Statement of
Pete Sepp, President, National Taxpayers Union
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Committee on Ways and Means
United States House of Representatives
Regarding the Subcommittee's Hearing on "IRS Return on Investment and the Need for Modernization"

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Introduction

Chairman Schweikert, Ranking Member Sewell, and Members of the Subcommittee, it is a great honor for me to provide comments today for your hearing, "IRS Return on Investment and the Need for Modernization." National Taxpayers Union (NTU) is a non-partisan citizen group founded in 1969 to advocate for lower taxes, more efficient and accountable government, and stronger taxpayer rights. More about our work as a non-profit grassroots organization can be found at www.ntu.org.

While we support a range of structural tax reforms—both comprehensive and incremental—NTU consistently emphasizes the importance of *administrability* in tax policy. As policymakers set rates, define tax bases, and design deductions and credits, they must consider the practical impact on taxpayers' lives and rights. Without careful attention to administrability, taxpayers will face greater uncertainty and mistrust in their government, revenue officials will struggle to fulfill their duties efficiently, tax practitioners will become increasingly frustrated with unnecessary complexity, and businesses will divert too many resources toward compliance rather than productive economic activity.

For these reasons, throughout its history NTU has led efforts in support of congressional legislation to improve operations of the Internal Revenue Service (IRS) and ensure greater balance in the tax enforcement. Throughout the late 1970s and 1980s, NTU brought forward firsthand accounts from taxpayers who had experienced IRS maladministration and organized a broad coalition of civil liberties organizations. These efforts successfully persuaded Congress to enact the first Taxpayers' Bill of Rights as part of the Technical and Miscellaneous Revenue Act of 1988.

In 1996 and 1997, NTU's then-Executive Vice President David Keating was appointed to the National Commission on Restructuring the Internal Revenue Service ("Restructuring Commission"), a federal panel whose recommendations laid the foundation for the most significant IRS overhaul in a generation—the IRS Restructuring and Reform Act of 1998 (RRA '98).

Since then, NTU has continued to advocate for responsible tax administration, urging a cautious and deliberative approach—rather than outright opposition—to proposals for increased IRS funding. As I wrote in *The New York Times* in October 2021, supporting additional IRS funding:

> More resources for customer service, taxpayer rights safeguards, a functioning Oversight Board,

actionable and regularly updated research on the tax gap and innovative approaches such as the recently proposed enforcement fellowship pilot program are all solutions that should unite Washington.[1]

Even more recently, NTU's research and educational arm, National Taxpayers Union Foundation (NTUF), formed Taxpayers for IRS Transformation (Taxpayers FIRST) shortly after passage of the Inflation Reduction Act (IRA) to provide expert input from a variety of disciplines on how best to implement the IRA's funding provisions for IRS development.[2]

Here I also wish to acknowledge the substantive and lengthy contributions to this testimony from two of my colleagues at National Taxpayers Union Foundation, Policy Manager Debbie Jennings, and Vice President of Research Demian Brady. Although their research and writing has greatly informed and improved the document you are reading today, any errors or omissions are solely my responsibility.

A well-functioning IRS is essential to a fair and efficient tax system, but modernization efforts must be pursued with accountability to ensure real returns for taxpayers. Rather than opposing all additional IRS funding, our focus is on ensuring that IRS spending is targeted, effective, and fiscally responsible. The IRS has a strong need for critical Information Technology upgrades that will enhance administration of the tax laws while also improving the taxpayer experience. NTU's long history of advocating for both taxpayer rights and responsible IRS reform is woven into the remarks to follow regarding how modernization efforts can and should be designed to improve efficiency, reduce administrative burdens, and enhance service for taxpayers.

Historically, IRS modernization has been fraught with deficient planning and disappointing outcomes. For more than 50 years, official and unofficial sources have amply documented the Service's struggles, with Congress, to bring tax administration in the modern age, even while the definition of "modern" is continuously shifting.[3] Yet, modernization that delivers an optimal return on investment to taxpayers as well as government coffers remains imperative, as the following remarks will hopefully elucidate.

I. IRS Modernization and Transformation Efforts

Before discussing the current state of IRS modernization, I would like to recognize the efforts of the Senate Finance Committee on their recently released bipartisan discussion draft on tax administration.[4] Released by Senate Finance Committee Chair Mike Crapo (R-ID) and Ranking Member Ron Wyden (D-OR), this proposal represents the most comprehensive effort to improve tax administration since RRA '98 and the Taxpayer First Act of 2019. It includes long-overdue reforms that NTU has long advocated for, such as expanding taxpayer access to appeals, creating a robust customer service "dashboard," strengthening the National Taxpayer Advocate, clarifying math error notices, and harmonizing the "mailbox rule." These provisions are essential to ensure that the IRS better serves taxpayers rather than merely enforcing compliance. I encourage all Members of the Subcommittee to work with the Senate Finance Committee to help refine the discussion draft into the strongest possible piece of legislation.

