



Testimony of

**Minesh Ladwa
Global Solution Manager
Tax and Revenue Management
SAP**

Before

**Committee on Ways and Means
Subcommittee on Oversight
U.S. House of Representatives**

Hearing on

“IRS Return on Investment and the Need for Modernization”

**February 11, 2025, at 10:00 a.m.
1100 Longworth House Office Building
Washington, D.C.**

**Written Testimony of Minesh Ladwa
Global Solution Manager, Tax and Revenue Management, SAP**

Hearing on IRS Return on Investment and the Need for Modernization

**Before the House Committee on Ways and Means
Subcommittee on Oversight**

February 11, 2025

Chairman Schweikert, Ranking Member Sewell and Distinguished Members of the Subcommittee, it is an honor to present this testimony on IRS modernization and enhancing tax compliance.

As an expert with two decades of experience leading policy and technology-driven transformations for global tax agencies, I will outline key trends, opportunities, and strategies to assist with IRS efforts to build a future-ready tax system.

This testimony will cover:

- **People, Policy, Process, and Technology: A Blueprint for Modernization** – Why modernization is not just about technology but requires policy reform, process simplification, and workforce enablement to improve compliance, efficiency, and taxpayer engagement.
- **Key Trends in Tax Modernization** – How leading tax agencies are using AI, automation, and digital taxpayer services to improve compliance, reduce administrative burdens, and create a more user-friendly tax system.
- **The Challenge: Rethinking Complexity in Tax Administration** – How the IRS can move beyond layering new technology on top of legacy systems and focus on policy simplification and modernization strategies that reduce complexity and improve taxpayer interactions.
- **A Pragmatic Approach to Implementation** – The importance of a phased, outcome-driven modernization strategy, leveraging real-world pilots with willing participants such as large corporations and their employees before full-scale implementation.
- **Ensuring a Future-Enabled Tax System** – How modernization efforts can be future-proofed by integrating policy reform, automation, and scalable digital services, while ensuring long-term governance and adaptability.

Modernization is not just an opportunity; it is a necessity to create a leaner, technology-driven tax administration. The IRS can benefit from the same AI, automation, and data-driven insights that have revolutionized the private sector, ensuring real-time compliance, faster taxpayer services, and intelligent enforcement all without dramatically increasing the agency's workforce. By leveraging technology first, we can reduce the manual burden on both taxpayers and the IRS while strengthening compliance and fraud detection in a fair, targeted, and scalable way.

About my employer: SAP

As the world's largest enterprise software company, SAP is the world's leading provider of enterprise application software, enabling organizations across industries to drive digital transformation, achieve operational efficiency, and innovate at scale.

- 98 of the world's 100 largest companies run SAP.
- SAP customers generate 84% of total global commerce.
- More than 300 million cloud users run on SAP solutions across industries.
- More than 35,000 customers use SAP Business AI
- Approximately 80% of SAP customers are SME's
- \$6.3 trillion in annual commerce runs through SAP's Business Network.

SAP is a market leader in Enterprise Resource Planning (ERP), Supply Chain Management, Procurement, Finance, HR, and Business AI, with over 45 data centers in 24 locations across 15 countries, ensuring global security and compliance standards.

SAP serves federal, state, and local governments, as well as international organizations like NATO and the United Nations. With over 17,500 government customers in 180 countries, SAP is a trusted partner in public sector digital transformation. More than 35 federal, state, and local tax agencies worldwide run SAP's tax administration solutions, supporting revenue collection and compliance for governments at all levels.

Modernizing Tax Administration: The Role of AI, Cloud, and Automation

At SAP, we have worked extensively with tax agencies around the world to help them navigate the challenges of compliance, revenue collection, and digital transformation. Recognizing the complexity of tax administration, we have developed a cloud-enabled, AI-driven tax solution that directly addresses the needs of modern tax authorities. By leveraging automation, AI, and real-time analytics, tax agencies can increase compliance, reduce costs, and create a more seamless, taxpayer-friendly system.

Our aim is to help governments by:

- Enhancing taxpayer services – Digital self-service portals, real-time status tracking, and automated interactions to improve the taxpayer experience.
- Strengthening compliance and revenue collection – AI-driven fraud detection and behavioral insights to identify risks early and optimize enforcement.
- Automating processes – Reducing manual workloads in tax filing, risk assessments, and collections, allowing staff to focus on higher-value tasks.
- Ensuring scalability and resilience – A secure, modular platform that adapts to evolving regulations and policy changes.
- Protecting data security and privacy – Compliance with FedRAMP, ISO 27001, and GDPR, ensuring taxpayer data remains secure.

