources, with similar levels of urgency and priority. In response, although we may not have always gotten it right or supported the important priorities of some, our employees have worked extremely hard to respond as best we could to a never-ending string of compounding challenges.

I am pleased to report the 2022 filing season got off to a strong start in terms of tax return processing and the operation of our information technology (IT) systems. Through March 11, the IRS received more than 63 million individual federal tax returns and issued more than 45 million refunds totaling more than \$151 billion. Refund returns continue to be processed on a priority basis ahead of returns with a balance due or full payment of the underlying liabilities. A more detailed discussion of the filing season is provided later in this testimony.

While the current filing season has so far presented no major disruptions or surprises, we know we have a great deal of work to do in many other areas of the IRS. The IRS continues to focus on working to reduce paper correspondence inventory and process paper tax returns from 2021 as well as improve our response to an unprecedented level of phone demand – situations that have been compounded by the pandemic and related issues. In Fiscal Year (FY) 2021, we received more than 15 million individual paper returns. We also had a significantly higher error rate on individual returns mostly due to the inability of taxpayers to accurately reconcile their actual Economic Impact Payments (EIP) and claims utilizing prior year income (2019 versus 2020) for the Earned Income Tax Credit (EITC). We received far more than 10 million returns where the taxpayer failed to

properly reconcile the two EIPs received in 2020 to the amount of the Recovery Rebate Credit (RRC) stated on their return filed in 2021. Similarly, more than 10 million individuals reported unemployment compensation on their return that was subject to the exclusion enacted during the 2021 filing season. In addition, millions of taxpayers elected to use 2019 rather than 2020 as the base year for determining their EITC (and the legislative change for that was enacted *after* our IT development for the 2021 filing season had been completed). Each of these returns required a manual review and resolution by an IRS employee.

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

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

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

Like all federal agencies, the IRS is best able to accomplish our mission when we receive the resources necessary to do so. And that mission is vital to the functioning of our government: The fact that the IRS collects approximately \$4.1 trillion in gross revenue per year, representing about 96 percent of the gross revenue of the U.S., clearly shows that the success of our nation is closely tied to the success of the IRS.

Over the course of the last decade, the IRS's budget has decreased by more than 15 percent in real terms. Because of this decrease, in FY 2021 we realized less than 79,000 full-time equivalents (FTEs), which is close to 1974 levels. Since 2010, IRS Enforcement FTEs have decreased by 30 percent, while real Gross Domestic

Product has increased by 29 percent, and the filing population has increased by 14 percent. Over the next six years, we estimate we will need to hire 52,000 employees just to maintain our current levels. This estimate is based on a reduction in the workforce of approximately 35,000 through retirement and 17,000 through non-retirement attrition. Every measure that is important to effective tax administration has suffered tremendously in recent years, with profound deficiencies resulting from underinvestment in human capital and information technology.

Although the IRS appreciates the \$675 million increase to our budget in the FY 2022 Omnibus, funding constraints remain a barrier to addressing the current paper inventory and supporting our IT operations adequately. We are exploring all options to move funds to meet today's immediate challenges but doing so is a short-term solution for a long-term structural funding problem that only Congress can help us address. For example, this year's funding left our Operations Support account, the account that funds all of the hiring, rent, laptops, and telecom for taxpayer services and enforcement employees, \$100 million short of our inflationary cost increases. Otherwise, we are left depleting resources from one less-visible program to pay for another essential program, which causes us to slow or stop work on updates to our systems that must be modernized to provide digital services that citizens expect from us. Mandatory multi-year, consistent funding—the \$80 billion proposal under consideration by you and your colleagues—would help us deliver meaningful services to taxpayers, conduct critical enforcement initiatives and support long-term modernization efforts to improve both service and compliance for the nation.

When we are confronted with long-term Continuing Resolutions (CRs), we typically freeze nearly all external hiring. We take this action to ensure we have funds to pay all employees, including any applicable pay raises. Last fall, we increased staffing in our Wage & Investment Division (W&I) despite the CR, hiring at risk without the funding in place to support these positions, but assuming future resources would be provided by the eventual enactment of the FY2022 appropriation, to help address our inventory. The full fiscal year 2022 President's Budget request would have allowed us to maintain current staffing levels and fund 4,200 additional full-time equivalent employees. The Omnibus increased our Taxpayer Services account by \$193 million, which covered the inflationary increases in Taxpayer Services (what we refer to as "maintaining current levels"), and about 42 percent of our requested program increases. We will now be looking at other sources of funding to cover our remaining W&I need, including requesting an inter-appropriation transfer, redirecting user fees, and realigning American Rescue Plan (ARP) funds, which would be unfortunate, since those dollars were allocated to fund the very type of long-term technology investments that the IRS desperately needs. Although the Omnibus reflects an important down payment on the necessary investments in the IRS, it is far, far from what the dedicated IRS employees need to serve the American people the way they deserve.

