

Questions for The Honorable Charles P. Rettig

Commissioner, Internal Revenue Service

Questions from Chairman Gerald E. Connolly

Subcommittee on Government Operations

April 21, 2022, Hearing: "IRS: Is It Ready?"

1. The Internal Revenue Service (IRS) stated that it needs to hire 52,000 employees over the next six years just to maintain operations, which would still leave the agency in an understaffed state. What steps are you taking in this tight labor market to attract the next generation of IRS employees? Will you be asking Congress for additional hiring authorities or flexibilities? If so, what are those authorities and flexibilities?

IRS RESPONSE

In this tight labor market, we are attracting the next generation of IRS employees by meeting them where they are: virtually and in their hometowns. Between March 9 and April 1, 2022, the IRS hosted seven hiring events, including four virtual events and three in-person hiring events for Austin, Ogden, and Kansas City. These hiring events focused on filling Tax Examiner and Clerk positions for fiscal year (FY) 22. We were able to fill 1,585 Tax Examiner and Clerk positions, and the new hires are scheduled to onboard from March through June 2022. We extended offers to 1,354 other individuals and are waiting to hear whether they accept the job offer and/or meet IRS "pre-screening" for suitability requirements. Additional recruiting events will be scheduled as needed to meet hiring goals.

In addition, the IRS is implementing recruitment strategies that include targeted outreach to historically underutilized communities, in accord with the new Department of the Treasury (Treasury) Strategic Plan. For example, the IRS held in-person recruitment events in Puerto Rico, which resulted in 238 selections. Plans are underway to host another in-person hiring event on May 17-18 at Fort Buchanan, Puerto Rico in support of our Small Business/Self Employed division. In total, 994 new hires from Puerto Rico onboarded during the first quarter of FY22. We are in the process of onboarding an additional 411 new hires for Puerto Rico. IRS also continues to advance its "Lifting Communities Up" initiative in the Mississippi Delta Region.

We are also using some incentives to attract talent. The IRS is offering \$1,000 recruitment incentives for all Filing Season positions in the Wage and Investment division. Furthermore, we reward current IRS employees for referring qualified candidates for employment to job vacancies that are designated as hard-to-fill positions, and we have updated our announcement language to include information regarding our Employee Referral Bonus Program.

Regarding additional hiring authorities and flexibilities, to expedite building the IRS workforce, we are seeking additional hiring authorities and flexibilities to bypass some of the most time-consuming and frustrating parts of the hiring process. To address a severe shortage of

candidates and critical hiring needs, the IRS requested direct hiring authority (DHA) under the Office of Personnel Management (OPM) statutory authority. With DHA, the IRS can reduce the time to hire a new employee from around 100 days to approximately 45-60 days. OPM granted the IRS DHA for certain filing season hires on February 24, 2022, to meet the immediate needs in the Wage and Investment division's Accounts Management and Submission Processing organizations through the end of FY 2023. The IRS has DHA to quickly bring in Customer Service Representatives and intends to exercise that authority beginning in Summer 2022 to onboard new hires in FY 2023. Without additional support and flexibilities, staffing-related challenges will continue to impair IRS operations and negatively affect taxpayers and tax administration.

2. The Subcommittee and its Members have repeatedly asked how much investment it will take to update the IRS's information technology (IT) systems but have not received an estimate. We hear that this struggle is because of the way the IRS is required to report investments to the Office of Management and Budget. Please provide us an update on these new budget accounting processes and a timeline on when we can expect to have a dollar figure on the cost to modernize the IRS's IT systems.

IRS Response

Regarding the new budget accounting processes, the current appropriations language segments all principal support activities into the Operations Support appropriation. By separating funding for these activities from the mission activities that they support, this structure obscures the full cost of delivering the IRS mission. The proposed changes would allow the IRS to allocate support costs to our Taxpayer Services and Enforcement appropriations, which then would show the full cost, including labor and support costs, of the IRS' mission activities, similar to other Federal agencies.