Perspective on IRS Modernization: Challenges and Opportunities

As someone who has worked with tax administrations globally, I recognize that the IRS plays a fundamental role in ensuring the financial stability of the United States, collecting over \$4.1 trillion annually from 140 million taxpayers. It is responsible for managing an incredibly complex system that must balance compliance, taxpayer services, and operational efficiency.

IRS modernization presents a unique opportunity to deliver solutions that meet the evolving needs of taxpayers. Around the world, tax authorities are leveraging technology, automation, and data-driven decision-making to streamline operations, and I see an opportunity for the IRS to do the same in a way that enhances service delivery, strengthens compliance, and reduces administrative burdens.

Delivering large-scale modernization while maintaining continuity can seem like an insurmountable challenge. Many tax agencies globally are navigating similar journeys, replacing legacy systems with new innovations, improving digital taxpayer engagement, and ensuring that data-driven compliance remains fair and efficient. By focusing on people, process, and technology, a more agile, secure, and taxpayer-friendly system can be achieved. My goal today is to share insights from international tax modernization efforts that may be useful in shaping this journey.

Ensuring Data Security in AI enabled Cloud-Based Tax Administration

Technology modernization must be anchored in robust data security measures to maintain public trust and align with federal oversight requirements. Taxpayer data is **the** most sensitive information a government can hold, and its protection is non-negotiable. AI and cloud-based solutions must be governed by strict 'query but not store' principles, ensuring that only necessary, anonymized, and non-persistent data is used for enforcement purposes.

As tax agencies transition to digital-first operations, data security must be the foundation of modernization efforts. Taxpayer data is among the most sensitive information a government holds, and its protection is non-negotiable.

Governments using cloud-based tax solutions retain full control over tax data while leveraging the benefits of real-time processing, AI-driven insights, and global security standards.

The most advanced tax agencies globally are leveraging digital taxpayer services, AI-driven compliance models, and simplified data architectures to enhance efficiency, scale operations, and improve taxpayer engagement.

The private sector has demonstrated how AI and automation can reduce inefficiencies and improve decision-making. AI-powered risk assessment tools can identify discrepancies in reported income vs. spending patterns without requiring IRS agents to manually review each case. With proper governance, the IRS can adopt an approach where AI queries private-sector data to flag anomalies, but without storing sensitive data ensuring both compliance and privacy protections.

Key Trends in IT Tax Modernization: Efficiency, Scalability, and Cost-Effectiveness

As tax agencies worldwide embrace digital transformation, the focus is shifting toward efficiency, scalability, and cost-effective modernization. While tax administrations face unique challenges, three overarching trends are shaping the future of tax systems globally.

1. **A Shift to Taxpayer-Centric Administration:** Tax agencies are redesigning tax services to improve the taxpayer experience, reduce compliance burdens, and enhance transparency. Examples include:
 - Streamlined AI enabled technology platforms which offer real-time analytics significantly reducing errors and administrative efforts.
 - Digital self-service portals and proactive compliance engagement, making tax filing and interactions more seamless and accessible.

- These measures present opportunities to streamline interactions, reduce manual processing, and create a taxpayer-friendly system that enhances voluntary compliance.

2. **Data-Driven Decisions:** AI and Predictive Analytics for Smarter Compliance

Modern tax agencies are moving from reactive enforcement to proactive compliance management. By leveraging AI and behavioral analytics, tax administrations can:

- Identify compliance risks early, allowing tax administrations to engage with taxpayers before issues escalate.
- Optimize enforcement by differentiating taxpayer behavior, offering flexible options for those struggling financially while targeting deliberate non-compliance more effectively.
- Use predictive analytics to improve revenue collection, ensure fairness in enforcement, and reduce unnecessary audits.

AI-powered compliance does not mean unchecked government surveillance. A modernized system can operate with strict ‘query but not store’ controls, ensuring taxpayer privacy while detecting non-compliance with precision—without unnecessary data retention

3. **Simplifying Data and Operational IT Architecture:** Rather than focusing solely on migrating legacy taxpayer records, modern tax agencies are exploring simplified, modular architectures that:

- Improve fraud detection and risk assessment through more dynamic data models.
- Reduce reliance on batch processing and outdated workflows, leading to faster response times.

The Challenge – Rethinking Complexity in Tax Administration

One of the biggest barriers to efficient tax administration is data fragmentation taxpayer information scattered across disconnected systems, leading to inefficiencies, compliance gaps, and delays in enforcement. Many tax agencies worldwide have addressed this challenge by adopting a unified, real-time taxpayer view, allowing for proactive fraud detection, streamlined compliance management, and improved taxpayer engagement.