The IRS is approaching its third year of spending its historic influx of funding through the Inflation Reduction Act (IRA) and has now spent one-third of the funding designated for Business Systems Modernization.[5] With the start of the 2025 tax season two weeks ago, it is critical to understand what progress the IRS has made in its technological modernization and transformation that was promised through IRA funding.

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[1] Sepp, Pete, "I'm the President of the National Taxpayers Union. Be Careful with I.R.S. Reform." *New York Times*. October 18, 2021. https://www.nytimes.com/2021/10/18/opinion/tax-irs-reform.html.

[2] National Taxpayers Union Foundation is most grateful to Chairman Schweikert for delivering incisive and instructive remarks at the inaugural public event of Taxpayers FIRST in 2024. See more on Taxpayers FIRST here: https://www.taxpayers-first.org/.

[3] See, for example, David Burnham, *A Law Unto Itself*, (Random House, 1989) and Davis, Shelley, *Unbridled Power: Inside the Secret Culture of the IRS*, (Harperbusiness Books, 1997).

[4] Senate Finance Committee, "Crapo, Wyden Issue Discussion Draft to Improve IRS Administration," January 30 2025, https://www.finance.senate.gov/ranking-members-news/crapo-wyden-issue-discussion-draft-to-improve-irs-administration.

[5] Treasury Inspector General for Tax Administration, "Inflation Reduction Act Oversight," Accessed February 7, 2025, https://www.tigta.gov/inflation-reduction-act-oversight.

Congress did not provide clear goals for the IRS funding provided in the IRA. The legislation simply indicated dollar amounts for broad areas including $45.6 billion for enforcement ($21.6 billion of which was rescinded in subsequent laws), $25.3 billion for Operations Support, $4.8 billion for Business Systems Modernization, $3.2 billion for Taxpayer Services, and $400 million for the Treasury Inspector General for Tax Administration.

In the absence of congressional guidance, the IRS developed its own modernization goals. In May 2023—nine months after the IRA became law—the IRS published its Strategic Operating Plan (SOP) outlining how it intended to use its new funding.[6] Despite its length at 150 pages and its impressive formatting, the SOP was vague and offered very little detail regarding the steps procedures the Service will take to modernize. In fact, many technology milestones within the SOP simply state that the goal is to modernize various systems, without providing a plan for how to complete this modernization. Furthermore, despite indicating that the plan covers Fiscal Years (FY) 2023 through 2031, the SOP included very few milestones for years past FY 2025.

Last November, National Taxpayers Union Foundation conducted a comprehensive analysis of publicly available information to assess progress the IRS has made thus far in modernizing its information technology with IRA funding. NTUF's *Grading the IRS* report is a more candid attempt to evaluate the Service's success in response to its own first and second annual self-assessment report cards.[7] NTUF gave the IRS an overall "D" grade for its modernization efforts.[8]

While the report cards released by the IRS spotlight the results of a handful of initiatives developed with the new funding, NTUF's report reviews the progress made completing Fiscal FY 2024 milestones outlined in the SOP and an update released in May 2024.[9] Instead of comparing the original Plan's goals with actual results, the update chose a few select milestones in each of the five main objectives and provided a check mark next to the milestone if complete. At that time, none of the selected information technology modernization milestones for Fiscal Year 2024 had been completed, demonstrating the least amount of progress of any of its five objectives.

The NTUF report shows a more accurate picture of whether the IRS has kept on track with its own goals and takes into consideration the need for information technology modernization to be transformational rather than a mere improvement. It also highlights a lack of transparency in the IRS modernization process. While we appreciate the release of the Plan, its update, and summarized descriptions of work in the IRS report cards, the information provided by the IRS is inconsistent and often still vague.

The Government Accountability Office (GAO) has confirmed that the Service's modernization plans do not follow a clear and consistent implementation strategy. According to GAO, initiatives within the SOP are being implemented through processes outlined in an "enterprise roadmap" that fails to include any plans for reaching the information technology modernization objectives.[10] However, the Treasury Inspector General for Tax Administration (TIGTA) noted in a new report released on January 28 of this year that the IRS is now shifting its strategy from relying on SOP guidance to using a new "Implementation Roadmap."[11]

This Implementation Roadmap must be available to the public and in the hands of Congress, if it is not already available to lawmakers. In lieu of direct access to the new roadmap, NTU has analyzed TIGTA's new report assessing the modernization plans currently in place. The report reveals a troubling pattern of poor prioritization by the Service. We are highly disappointed to find that there is "no project planned at this time" to remedy some of the Service's longest standing modernization challenges. Is this because the Service anticipates near-term completion of initiatives that will fulfill these

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[6] Internal Revenue Service, " Internal Revenue Service Inflation Reduction Act Strategic Operating Plan," May 2023, https://www.irs.gov/pub/irs-pdf/p3744.pdf.

[7] Internal Revenue Service, "Inflation Reduction Act 2-year report card," August 23, 2024, https://www.irs.gov/newsroom/inflation-reduction-act-2-year-report-card-irs-continues-to-improve-service-modernize-online-tools-pursue-complex-taxpayer-arrangements-used-to-evade-taxes.