A major benefit of allocating support costs to the mission appropriations is to enable business unit trade-off decisions weighing whether to invest in labor, contracted labor, or technology investments. For example, currently, a business unit cannot invest its own funds in technology, making a trade-off decision with a technology investment nearly impossible: IT investment is not connected to IRS IT in Operations Support, nor potential labor savings in the corresponding Taxpayer Service or Enforcement appropriation.

Our proposal would allow the BU to fund the IT investment with Federal Information Technology Acquisition Reform Act (FITARA) oversight. If approved, the IRS plans to incrementally transition from its current structure to the new, full-cost focused mission appropriations and a significantly reduced Operations Support appropriation over three years. We include a more extensive description in the FY 2023 IRS Budget Justification.¹

¹ IRS Publication 4450, IRS Fiscal Year 2023 Congressional Budget Justification & Annual Performance Report and Plan, pages IRS-25 to IRS-27.

The IRS requires sustained sufficient multi-year investment for IT modernization necessary to improve our technology and operating systems. To deliver the IRS Integrated Modernization Business Plan, which we designed to improve a variety of taxpayer services critical to the nation's tax system, we estimated the cost to total between \$2.3 billion to \$2.7 billion over six years. This breaks down to approximately \$400 million to \$450 million annually, through the Business Systems Modernization (BSM) appropriations account. The plan does not outline everything necessary to modernize the IRS. Instead, it focuses on changes we can achieve within a certain funding level.

Since the release of the plan in 2019, the IRS has received just over half the funding we requested. Receiving less funding than we requested required us to scale back in some areas and partially fill gaps with supplemental funding. The administration's budget proposal for FY 2023 includes \$310 million in funding for BSM. Although this amount is less than the annual average we calculated as necessary for sustained progress, we believe the funding request would enable the IRS to continue to make meaningful progress in developing digital services Americans now expect, strengthen cybersecurity protections and modernize IT systems.

3. The IRS consistently states it needs access to multi-year funding to effectively upgrade its legacy IT systems. Does the IRS have an IT working capital fund? If not, has it asked Congress to provide it an IT working capital fund? Did IRS apply for funding through the Technology Modernization Fund? If not, why not?

IRS Response

The IRS does not have an IT working capital fund. We included a proposal in FY 2022 Congressional Justification to create a working capital fund for most of what we currently fund from our Operations Support account, including IT. However, Congress did not approve this proposal.

We have long sought levels of funding that would enable necessary IT investments, and we continue to explore the use of TMF as an option to address modernization needs. In prior years, because of TMF repayment requirements, the IRS instead opted to request permanent funding increases for IT modernization through the budget submissions process. In addition to the IRS's FY 2023 budget request, stable, multi-year funding is necessary to facilitate the types of longer-term investments that the agency needs to make to adequately serve the American people and enforce the tax laws.

4. The Treasury Inspector General for Tax Administration’s annual IT assessment found that the IRS chief information officer (CIO) is not notified of all significant information technology purchases. What steps are you taking to ensure that the IRS’s CIO has visibility in all significant IT acquisitions?

IRS RESPONSE

The CIO is in regular consultation with the Chief Procurement Officer (CPO) for IT-related acquisitions in support of the IRS. A strong partnership between the CIO and CPO ensures adherence to the Taxpayer First Act (TFA) and FITARA requirements. If Procurement receives a procurement request for IT products/services without IT approval, Procurement stops activity, and the requesting organization must engage the IT organization. The Office of the CPO shares a monthly report of IT actions in excess of \$1M with the Office of the CIO to ensure continued visibility of high-dollar IT acquisitions.

5. Can you speak to the role IRS plays in administering U.S. sanctions against Vladimir Putin and Russian oligarchs as well as investigating Russian financial crimes? What effect has the last decade of budget reductions had on the IRS’s ability to focus on this important national security priority?