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

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

EFFECTS OF THE COVID-19 PANDEMIC AND THE IRS RESPONSE

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

IRS employees have worked hard since March 2020 to implement major provisions of the Coronavirus Aid, Relief and Economic Security (CARES) Act, ARP and other COVID-related relief legislation. This work included delivering more than \$800 billion in EIPs to help Americans cope with the financial effects of COVID-19 – which involved creating the internal processes to accomplish this effort. This work also included delivering (and creating the internal processes for) more than 200 million advance payments of the Child Tax Credit totaling \$93 billion that were made to eligible families between July and December of last year.

Congress provided critical help to support our ability to implement the third round of EIPs and the advance CTC payments by appropriating \$1.86 billion in supplemental funding for the agency under the ARP. These funds represent important three-year funding (expiring FY 2023) and have provided, and will continue to provide, critical assistance in our effort to better serve taxpayers. As of March 5, 2022, the IRS has obligated \$809 million of the total; we are continuing to use the funds over the remaining two years of the expenditure window provided by Congress in ways that are intended to maximize taxpayer

service, including responding to taxpayer questions about EIPs and advance CTC payments. As identified in our ARP Spending Projections provided to Congress, these funds are allowing us to help taxpayers efficiently obtain the payments they are rightfully due, with additional frontline staffing, systems and technology improvements to create safe and secure platforms, and with investments in long-term modernization enhancements that will pave the way for long-needed system improvements going forward.

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

Reducing inventory of paper returns and correspondence

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

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

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

- **Surge Teams.** We are now and have been in an uncertain appropriation environment, while coordinating another critical filing season. We presently have more Customer Service Representatives (CSRs) onboard than ever before. We have retained temporary CSRs on a permanent basis to concentrate on the inventories. We took this risk expecting the annual appropriation process to deliver funding; however, this effort has not been sufficient to reduce the current and projected inventories. The IRS is deploying surge teams, which are groups of employees across the agency organized to temporarily assist with urgent issues. For example, we are temporarily moving approximately 900 employees with previous relevant experience back into key areas from other organizations. In addition to this

accounts management surge team, we are working to assemble a similar surge team for our submission processing area with 700 employees.

- **Direct Hire Authority (DHA).** Working with Treasury, the Office of Personnel Management, and the National Treasury Employees Union, the IRS recently secured direct hiring authority for a total of 10,000 positions – 5,000 employees with the goal of onboarding them in the next several months, as well as an additional 5,000 new hires to be made over the course of the next year. Congress also helpfully provided hiring flexibilities in this month’s Omnibus to further expedite hiring in critical positions. Due to the challenges of hiring during the pandemic and competition from other employers for the same talent, this environment is an exceptionally difficult one for hiring. DHA may improve our ability to be competitive in cities where these employees are most needed. We are extremely hopeful to satisfy our hiring goal over the coming months. We are also exploring opportunities to make the IRS a more attractive employer, and we continue to welcome any opportunity to work with Members of Congress to identify and implement steps to ensure the IRS has the workforce needed to provide the service that people want and deserve. Also, for the first time, we have partnered with the Military Spouse Employment Program and are engaging contractors while aggressively pursuing our hiring goals. We are grateful for the specific direct hiring authority language included in the omnibus (Consolidated Appropriations Act, FY22) that will enable us to bring talent on-board more swiftly in needed locations.
- **Mandatory Overtime.** We have implemented mandatory overtime for certain employees to help with the reduction in inventory, and we are doing so for the first time in certain functions.
- **Increased access to online self-service tools.** Over the last six months, more than 10 million individuals have created their individual online account through IRS.gov. Reducing call volumes through increased online service allows us to devote more resources to the inventories.
- **EIP/CTC letters.** We sent more than 100 million letters to help taxpayers match IRS records to prevent delays in processing. IRS Letter 6475, *Your Third Economic Impact Payment*, and IRS Letter 6419, *2021 Advance Child Tax Credit*, set forth the amounts that individuals received in 2021. Individuals can also verify these amounts by accessing their individual online account through IRS.gov. Given that more than 10 million returns failed to properly reconcile two EIP payments received in 2020 on their returns filed during the 2021 filing season, it is critical that individuals (and their preparers) verify the possibly six to eight payments received in 2021 before submission of a 2021 return this year.
- **Innovating to expedite case closures.** We are employing new tools to help IRS employees review and process tax returns that include errors and manual reviews, a piece that is already helping taxpayers receive refunds quicker in 2022. These efforts have already demonstrated positive results.
- **Expanded Saturday openings of certain Taxpayer Assistance Centers (TACs)** to assist taxpayers this filing season in more than [90 cities](#) around