[8] Jennings, Debbie, "Grading the IRS Part 3," National Taxpayers Union Foundation, November 6, 2024, https://www.ntu.org/foundation/detail/grading-the-irs-part-3-modernization.

[9] Internal Revenue Service, "IRA Strategic Operating Plan Annual Update Supplemental," May 2024, https://www.irs.gov/pub/irs-pdf/p3744a.pdf.

[10] Government Accountability Office, "IRS Needs to Complete Planning and Improve Reporting for Its Modernization Programs," March 2024, https://www.gao.gov/assets/870/867176.pdf.

[11] Treasury Inspector General for Tax Administration, "Inflation Reduction Act: Assessment of the IRS's 2024 Annual Update to Its Strategic Operating Plan," January 28, 2025. https://www.tigta.gov/sites/default/files/reports/2025-02/2025ier011fr.pdf.

challenges? Or will there be a follow-on announcement of some new IT endeavor? Given the checkered modernization history mentioned earlier, taxpayers have reason to be skeptical. In any case, among those modernization priorities that apparently have no project planned are:

- Modernizing individual core tax processing to simplify and replace legacy Individual Master File (IMF) processes;
- Modernizing business taxpayer account information and recommissioning legacy systems to support eventual retirement of the Business Master File; and
- Developing additional data-driven methods developed for enterprise-wide optimization of resource allocation for enforcement.

Replacing IMF, the system which houses all individual tax data and that is built on an assembly language program dating back to the 1960s, is vital. Yet as of the time the TIGTA report was published, there was no project planned to modernize IMF. The lack of progress is a glaring shortcoming that leaves taxpayers skeptical over future progress.

The IMF is one of the oldest systems still in use by the federal government. Work to replace the IMF began decades ago, with GAO reporting in 2009 that the Customer Account Data Engine (CADE) was scheduled to entirely replace the IMF in 2018, or potentially as late as 2028.[12] The SOP set a goal of retiring the IMF by FY 2028, the same deadline set in 2009 decades before the influx of funding from the IRA. Unfortunately, TIGTA confirms that the IRS still is not on track to complete this, as there is no plan to complete the FY 2025 milestone of modernizing individual core tax processing to make way for IMF replacement. Despite the IRA funding and decades of work towards replacing this legacy system, the IRS now does not appear to have any project planned for IMF retirement and replacement. In sum, the IRS's most important modernization effort has come to a standstill.

NTU is also concerned about the lack of progress on data-driven modernization goals, which should be the underpinning of system-wide transformation efforts. In fact, alongside a bipartisan group of experts that National Taxpayers Union Foundation convened to form Taxpayers FIRST, NTUF has recommended dramatic changes to IRS data collection, processing, and transparency.[13] This modernization would benefit efforts ranging from improved taxpayer service to closing the tax gap.[14] Information technology relies on data, and with no projects yet planned to implement crucial changes to data management, it is unclear how the Service will be able to identify gaps and ensure that the most urgent modernization needs are met.

II. Misguided Priorities and Missed Opportunities

With its emphasis on enforcement over modernization and taxpayer services, the IRA was a missed opportunity for taxpayers. The push for the IRS funding boost originated in a 2021 Treasury Department report titled "The American Families Plan Tax Compliance Agenda."[15] The goal was to increase tax compliance and shrink the tax gap—the IRS's estimate of the difference between taxes owed and taxes collected. The plan projected significant revenue gains through expanded enforcement efforts, including more audits and a larger IRS workforce.

However, even before Congress began scaling back some of the enforcement funding provided in the IRA, the initial revenue projections proved overly optimistic, requiring downward revisions. Treasury initially estimated that its compliance agenda would generate $316 billion in additional tax revenue over a decade. This projection included revenue from a controversial proposal to require mandatory reporting for financial accounts with at least $600 in annual activity—a provision that was ultimately withdrawn.

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12 See: https://www.gao.gov/assets/gao-10-225.pdf.

13 Brady, Demian, "Minding the Gap: Recommendations for Assessing, Addressing, and Ameliorating the Tax Gap," National Taxpayers Union Foundation, May 17, 2024, https://www.ntu.org/foundation/detail/minding-the-gap-recommendations-for-assessing-addressing-and-ameliorating-the-tax-gap.

14 Bishop-Henchman, Joe, "Call to Action: Crafting a New Taxpayer Service Experience," National Taxpayers Union Foundation, May 22, 2024, https://www.ntu.org/foundation/detail/call-to-action-crafting-a-new-taxpayer-service-experience.

15 See the Treasury Department report at: https://home.treasury.gov/system/files/136/The-American-Families-Plan-Tax-Compliance-Agenda.pdf.

Estimates from the executive branch about their own proposals often skew overly optimistic, which is one reason Congress created its own independent scorekeeping agency, the Congressional Budget Office (CBO). In November 2021, CBO projected that the IRS funding increase would yield $207.2 billion in new revenue. As the Inflation Reduction Act (IRA) neared passage, this estimate was revised downward to $203.7 billion over the decade.

Just weeks after the IRA became law, the administration further reduced its enforcement revenue estimate by $23 billion, lowering the total projected return to $180.4 billion.