IRS Response

The primary role of IRS’s Criminal Investigations (CI) division in sanctions enforcement can be summarized into the following three categories:

1. Conduct criminal investigations and criminal/civil seizure and forfeiture relating to sanctions violations.
2. Work closely with Office of Foreign Asset Control (OFAC) to expand the Special Designated Nationals (SDN) list and/or to freeze assets SDNs own or control.
3. Share information and intelligence with domestic and international law enforcement partners and the intelligence community.

More specifically, CI brings the following unique capabilities and expertise to sanctions enforcement:

- CI Special Agents have extensive experience in conducting complex financial investigations involving layers of nominee accounts, shell corporations, and cryptocurrency obfuscation;
- CI has focused case development capabilities through data analytics from specialized units, such as the Applied Analytics Unit and Nationally Coordinated Investigations Unit;
- CI has strong cyber expertise with two field Cyber Crime Units (CCUs) and HQ Cyber Operations that are dedicated to all things cyber, such as cryptocurrency tracing, blockchain analysis, and the darknet;

- CI has formed robust private and public collaboration with experts in different industries, such as data analytics, cyber, and Open-Source Intelligence (OSINT) research;
- CI has strong international presence: 12 foreign posts to obtain and share information; Joint Chiefs of Global Tax Enforcement (J5); the International Criminal Police Organization (INTERPOL); and the Five Eyes Law Enforcement Group; and
- CI can organize and run fully independent undercover operations.

CI is active in ongoing investigations of Russian oligarchs and those who are involved with or assist in Russia's invasion of Ukraine. CI is also working on expanding the SDN list and freezing assets SDNs control or with which SDNs have an association. CI analyzed cryptocurrency addresses associated with geographical regions of J5 by focusing on international enablers through geographically mapping user activity and movement. This advanced capability can identify key users of cryptocurrencies (such as oligarchs) and track their movement over time.

6. The IRS is part of the federal interagency “KleptoCapture Task Force” President Biden announced in his recent State of the Union address. The Task Force is built to investigate sanctions violations, track use of cryptocurrencies used to evade U.S. sanctions, and seize assets belonging to sanctioned individuals. What role is IRS playing on this task force, and would additional resources for your agency increase the chances that it will succeed in making significant seizures?

IRS Response

On March 2, 2022, Attorney General Merrick B. Garland announced the launch of Task Force KleptoCapture, an interagency law enforcement task force dedicated to enforcing sanctions, export restrictions, and economic countermeasures. The task force is designed to isolate Russia from global markets and impose serious costs for its unjustified act of war by targeting the crimes of Russian officials, government-aligned elites and those who aid or conceal their unlawful conduct. CI is an integral member of this task force and plays a crucial role in assisting Treasury bureaus and other governmental entities with sanctions enforcement.

In addition to the KleptoCapture taskforce, CI currently participates on multiple national taskforces that are uniquely positioned to combat these threats and identify sanction evaders. CI currently has special agents in the DEA Special Operations Division (SOD), International Organized Crime Intelligence and Operations Center (IOC-2), Organized Crime Drug Enforcement Task Force (OCDETF) Fusion Center, and Joint Criminal Opioid Darknet Enforcement (JCODE) taskforce. All these taskforces have a significant role in cases targeting complex transnational criminal organizations and support the success of CI's organized crime, cyber, money laundering and sanctions enforcement investigations. Additionally, CI has seen close connections between the transnational criminal enterprises and those under OFAC sanctions.

CI works with OFAC and FinCEN to identify, develop, and add new individuals and entities to the SDN list. CI also spearheads J5. J5 focuses on combatting international tax and financial crimes through proactive collaboration using each country's collective resources. CI collaborates with our J5 partners to identify potential sanction evaders or sanctioned assets and to develop a global strategy to deter Russia's aggression.