The IRS has a unique opportunity to move to an intelligence-led, technology-first platform. Instead of layering new technology on top of legacy systems, the IRS can adopt a unified tax administration platform, leveraging existing solutions.

- A single platform, a single solution, and a single customer record, ensuring different departments access the same data but with tailored views.

By integrating taxpayer data into a single, secure platform, the IRS could:

- Improve compliance due to having 360-degree view of taxpayer obligations and activities and thus understanding the taxpayer better.
- Case management, reducing manual reviews and enforcement delays.
- Taxpayer services, providing proactive compliance guidance and AI-driven support.
- Operational efficiency, streamlining tax collection and reducing administrative burdens.

Modernizing tax administration doesn’t just improve efficiency it delivers measurable financial benefits.

Globally, tax agencies have aimed to see a 5-8% improvement in debt recovery, whilst having led to a 15-40% improvement in operational efficiency and a 15-20% reduction in manual work.

By integrating real-time analytics, automation, and AI-driven insights, the IRS can enhance compliance, reduce costs, and future-proof tax administration - ensuring a system that works for both taxpayers and the IRS workforce.

A Pragmatic, Phased Approach to Tax Modernization

Large-scale tax modernization is often perceived as a complex, multi-year transformation requiring extensive migration and integration. However, rather than retrofitting outdated systems, a more effective strategy is to start with small-scale, controlled deployments that validate new models in real-world conditions without disrupting revenue collection.

A fresh perspective could begin with controlled pilots, using real-world taxpayers—such as a well-established U.S. corporation and its employees. This allows tax agencies to:

- Test novel approaches in a controlled setting – A prototype deployment provides live, actionable insights into how a new tax system functions without disrupting the broader ecosystem.
- Pilot with willing participants – Trial AI-driven compliance tools with corporate taxpayers and employees to assess usability, enforcement effectiveness, and taxpayer engagement.
- Measure KPIs and gather feedback – Collect structured feedback from employees and taxpayers, tracking key performance indicators (KPIs) such as compliance improvements, administrative efficiency gains, and taxpayer experience metrics.
- Refine and scale – Use pilot data to optimize automation, improve risk detection, and expand adoption in a structured manner.
- Address legislative gaps – Proactively identify policy changes that enable faster, fairer, and more effective taxation.
- Implement an immediate structured decommissioning strategy – Once the new system proves successful, phase out the legacy environment(s) in a controlled, risk-mitigated manner.

This agile approach fosters innovation without disruption, ensuring modernization efforts focus on simplification and effectiveness rather than unnecessary complexity and cost.

Defining a Future Enabled Modern Tax System

As tax agencies embark on modernization journeys, a key priority is ensuring the long-term sustainability, adaptability, and simplicity of tax systems. A well-designed tax platform must evolve with:

- Changes in tax policy and regulation, ensuring that processes remain relevant and efficient.
- Advancements in technology, which should serve as an enabler of efficiency, automation, and compliance rather than driving unnecessary IT complexity.
- Ongoing operational improvements, ensuring that government tax agencies retain full control over policy, compliance, and taxpayer oversight.

While discussions around tax system modernization sometimes highlight concerns about vendor reliance, the real challenge is not about who builds the software but about how modernization is executed. A long-term strategy must be built around:

- Proactive planning and structured governance - ensuring continuity in tax administration.
- Scalable, adaptable technology architectures that evolve without unnecessary disruption.
- A modernization roadmap that integrates policy reform, automation, and improved taxpayer experience.

Ultimately, successful tax modernization is not just an IT exercise it is about simplifying tax administration at every level, ensuring that systems, policies, and processes align to support a resilient, efficient, and future-ready tax system. The IRS has a unique opportunity to implement a strategy that balances innovation, cost efficiency, and long-term resilience while keeping taxpayer trust at the center.

Conclusion: A Vision for Digital Transformation

The future of tax administration is real-time, AI-powered, and data-driven. By focusing on people, process, and technology, and embracing the most efficient practices from around the world, the IRS can ensure a more efficient, transparent, and trusted tax system.

Modernization is not just about technology; it is about reinventing how tax administration serves the American people. The future U.S. tax system should be built to be efficient, ensuring it not only meets the needs of today but is adaptable for tomorrow. A future tax system should be efficient for government, simple for taxpayers, and resilient against future challenges. By leading in these areas, the United States can set a new global standard for intelligent tax administration.

I appreciate the Committee's time and look forward to your questions.