As NTU has stated in previous analyses and testimonies to Congress, this back-and-forth over revenue estimates is tantamount to debating the number of angels capable of dancing on the head of a pin. It is quite feasible, even probable, to expect net gains in collections from certain prudent investments in IRS capabilities. Expecting precision in such gains over a ten-year period, to the nearest hundred million dollars, in order to offset spending increases in other areas of government as the IRA envisioned, is folly. Just a few of the factors that should reduce any rational confidence level in collection revenue estimates are:

- Changes to the tax laws themselves that Congress initiates within and beyond the ten-year "scoring" window. Such changes will almost certainly occur this year, for example, as Congress debates how to extend and modify the 2017 Tax Cuts and Jobs Act.
- Court rulings affecting how the IRS may enforce the laws. Just a handful among dozens of potential issues before the courts is whether and how the IRS may invoke the Economic Substance Doctrine in partnership examinations, how small businesses may treat micro-captive insurance, and the seemingly perennial controversies surrounding 170(h) deductions.[16]
- Economic developments that are yet to be known. Ten years ago, cryptocurrency trading was still in its infancy, yet the IRS has only recently attempted to create rules surrounding reporting of these transactions (which were roundly criticized as unworkable).[17] Some future economic trend of similar magnitude could increase or decrease tax administration and compliance challenges, requiring major shifts in how IRS budget resources are deployed.

We provide these illustrations not to dismiss the necessity of attempting to calculate the return on investment from various compliance initiatives. Indeed, we believe that the IRS should engage in more such research, especially the return on investment from modernization and customer service. Rather, we offer them to caution against relying on a particular revenue outcome for unrelated purposes, as the IRA did. By focusing on IRS transformation for the benefit of taxpayers and the administrability of the tax system first, collections will likely improve on their own.

Beyond compliance shortfalls, the IRS's use of its IRA funding has raised serious concerns about misplaced priorities and lack of transparency. For example, rather than emphasizing long-overdue modernization needs, the agency focused on Direct File, a costly, duplicative program that threatens the private sector's role in tax preparation.

The IRA allocated $15 million for the IRS to study the feasibility and costs of a Direct File system. In May 2023, the agency released a report estimating annual costs between $64 million and $249 million, depending on the program's scope. However, it was later revealed that the IRS had already begun secretly developing Direct File before the study was completed. Americans for Tax Reform's John Kartch has documented a timeline of IRS Commissioner Daniel Werfel's statements showing a lack of full transparency about the agency's plans.[18]

Direct File is redundant, duplicating the IRS's public-private partnership Free File program—a cost-effective option that reduces administrative overhead. Its development also represents a significant opportunity cost. The IRS budgeted $114 million for Direct File in 2024, but it remains unclear how many personnel worked on programming and administration or how many hours were spent on the project.

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[16] See, for example, NTUF's commentary here: https://www.ntu.org/foundation/detail/ntuf-urges-tax-court-to-limit-economic-substance-doctrine-on-captive-insurance-companies.

[17] See, for example, NTUF's commentary here: https://www.ntu.org/foundation/detail/irs-proposed-crypto-regulations-are-unworkable.

[18] Kartch, John, "Timeline of IRS Dishonesty," Americans for Tax Reform, May 30, 2024, https://www.atr.org/timeline-of-irs-dishonesty-about-direct-file/.

What is known is that the IRS trained 400 customer service agents for Direct File, and the Government Accountability Office (GAO) has recommended that the agency fully account for those training costs. The IRS also relied on the General Services Administration's Office of 18F, and 29 employees from the U.S. Digital Service (now known as DOGE) contributed to the system's development. While scarce taxpayer dollars and countless staff hours were spent on the unauthorized Direct File program, the IRS neglected core priorities, including:

- Modernizing Outdated Systems – As stated above, the IRS has yet to upgrade the Individual Master File and Business Master File, decades-old systems critical to tax administration.
- Reducing Improper Payments – Billions in tax credits continue to be issued improperly, far exceeding the 10% threshold set by the Payment Integrity Act. Just last week, the Treasury Inspector General for Tax Administration reported that had the IRS made a timely computer programming change, " the IRS could have potentially protected approximately $22.4 million in erroneous refunds" caused by a timing issue of notification of dishonored checks.[19]
- Expanding Taxpayer Assistance – The IRS designates 130 areas of the tax code as "out of scope" for telephone assistance, preventing agents from answering even basic taxpayer questions. Better training and service would improve compliance.
- Enhancing Data Security – The GAO has warned since 2019 that the IRS lacks a coordinated oversight structure to protect taxpayer data from cyber and internal threats. The agency must better track incidents and enforce compliance.

Beyond neglecting key priorities, the IRS has engaged in "last-minute" rulemakings and regulatory overreach, rushing significant tax policy changes without adequately incorporating stakeholder input.[20] By forcing through new regulations that sideline taxpayer protections, the agency has not done enough to build trust with taxpayers or demonstrate a responsible return on investment. If the IRS truly needed additional resources to modernize, then the substantial funding it received under the IRA should have resulted in clearer progress. Instead, the lack of measurable improvements suggests a need for greater oversight and accountability in how taxpayer dollars are spent.