CI will continue to participate in the sanction efforts with our limited resources. This participation requires re-deploying special agents from other enforcement efforts. If CI receives additional funding, CI would use the funding to assist in collective sanctions enforcement efforts, while maintaining adequate coverage of the other CI mission focuses. This assistance would require:

- Hiring: additional special agents, analysts and investigative staff;
- Direct investigative costs: travel, transcription and translation services, investigative data analytics, data management, enforcement costs, undercover operations, etc.:
- Investigative technology: data storage and management systems, servers, information technology infrastructure, additional commercial licenses, and contractor support: and
- Secure facility: secure storage and communication capabilities to handle sensitive and classified information.

Additional investigative support for these taskforces would increase CI's ability to gather, analyze, and act on available intelligence for sanctions enforcement and other investigations targeting transnational criminal organizations.

7. How is the IRS leveraging innovative technology such as chatbots, artificial intelligence, and other digital services to improve the overall taxpayer experience and bring down the cost-per-transaction?

IRS Response

Digital services continue to be a cost effective and taxpayer-preferred method of interacting with the IRS. In FY 2021, the IRS had a surge in demand for digital services, with over 1.4 billion interactions (mostly about Economic Impact Payments and the Child Tax Credit), bringing our digital services' cost down to approximately \$0.12 per interaction. For comparison, assisted services on the phone, via paper correspondence, or via walk-in cost well over \$50 per interaction, on average.

A major focus area of the IRS's Taxpayer Experience Strategy is expanding digital services to increase access and offer an improved experience for those who prefer digital self-service. Today, digital services are over 95% of our interaction volume with taxpayers. Specifically, in FY 2022, of the approximately 945 million interactions we've had with taxpayers, about 900 million of them happened through our web services or automated phone system, and 45 million were through traditional channels like phone assistance, in-person Taxpayer Assistance Centers, paper correspondence, and paper payments. Those numbers do not account for some

of our newer services like virtual assistants (i.e., chatbots), secure messaging, or live chats with an assistor, as we are still developing those modernized services and establishing baseline data.

In FY 2022, we launched an improved identity verification and sign-in process that enables more people to securely access and use IRS online tools and applications. Over the last six months, more than 10 million individuals have created their individual online account through IRS.gov. The IRS continues to work with its cross-government partners to develop authentication methods that protect taxpayer data and ensure broad access to online tools.

We have recently made several other improvements to our digital services, including:

- **Implementing Online Live Assistance, Voice Bots, and Chat Bots (in English and Spanish)** to better enable taxpayers to interact with the IRS.
 - Artificial intelligence (AI) voice bots, a software that allows 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, also using AI-powered software to respond to taxpayers. Taxpayers who request to speak with a Customer Service Representative are placed in queue for English or Spanish telephone assistance.
 - Our Advance Child Tax Credit voice bot launched in February of 2022 (6-8 weeks ahead of schedule) and handles the top 27 Advance Child Tax Credit questions and topics to assist callers who need help reconciling the credits on their 2021 tax return.
 - In addition to the payment lines, voice bots help people calling the Economic Impact Payment toll-free line, providing general procedural responses to the most frequently asked questions.
- **Developing and expanding self-service portals** for taxpayers to apply online to establish Payment Agreements, request payment transcripts, request an Identity Protection Personal Identification Number and update their personal information.
- **Expanding “Customer Callback”** to approximately 70 percent of our toll-free telephone demand. During FY 2022, we offered this option to more than 5.3 million taxpayers. The acceptance rate exceeded 57 percent. We estimate this feature has saved taxpayers more than 1.7 million hours of waiting on the phone.

Through our Taxpayer Experience Strategy and modernization efforts, we plan to build on these efforts and continue to expand digital services to improve the taxpayer experience.

8. What is the role of the chief taxpayer experience officer in the IRS's IT modernization efforts?

IRS Response

As part of a longer-term effort to improve taxpayer service, the Taxpayer Experience Office will focus on strategies to equip the IRS to be a 21st century taxpayer resource. The formal establishment of the Taxpayer Experience Office will unify and expand efforts across the IRS to improve taxpayer service.