the country. TACs provide important front line, in-person taxpayer assistance. We maintain 358 TACs but, due to attrition and resource limitations, 39 are presently not staffed on a full-time basis (24 TACs presently provide a virtual service delivery alternative to an in-person visit). All staffed TACs offer appointments as well as the ability to walk in.

- **Enhanced the EITC Assistant tool** on IRS.gov to make it more user friendly for individuals to determine their potential eligibility (intended to reduce resources being dedicated to erroneous EITC claims). This important tool serves taxpayers and reduces erroneous claims releasing resources to processing our inventories.
- **VITA/TCE.** We are also continuing to notify taxpayers about [“Free Tax Return Preparation for Qualifying Taxpayers”](#) by encouraging use of the IRS's Volunteer Income Tax Assistance (VITA) and Tax Counseling for the Elderly (TCE) programs, which offer free basic tax return preparation to qualified individuals.
- **Created and expanded self-service portals** for taxpayers to implement an online payment agreement, request payment transcripts, request an Identity Protection Personal Identification Number (IP PIN), update their personal information, etc. These efforts reduce call volume, releasing resources to processing our inventories.
- **Expanded “Customer Callback”** to approximately 70 percent of our toll-free telephone demand. During FY 2022, we have offered this option to more than 3 million taxpayers with an acceptance rate exceeding 57 percent. We estimate this feature has saved taxpayers more than 950,000 hours.
- **Implemented Online Live Assistance, Voice Bots and Chat Bots (in English and Spanish)** to better enable taxpayers to interact with IRS. Online Live Assistance leverages limited employee resources allowing a single employee to respond to multiple taxpayers at a time. Our Advance CTC Voice Bot launched February 18, 2022 (delivered 6-8 weeks ahead of schedule) and handles the top 27 Advance CTC topics (English only at present but the Spanish version is coming soon) to assist callers who need help reconciling the credits on their 2021 tax return. The IRS in recent weeks has deployed Voice and Chat Bots in English and Spanish for phone lines that assist taxpayers with tax payment issues or understanding an IRS notice they may have received. In addition to the payment lines, Voice Bots help people calling the EIP toll-free line, providing general procedural responses to the most frequently asked questions. Voice Bots are software powered by artificial intelligence (AI) that allow a caller to navigate an interactive voice response (IVR) system with their voice, generally using natural language. Chat Bots simulate human conversation through web-based text interaction, also using AI-powered software to respond to natural language prompts. Taxpayers who request to speak with a CSR are placed in queue for English or Spanish telephone assistance. These efforts reduce call volume, releasing resources to help process our inventories.

- **Reduced the percentage of our outdated hardware** from more than 60 percent a few years ago to approximately 10 percent at present. Funding provided by Congress has allowed us to pursue these efforts, reducing the risk associated with an interruption to our delivery of meaningful services.

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

We also instituted additional relief measures for taxpayers, such as:

- On January 27, we announced the suspension of notices in situations where we have credited taxpayers for payments but have no record of the tax return being filed. Given that in some situations the return is still waiting to be processed, suspending this notice will help avoid confusion.
- On February 9, we announced the suspension of more than a dozen additional notices, including automated collection notices normally issued when a taxpayer owes additional tax or has no record of filing a tax return. Note that many other IRS notices are statutorily required to be issued within a certain timeframe to be legally valid.