III. The Importance of Investment

NTU has long supported strategic, accountable investments in IRS modernization, but the Inflation Reduction Act's $80 billion allocation lacked clear goals and accountability measures. Lawmakers should consider alternatives beyond enforcement to improve tax compliance, including modernizing the IRS's outdated Master File systems, upgrading case management systems, and expanding taxpayer education and services. These improvements would make it easier for taxpayers to understand and comply with tax laws, reducing the need for aggressive enforcement.

This view is shared by National Taxpayer Advocate Erin Collins, who in March 2023 urged Congress to reallocate IRA funds from enforcement to modernization and taxpayer services:

> For anyone following tax administration in recent years, it's a no-brainer that the areas that require improvement most urgently are taxpayer service and technology. And if the IRS would provide timely and clear guidance, more transparency, and more front-end services in a proactive manner, it could reduce back-end enforcement needs. Successful tax administration requires taxpayers to voluntarily file, self-assess, and pay the taxes due under our nation's tax laws. Successful tax administration also requires the IRS to provide congressionally authorized benefits and credits quickly and efficiently.[21]

Lawmakers need a full accounting from the IRS on the resources required to expedite completion of the IMF and other outdated systems. Additionally, the IRS must develop a long-term plan to address staffing challenges, including high attrition rates compared to other federal agencies and lengthy hiring, onboarding, and training processes that hinder

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[19] See the February 4 TIGTA report at: https://www.tigta.gov/reports/inspection-evaluation/computer-programming-change-needed-delay-erroneous-issuance-refunds.

[20] See, for example, an NTU-led coalition on this topic at: https://www.ntu.org/publications/detail/congress-should-urge-irs-to-avoid-last-minute-rulemaking.

[21] National Taxpayer Advocate, "National Taxpayer Advocate Urges Congress to Maintain IRS Appropriations But Re-Direct Some Funds Toward Taxpayer Service and Information Technology Modernization," March 16, 2023, https://www.taxpayeradvocate.irs.gov/news/nta-blog/nta-blog-nta-urges-congress-to-maintain-irs-appropriations-but-re-direct-some-funds-toward-taxpayer-service-and-it-modernization/2023/03/.

workforce stability. Indeed, a successful modernization effort could also allow the IRS to operate with a leaner workforce, alleviating many of these staffing challenges.

At the same time, Congress must establish clear priorities and concrete goals before allocating funding—a lesson underscored by the missteps of the IRA. Comparing and contrasting the IRA with RRA '98, as my testimony before the Senate Committee from 2023 noted, offers perspective:

> RRA '98, for example, was fundamentally shaped by the 18-member National Commission on Restructuring the IRS, appointed by Congress and the Executive Branch … [and producing a] nearly 200-page report. The resulting legislation based in part on this report also involved numerous hearings and markups by multiple Committees and Subcommittees, resulting in a 184-page final bill which, in turn, helped to guide innumerable revisions to strategic plans, Internal Revenue Bulletins, and Internal Revenue Manual procedures. By contrast, Title I, Part 3 of the Inflation Reduction Act contained all of nine paragraphs outlining $79.6 billion in tax administration-related funding. Just three of those nine paragraphs explain how $78.9 billion (99%) of the total should be spent.[22]

Finally, transparency about the results achieved and challenges faced through IRS modernization is critical to maintaining taxpayer confidence in our voluntary tax system. The IRS has been opaque about where its efforts actually stand, choosing only to publicize select wins and very rarely providing a look at the processes and costs associated with technological changes. This in turn has rightfully frustrated lawmakers and taxpayers, resulting in calls for reduction in funding or elimination of the IRS altogether. While the IRS is a necessary element of our federal government and a certain level of funding is necessary for it to achieve its goals, increased scrutiny of the return on taxpayer dollars is warranted.

IV. Steps to Move Forward

The path forward to reform tax administration will be made easier with bipartisan collaboration. History has shown that durable, effective IRS reforms—such as the IRS Restructuring and Reform Act of 1998—stem from consensus-driven efforts. The IRA's partisan approach to IRS funding demonstrates the risks of failing to build broad support: without bipartisan buy-in, reforms are more likely to be undone, defunded, or rendered ineffective over time. The 2025 Taxpayer Assistance and Service Act discussion draft, on the other hand, demonstrates the benefits of both staff- and Member-level cooperation on devising solutions to known, longstanding tax administration maladies. This draft is a testament to the fact that even though RRA '98 is a distant memory to most, it is possible for Congress to come together in today's highly volatile political environment to make transformative changes to the way the tax system functions. Future efforts to modernize the IRS, improve taxpayer services, and enhance compliance must be crafted with input from both parties to ensure lasting, meaningful change.

