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In this article, the authors offer strategies for deploying the recently bestowed $80 billion in long-term IRS funding, and they discuss how properly implementing five existing technology-driven IRS initiatives will improve both taxpayer service and compliance.

Background

Reflecting what's at stake, the new IRS Commissioner Daniel Werfel's recent confirmation hearing was constructive and bipartisan. Unsurprisingly, there was considerable focus on three matters: timing of when plans to deploy the IRS's $80 billion long-term funding will be completed and available for review, the pressing need to improve taxpayer service, and the importance of ensuring compliance by big business as well as high-income and high-net-worth individuals.

More striking was the bipartisan clarity on holding the IRS accountable for three commitments: on the service front, increasing phone coverage to 75 percent and eliminating the paper backlog; and on the enforcement front, not increasing audit coverage of taxpayers making less than $400,000. What these activities have in common is that what's expected can be measured, specific goals have been established (although the audit coverage standard is somewhat opaque), and the IRS will be required to report on how it's doing. Our experience suggests that the IRS will meet those commitments.

Still to be determined is how the IRS and Treasury plan to deploy the $80 billion of long-term funding and whether they will deliver the improved service and compliance the administration has promised.

While the high-end compliance piece will be quite challenging, the IRS has five *specific, concrete, and doable* projects underway that will transform how the vast majority of Americans — low- and middle-income families, working folks, and small business owners — interact with the IRS:

1. *Installment payment agreements*: Empower taxpayers with agreed upon tax liabilities to get through to the IRS on a first call and, during that call, those taxpayers can set

their terms of an installment payment agreement with no need to negotiate and no need to produce documents. Taxpayers can also later adjust those terms through the same process, subject only to appropriate guardrails. To its credit, the IRS is already exploring ways to use the underlying technology in other core functions.

2. *Electronic posting of documents*: Allow taxpayers and their representatives to safely and securely share documents online with the IRS in lieu of requiring transmissions by mail or a delivery service.
3. *Correspondence audits*: Provide millions of low- and middle-income taxpayers, small businesses that report Schedule C income, and their representatives with the opportunity to try to resolve their correspondence audits safely and securely over the phone and by email, dealing with a single IRS representative with access to all of the taxpayer's information. While this initiative is underway and can be partly deployed quickly, it will be even more beneficial to taxpayers when the IRS representative can make use of the agency's enterprise case management system that is under development.
4. *Online access to taxpayer files*: Create the ability for millions of taxpayers and their representatives to safely and securely access their files online.
5. *Converting paper to digital*: Technology that safely and securely converts paper filings to digital records has been around for some time, and the IRS is already considering options for its use. This is a critical transition step because the foregoing initiatives will not happen overnight, and those taxpayers and practitioners who continue to use paper to communicate with the IRS must receive service comparable with those working online.

There is no way to overstate the real-world impact of these five technology-driven innovations. Implemented properly, by mid-2024, the IRS can and will deliver demonstrable progress that will transform for the better how low- and middle-income families, working folks, and small businesses interact with the IRS.

What's especially encouraging is that the IRS is making demonstrable progress on all the above initiatives. Implementing these key initiatives cannot and does not have to wait until the IRS replaces its legacy tax processing systems, such as the Individual Master File. As the Government Accountability Office has noted, those old systems must be upgraded because they create risks and increase costs. But under the best of circumstances, their replacement will take many years because they must be carefully and incrementally replaced while they are used to support each filing season.

Many private companies have legacy systems that need to be replaced over time, but that does not stop progress. The IRS has already successfully implemented technology-driven improvement programs including electronic filing, a website that supports hundreds of millions of inquiries, and some partial implementation of the projects noted above while coexisting with legacy systems. With careful management, it is perfectly possible, and indeed essential, to proceed with a limited number of priority projects, such as those described in this article, even while long-term work proceeds on modernizing legacy systems.

Setting Priorities

Two service priorities — adequate phone coverage and the paper backlog — have already been established. While they are urgent and necessary, they are backward-looking in the sense that they focus on a system in which paper processing and multiple and often inconclusive phone calls between IRS employees and taxpayers and their representatives have been the norm.

What's different about the five service initiatives summarized earlier is that — if done properly — they will over time transform how the IRS interacts with millions of taxpayers. This does not mean abandoning other important efforts, but as demonstrated day in and day out by successful private sector ventures, it's not about doing bits and pieces of everything — it's about setting and delivering on a few priorities. On both the service and compliance fronts, when it comes to the vast majority of taxpayers and their representatives, the five initiatives mentioned should be given highest priority:

1. First and foremost, these are what most taxpayers and their advisers care most about when it comes to dealing with the IRS. Over time, the five initiatives, if implemented properly, will enable tens of millions of everyday Americans and the IRS to interact in ways that every taxpayer has the right to expect and what the amazing IRS workforce aspires to deliver.
2. These projects are doable in the near term. With proper focus, investment, and implementation, each of them can be implemented, refined, and moving to scale during the 2023-2024 window and then improved year after year. That is the method all successful organizations use to deploy technology improvements — implement useful steps and then improve over time.
3. Improving tax compliance by large flow-through entities and high-income and high-net-worth individuals is far more difficult to accomplish. It will require very different strategies and may take several years to begin showing results.
4. Implemented properly, those five initiatives will deliver bipartisan priorities that are a recurring media focus.

Moving Forward

When it comes to delivering on priorities, there are any number of givens that cut across all endeavors. To name a few: effective and aligned leadership; a capable workforce; suitable metrics, reasonable goals, and accountability; transparency; flexibility; and using systems development methods to deliver value faster and incrementally without compromising privacy and security.

Below are several strategies common in successful private sector businesses. They can play a critical role in the timely and successful implementation of the foregoing initiatives. The benefits of these approaches far outweigh the challenges and risks that always accompany these types of efforts and need to be established at the outset of this work:

1. The IRS needs to partner with stakeholders in the design and implementation of these initiatives. This includes practitioner organizations like the American Institute of CPAs and the National Association of Enrolled Agents, which represent a substantial number of low- and middle-income families, working folks, and small businesses and already actively engage with the IRS. Because the initiatives may have significant implications and potential benefits for state and local tax administrators, opportunities to work with them should also be explored.
2. The IRS should contract for the independent, ongoing assessment of each initiative from the following perspectives: user assessment, data security, and impact.
3. The agency should also develop the appropriate communication strategy that, among other features:
   - includes credible and knowledgeable third-party spokespeople who support and respect the IRS;
   - doesn't overpromise when it comes to benefits and timing;
   - welcomes constructive feedback; and
   - is transparent both when it comes to challenges and when things go wrong.
4. The IRS needs to develop candid and open lines of communication with key government stakeholders, including Congress, the GAO, and the Congressional Budget Office. ■