The Taxpayer Experience Office will focus on all aspects of taxpayer transactions with the IRS across the service, compliance, and other program areas. It will work in conjunction with all IRS business units and coordinate closely with the Taxpayer Advocate Service. The office is part of the effort described in the Taxpayer First Act Report to Congress.

Within that Report to Congress, the Taxpayer Experience Office detailed over 100 service improvements that depend on modernized technology in the IRS modernization plan. The Taxpayer Experience Office prioritized 12 key service needs, including secure two-way messaging, expanded payment options, advanced data analytics, and others. While the IRS is currently making progress on 11 of those priority efforts, many will require additional funding to fully realize the vision within the taxpayer experience strategy.²

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.

9. Does the Chief Taxpayer Experience Officer have overall responsibility for ensuring full compliance and implementation of the 21st Century Integrated Digital Experience Act? Specifically, are they responsible for IRS website, e-signature, and forms modernization efforts? If not, who is responsible?

IRS Response

Implementation of the 21st century Integrated Digital Experience Act (IDEA Act) is multi-pronged and multi-faceted. Like all major projects, it depends on collaboration across various IRS business units. The Taxpayer Experience Office will help drive the IRS strategic direction for improving the taxpayer experience. It will focus on key activities, changing taxpayer expectations, and industry needs. This strategic direction will promote a consistent voice and experience across all segments by developing Service-wide taxpayer experience guidelines and expectations.

² The one priority capability we aren't actively developing is Business Online Account. Though we can make preliminary efforts, we will not be able to progress this capability until we have committed funds to work on it. Although we have a strong technology foundation from developing the individual online account, Business Online Account requires a multi-year effort with significant complexity and consistent, dedicated funding.

The Taxpayer Experience Office is part of the effort described in the [Taxpayer First Act Report to Congress](#). It will help unify and expand taxpayer service improvements across the IRS through initiatives such as a 360-degree view of taxpayer accounts, expanded e-File and payment options, digital signatures, secure two-way messaging, and online accounts for businesses and tax professionals.

10. What is the status of IRS forms digitization initiatives as required by 21st Century Integrated Digital Experience Act (IDEA)? Has the IRS developed a roadmap to ensure all key public facing forms are provided digitally? If not, how many forms have been digitized? What additional resources are needed to ensure effective implementation of 21st Century IDEA and the customer experience executive order?

IRS Response

Modernizing the taxpayer experience is ongoing, and funding needs will change over time as legislative requirements call on the IRS to deliver new and different services. With sustained multi-year funding from Congress, we will continue to pursue a range of solutions to fully digitize the taxpayer experience, per the intent of the 21st Century Integrated Digital Experience (IDEA) Act, including making forms mobile-friendly and accessible, creating fully digital applications to collect information and secure electronic signatures.

We are finalizing our five-year roadmap with input from our stakeholders. We will continue to make updates as we move forward to deliver on forms modernization efforts. Our roadmap is dependent on an information technology (IT) solution and subsequent funding.

The IDEA Act required that the IRS submit a report in 2019, and we reported the estimated cost for digitalization and modernization of its websites was \$163.23 million. We do not have an updated cost estimate to provide at this time but have identified roughly \$15 million in potential needs in Fiscal Year 2022. Our intent for this designated funding is to prioritize solutions that affect our approximately 1,400 forms and publications broadly. For example, we are committed to making most forms mobile-friendly, improving the consistency and experience of legacy digital applications, improving compliance with web design standards, while utilizing modernization funding for building fully digital experiences.

Most forms are available electronically on IRS.gov. Many are already available in multiple languages with accessible versions. We are actively pursuing ways to make IRS forms mobile responsive and accessible. Additional work is needed to ensure that the approximately 1,400 tax forms and publications we develop are easier to populate and more user-friendly.