To ensure IRS modernization delivers tangible results, Congress must adopt reforms that prioritize transparency, efficiency, and accountability in how taxpayer dollars are spent. Informed by discussions from the Taxpayers FIRST Advisory Board, NTUF published *From Lag to Leap: A Roadmap for Successful IRS Modernization*, outlining key recommendations to transform the IRS into a 21st-century taxpayer service organization.[23]

Add a Strategic Accountability Entity to the IRS Structure and Consult More with Existing Entities

Congress cannot, on its own, effectively oversee the IRS's strategic plan without institutions that are dedicated to monitoring and making course corrections to the Service's strategies and tactics on a consistent basis. No other entity is better suited to this task than the IRS Oversight Board, whose creation NTU strongly supported when we served with the Restructuring Commission and later when Congress incorporated a version of the Oversight Board in the RRA '98. Its purpose was to bring in outside experts to oversee the "administration, management, conduct, direction, and supervision" of IRS operations. It was specifically tasked with reviewing and approving the annual and long-range strategic plans of the IRS, including its mission and objectives. The Oversight Board was one element of a tripartite system of accountability envisioned under the 1998 law, complementing the enhanced powers of the National Taxpayer Advocate (providing feedback on taxpayer experiences with the system) and the Treasury Inspector General for Tax Administration

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22 See the NTU testimony from May 2023 at: https://www.ntu.org/publications/detail/compliance-should-be-irs-goal-not-enforcement.

23 See the NTUF report at: https://www.ntu.org/foundation/detail/from-lag-to-leap-a-roadmap-for-successful-irs-modernization.

(investigating specific managerial deficiencies). In fact, during one meeting of the Taxpayers FIRST Advisory Board, those who had experience interacting with the Oversight Board remembered with admiration the quality of advice the Service received on IT from the Board's technically proficient "problem-solvers."

Unfortunately, the IRS Oversight Board has not operated for many years due to a breakdown in the nomination process that has led to a lack of a quorum. As a result, so many missed opportunities for input on best practices that have succeeded in the private sector and other agencies—from IT modernization to customer service innovations, from compliance measurement to crisis planning—have been lost to the IRS. Congress and the Executive Branch can and should work together to stand up the Oversight Board again. Doing so could have a near-immediate impact on the IRS's Strategic Operating Plan as well as the Implementation Roadmap.

As an alternative, Congress and the IRS would benefit from a new high-level panel of experts who provide ongoing, independent, non-adversarial guidance to the IRS and the Commissioner, particularly on medium- and long-term projects. The panel could be housed within the Joint Committee on Taxation (JCT), be a separate entity but whose appointments are not subject to Senate confirmation, or supplement existing Treasury and IRS advisory panels. If implemented properly, it could help minimize disruption and ensure modernization initiatives are not abandoned or rewritten with every change in leadership or new administration.

Another important and relatively straightforward way for Congress to obtain better inputs on modernization goals is to request access to frontline technical personnel at the IRS. Originally provided for in RRA '98, and subsequently highlighted by the National Taxpayer Advocate, this practice has nonetheless fallen into disuse, with Congress instead depending on indirect communication through the IRS legislative liaison. As National Taxpayers Union Foundation's Debbie Jennings put it, "Early direct access to technical staff at the IRS could have helped Congress avoid overly cumbersome changes in tax law, such as the recent reduction of the reporting threshold for 1099-K forms and the creation of the Corporate Alternative Minimum Tax (CAMT)."[24]

Furthermore, NTU recommends that the Oversight Subcommittee consult more frequently with three other advisory bodies to the IRS—the Electronic Tax Administration Advisory Committee (ETAAC), the IRS Advisory Council (IRSAC) and the Taxpayer Advocacy Panel (TAP). Although each entity functions differently and focuses on different points of the tax administration process, all could offer valuable insights to lawmakers. ETAAC's members, for example, have included state tax administrators who have overseen dramatic customer service improvements through technology, while IRSAC is a "brain trust" of practitioners and others who are able to concentrate on how the regulations behind tax statutes could be improved. The various TAP meetings often provide valuable public feedback on form design and filing that could likewise benefit from modernization of business systems. While these bodies generally communicate with the IRS and make their findings through public reports, there is no reason Congress could not interact with them directly on specific modernization matters.

Develop a Comprehensive, Properly "Costed" Modernization Plan

One advantage of multi-year funding, like that provided in the Inflation Reduction Act, is that it allows federal agencies to plan long-term budgets and resource needs. However, the IRS has fallen short of doing so effectively. Its current Strategic Operating Plan outlines broad objectives but lacks specific cost estimates, deadlines, and benchmarks that are available to the public for modernization projects .

A key priority must be setting a firm target date for completing the modernization of the Individual Master File—a critical upgrade that would improve efficiency across the entire agency. Simply replacing outdated technology with marginally newer systems is not enough; modernization must keep pace with advancements in the private sector and include scalable, updatable solutions that reduce long-term costs. Congress should require the IRS to release detailed, itemized spending plans that account for expected costs, timelines, and projected benefits. This will ensure transparency in how taxpayer dollars are spent and provide accountability for achieving these much-needed modernization goals. As noted throughout this testimony, NTU is not averse to additional funding for IRS modernization, beyond its projected appropriations

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[24] See the NTUF analysis at: https://www.ntu.org/foundation/detail/ten-crucial-reforms-the-next-administration-should-demand-of-the-irs-commissioner.

baseline. However, without a clearly established plan for investment, backed by accountability and oversight, this IRS modernization effort will meet the same undistinguished fate of its predecessors.