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

Other taxpayer assistance offerings

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

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

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

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

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

Responding to unprecedented demand for phone assistance

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

Taxpayer Service Remains Our Top Priority. The long-term erosion of our budget has depleted every function of the IRS. However, our Wage & Investment Division - which is where the current and projected inventories exist - remains the *most well-staffed function of the entire IRS* with more than 33,000 full time, seasonal and temporary employees; but even this level still leaves us below the levels necessary to deliver the service we aspire to achieve. We have implemented several approaches to reducing current and projected inventories and reducing call volumes which allows us to devote more resources to the inventories.

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

Against that backdrop, IRS phone operations have faced an unusually challenging environment over the past year, with an unprecedented level of phone assistance

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

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

We presently have more CSRs onboard than ever before. For the first time, despite being in a CR, we continued our efforts to hire additional CSRs and submission processing personnel into the Fall (beyond the filing season). We also retained temporary CSRs on a permanent basis to concentrate on the inventories. We took this risk expecting the annual appropriation process to deliver funding. We are now and have been in an uncertain appropriation environment, while coordinating another critical filing season.

We attempted to ease these challenges by starting the CSR hiring process for the 2021 filing season months earlier than normal. We repeated this approach for the 2022 filing season. During the pandemic, we transitioned into an entirely virtual recruiting and onboarding process for new employees to speed up the process. While we were able to hire an additional 3,800 CSRs for the 2021 filing season, it was short of our goal of 5,000. For the 2022 filing season, we have been able to hire 3,556 of our overall goal of 5,000 CSRs. The pandemic caused significant hiring challenges, including low applicant pools in some locations, delays in fingerprinting due to closed facilities, and delays in processing applicants virtually. And we routinely find ourselves being able to offer candidates significantly less than what the private sector can. We are trying innovative training approaches to get new CSRs ready to work the phones in less than the usual 14-week timeframe. Working with NTEU, OPM and Congressional Appropriators, we are also thrilled to have secured direct hire authority, discussed previously, which will allow us to be more successful in recruiting top talent by increasing the speed with which new employees can be onboarded.

UPDATE ON THE 2022 FILING SEASON

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

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

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

Providing help to navigate a challenging filing season

We continue to believe the filing season will go the smoothest for taxpayers who file electronically, file accurate tax returns and request direct deposit of their refund. In fact, filing electronically with direct deposit is more important than ever this year, given the additional complexities on many returns, such as those who were eligible for an EIP but did not receive it and are now claiming the RRC, as well as those who need to reconcile advance CTC payments on their return.

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

We realize that taxpayers who are still waiting for their 2020 return to be processed may be wondering whether they should wait to file their 2021 return. Our message to these individuals is that they can file their 2021 return when they are ready. If a

taxpayer is electronically filing their 2021 tax return and we have not yet processed their 2020 tax return, they should validate their 2021 electronic tax return by entering \$0 (zero dollars) as their prior year adjusted gross income (AGI). If a taxpayer used the Non-filer Sign Up tool in 2021 to register for advance CTC payments or an EIP, they will instead enter \$1 as their prior year AGI.

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

Improving Service to Diverse Communities

Amid the challenges posed for the agency by the pandemic and new tax law changes, the IRS has continued to focus on improving service to diverse communities. An important way we serve these taxpayers is by communicating with them in their most comfortable language. We are committed to enhancing the experience of all taxpayers, including those who have limited English proficiency. We know that these taxpayers respond to our efforts – as just one example, there were nearly 90 million visits to non-English pages on IRS.gov last year. Already this year, through mid-February, there have been about 7.1 million visits to non-English pages.

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

- Provided the Form 1040 in Spanish during the 2021 filing season for the first time.
- Gave taxpayers the opportunity to indicate on new Schedule LEP (Limited English Proficiency) whether they want to be contacted by us in a language other than English. This schedule, filed with the 1040, allows taxpayers to select one of 20 languages in which to receive communications from the IRS. During Calendar Year (CY) 2021, the IRS received approximately 326,000 Schedule LEPs.
- Made Publication 1, *Your Rights as a Taxpayer*, available in 20 languages.
- Issued a new, streamlined version of Publication 17, *Your Federal Income Tax*, that is available in seven languages.

These efforts continue this year. We've completed conversion of 34 Spanish notice inserts to Braille, text, audio and large print as of January. We're also working to convert Form 1040, the main schedules and six publications into Spanish Braille and large print. And we continue working to increase our

communications and outreach materials, including information shared on social media channels, into additional languages.