Establish Clear Metrics

The IRS must also improve transparency in how it reports performance metrics. Over the past year, the agency has touted service improvements, but some of the data is selective and misleading. The National Taxpayer Advocate has raised concerns about the IRS's misrepresentation of service levels, particularly its claim of an 88% Level of Service (LOS) on phone calls in the 2024 tax season.[25] The Advocate's analysis of the incoming phone calls found that only 32% of calls were answered by a live assistor. The rest of the calls were transferred to automated assistance or reflect taxpayers who hung up before they could obtain service.

The Taxpayer Advocate's review also pointed out that the IRS achieved its reported LOS rate by reassigning workers from other phone lines and other crucial functions, such as workers previously detailed to reducing its inventory of amended returns, or to helping victims of identity theft. It currently takes the IRS an average of 675 days to resolve identity theft cases—over five times higher than its goal of resolving these in 120 days.

To restore trust and ensure accountability, the IRS must report accurate and meaningful service metrics, including whether taxpayers actually received the assistance they needed—a standard widely used in private-sector customer service operations. While the IRS has made strides in reducing backlogs and expanding digital filing and correspondence options, these improvements are overshadowed by persistent inefficiencies. By prioritizing modernization and adopting more accurate service metrics, the IRS can enhance its responsiveness and accountability, ensuring that taxpayers receive the assistance and respect they deserve. Congress should require the IRS to release detailed, real-time data on service levels, allowing policymakers and stakeholders to track improvements and ensure IRS modernization efforts are delivering tangible results.

Furthermore, we believe the Service should make greater efforts at measuring the fiscal benefits of modernization in closing the so-called "tax gap." Several iterations of the annual International Conference on Taxpayer Rights, organized by former National Taxpayer Advocate Nina Olson, have explored and presented research from tax administrators around the world that has identified the return on investment that state-of-the art customer service and other IT-driven solutions can have on tax administration.[26] This research can and should be applied more thoughtfully toward increasing voluntary tax compliance in the United States. Ms. Olson is appearing as a witness at today's hearing.

Provide the IRS Flexibility to Repurpose Some Enforcement Funds for Modernization Efforts

The Commissioner should have flexibility in using IRS funding, as many modernization initiatives support enforcement efforts. Policymakers across the spectrum have urged shifting a portion of enforcement funds toward technology and modernization to improve efficiency. If necessary, the IRS should work with Congress to amend IRA funding restrictions that limit this shift. While enforcement of the tax laws is a key component of the IRS's functions, it should not, in itself, be *a goal* of the IRS's mission. The actual objective should be to improve compliance with the tax laws. Prioritizing system upgrades now will strengthen the agency's ability to fulfill all its mandates, including compliance, in the long run.

One promising element of IRS modernization that bears mentioning here is the rise of Artificial Intelligence (AI). There are many benefits to incorporating AI into customer service, data management, infrastructure upgrades, compliance initiatives, and research, all of which offer the promise of maximizing the value of any IRS budgetary resources.

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[25] National Taxpayer Advocate, "National Taxpayer Advocate Urges Congress to Maintain IRS Appropriations But Re-Direct Some Funds Toward Taxpayer Service and Information Technology Modernization," March 16, 2023, https://www.taxpayeradvocate.irs.gov/news/tax-news/national-taxpayer-advocate-issues-mid-year-report-to-congress-highlights-filing-season-challenges-and-focuses-on-strategic-priorities/2023/06/.

[26] In a "Tax Chat!" sponsored by Nina Olson's organization, Erich Kirchler, a psychologist from the University of Vienna, Austria, noted that using a well-developed definition, each 1% increase in public trust of a tax authority led to more than double that percentage in compliance. Furthermore, the panelists discussed how "nudges," such as asking for additional information on a tax return can help to resolve compliance issues before rather than after filing. Notably, all agreed that the IRA's funding ratio of "enforcement" to "taxpayer services" was far too lopsided. See the full "Tax Chat!" to which this paragraph refers at: https://www.youtube.com/watch?v=DR01e0vWRmY. See also Olson's remarks at the 2023 Donald C. Lubick Symposium at https://www.taxpolicycenter.org/event/how-does-irs-intend-invest-80-billion-over-next-decade.

Nonetheless, given the IRS's historic struggles with implementing revolutionary new technologies, we must offer some caution over how AI could work to the detriment of taxpayers. To give one example, on June 1, 2023, the Center for Taxpayer Rights held another of its "Tax Chat!" series featuring experts on tax administration.[27] The topic was "Artificial Intelligence, Taxpayer and Privacy Rights Protections; Data Ethics; Protecting against Bias; and the Use of Automated Guidance." During that session, Josh Blank of the School of Law at University of California, Irvine, perceptively discussed what he calls "symplexity," or the use of "plain language to explain complex law" that can sometimes misconstrue the actual law. He noted that the IRS provides some automated legal guidance via an interactive tax assistant, which has proven competent at answering basic questions, but has fallen short with certain responses. The automated assistant provides very concise replies but often with little explanation. Blank mentioned one instance whereby a taxpayer asks whether hiring a home health aide is deductible as a health expense. The automated assistant answers that it is not a deductible expense, even though there are laws that provide for deductibility in some cases, e.g., a chronically ill taxpayer.