While those steps are all important, the IRS is continuing to do more to enhance the taxpayer experience for those who are more comfortable using a language other than English. We are, for example:

- Pursuing efforts to translate website applications for these taxpayers. We have already identified 17 of the most frequently used applications for translation into additional languages.
- Exploring opportunities to employ machine translation to help us add more multilingual content. This is a significant challenge, given how complex many tax terms are. We will need to carefully evaluate automated translation tools, so we anticipate this effort will be ongoing for several years.

UPDATE ON MODERNIZATION EFFORTS

One of my highest priorities as Commissioner is ensuring the agency's IT infrastructure remains on a path toward modernization. Modernization is vital to all our core functions: successfully delivering the annual tax filing season, ensuring the health of the nation's tax system and supporting the federal government's financial strength.

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

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

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

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

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

In addition to the above, we continue taking steps to safeguard taxpayer data while modernizing platforms to improve taxpayers’ experiences. Investments in cybersecurity are essential. In 2017, IRS was experiencing just over 1 million cyberattacks per day. Today, we sustain 2.4 million attacks per day. While IRS network defenses mitigate threats and keep our core tax processing systems secure, we must continue to advance our cyber capabilities, so we stay one step ahead of the bad actors who are attacking IRS systems.

IRS Online Account

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

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

As we expand our digital options, security is always an important consideration. For that reason, in February we announced steps to change the way taxpayers authenticate their identities when signing on to their online accounts. We began transitioning away from using a third-party service for facial recognition.

To facilitate this transition, we subsequently announced the option for taxpayers to verify their identity during a live, virtual interview with agents, which involves no biometric data, including no use of facial recognition, in the authentication process. Taxpayers still have the option to verify their identity automatically through the use of biometric verification through the ID.me self-assistance tool if they choose. For taxpayers who select this option, it's important to note strong new requirements are in place to ensure images provided by taxpayers are deleted for the account being created.

While this short-term solution is in place for this year's filing season, the IRS will work closely with partners across government to roll out Login.Gov as an authentication tool. The General Services Administration is currently working with the IRS to achieve the security standards and scale required of Login.Gov, with the goal of moving toward introducing this option later this year.

EFFORTS TO IMPROVE TAX COMPLIANCE

The IRS remains committed to doing everything we can, with our limited resources, to track down those who willfully refuse to fulfill their tax obligations or who commit tax fraud. We want to maintain a strong, visible, robust tax enforcement presence

to appropriately support taxpayers who comply voluntarily. When taxpayers file their returns, they should feel confident others are doing the right thing too.

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

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

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

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

Recent accomplishments

We have made progress in a number of enforcement areas. For example, over the past two years, we have shifted significant examination resources and technology to increase our focus on high-income and high-wealth taxpayers. As a result, examination coverage of the taxpayers in the highest income category (taxpayers with over \$10 million of total positive income) increased to over 8

percent coverage for Tax Year (TY) 2018, the most recent year for which complete statistics are available. This level is the highest coverage rate of this growing population since TY 2014, and we expect the TY 2019 numbers will show this level of coverage continued.

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

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

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

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

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

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

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

Resource challenges

Despite the progress we have made, our ability to enforce the tax laws against non-compliant taxpayers with complex returns continues to be hampered by a lack of resources. We can no longer audit a respectable percentage of large corporations, and we are often limited in the issues reviewed among those we do audit. These corporations can afford to spend large amounts on legal counsel, drag

out proceedings and bury the government in paper. We are, quite simply, “outgunned” in our efforts to assure a high degree of compliance for these taxpayers. It is unacceptable for the nation’s tax administrator to be outgunned when appropriately challenging the return positions of some of the most sophisticated taxpayers. We must receive the resources to hire and train more specialists across a wide range of complex areas to assist with audits of entities (taxable, pass-through and tax-exempt) and individuals (financial products; engineering; digital assets; cross-border activities; estate and gift planning; family offices; foundations; and many others).

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

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

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

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

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

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

LOOKING TO THE FUTURE: IRS TAXPAYER EXPERIENCE OFFICE

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

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

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

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

CONCLUSION

Chairman Pascrell, Ranking Member Rice and Members of the Subcommittee, thank you again for the opportunity to update you on IRS operations.

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

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

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