This potential for inaccurate advice, which could exist in numerous complex tax situations (e.g., Earned Income Credit eligibility, or deductibility of "Miscellaneous" items in Publication 529), raises an important equity question. The original Taxpayer Bill of Rights enacted in 1988 (Subtitle J, PL 100-647) required the "abatement of penalty or additional tax attributable to erroneous written advice of IRS if the advice was requested in writing, was relied upon by the taxpayer, and the taxpayer provided adequate information." How would an AI-based "assistant," providing electronically "written" advice as a representative of the IRS, be held accountable in a situation such as the one described in the "Tax Chat!" above? The Service needs to develop, in consultation with the National Taxpayer Advocate and if necessary, Congress, a "hold harmless" standard for taxpayers receiving erroneous government advice from AI that comports with Subtitle J of PL 100-647.[28]

Finally, no NTU testimony on tax administration can be complete without a familiar refrain: the need to simplify tax laws. We have made numerous suggestions, ranging from strengthening legislative Tax Complexity Analyses to providing for a volunteer-based quadrennial tax simplification commission to normalize the process of examining the Tax Code for technical efficiencies. Such a process would yield many dividends, including making the task of building modern administrative systems less arduous.

V. At Your Service

NTU and NTU Foundation stand ready to assist lawmakers and the incoming IRS Commissioner with the crucial goal of improving the IRS. In fact, this was the impetus for NTUF's Taxpayers FIRST initiative, convening an expert group of non-governmental stakeholders with a diverse set of backgrounds and perspectives to offer guidance to the IRS as it plans to spend the most significant infusion of funding it has ever received. In addition to the paper noted above with recommendations for boosting the IRS's modernization, Taxpayers FIRST has helped inform publications with recommendations for the tax gap[29], taxpayer services[30], and taxpayer rights[31]—all of which can be impacted by modernization.

Conclusion

"A Vision for a New IRS," a nearly 200-page report from 1997 summarizing the findings of the Restructuring Commission, had the following observation on IRS modernization efforts:

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27 NTU strongly encourages review of the entire "Tax Chat!"; many video recordings of the sessions may be accessed online via https://taxpayer-rights.org/transforming-tax-admin/.

28 For background, see: https://www.finance.senate.gov/download/1988/03/29/taxpayer-rights-and-excise-tax collection-procedures-report-100-309 and https://www.gao.gov/assets/ggd-92-23.pdf.

29 Brady, Demian, "Minding the Gap: Recommendations for Assessing, Addressing, and Ameliorating the Tax Gap," National Taxpayers Union Foundation, May 17, 2024, https://www.ntu.org/foundation/detail/minding-the-gap-recommendations-for-assessing-addressing-and-ameliorating-the-tax-gap.

30 Bishop-Henchman, Joe, "Call to Action: Crafting a New Taxpayer Service Experience," National Taxpayers Union Foundation, May 22, 2024, https://www.ntu.org/foundation/detail/call-to-action-crafting-a-new-taxpayer-service-experience.

31 Sepp, Pete, "Shaping a Future of Fairness: Proposals to Safeguard and Strengthen Taxpayer Rights," National Taxpayers Union Foundation, June 18, 2024, https://www.ntu.org/foundation/detail/shaping-a-future-of-fairness-proposals-to-safeguard-and-strengthen-taxpayer-rights.

> To be successful in developing and managing technology, a true three-way partnership must be achieved among congressional sponsors, IRS chief officers, and technology developers. Each partner organization should be accountable and responsible within its domain of expertise; congressional sponsors must provide strategic oversight, IRS chief officers must identify 34 strategic plans and operate the business in accordance with those plans, and technology developers must establish national standards for technology and manage systems development in accordance with business requirements. Resources to accomplish each task must be available to the performing organization.[32]

No better advice has since been written about how the Service should approach technological transformation. It begins with identifying challenges and opportunities, patiently developing realistic, flexible solutions that meet those challenges and opportunities, and then—only then—providing limited, carefully overseen resources backed by clear benchmarks. History proves that lasting change at the IRS must be initiated in a bipartisan, transparent, and results-driven manner. In absence of these elements, reform efforts such as the IRA can easily lead to mis-prioritization and spending inefficiencies.

Despite these issues that undermine the confidence in the IRS and its modernization efforts, there is much for which to be hopeful. Targeted reforms—like those in the Senate Finance Committee draft—can help restore accountability and improve taxpayer service.

I appreciate this Subcommittee's attention to this matter and offer our commitment to follow up on any items you raise in this hearing or in the future.

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[32] See "A Vision for a New IRS" at: https://www.govinfo.gov/content/pkg/GOVPUB-Y3-PURL-LPS69710/pdf/GOVPUB-Y3-PURL-LPS69710.pdf.