IRS

FISCAL YEAR 2022

AGENCY FINANCIAL REPORT

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ABOUT THIS REPORT

This Agency Financial Report (AFR) presents the Internal Revenue Service's (IRS) financial information in relation to its mission and resources entrusted to it for the Fiscal Year (FY) 2022 (October 1, 2021, to September 30, 2022) reporting period. It also highlights select accomplishments and challenges in implementing programs that promote the IRS's mission. Although the IRS is a bureau within the United States (U.S.) Department of the Treasury (Treasury), this report is titled AFR to be consistent with similar reports in the federal government.

The IRS presents this report in accordance with Office of Management and Budget's (OMB) Circular A-136, Financial Reporting Requirements, as a component of Treasury. This report includes Circular A-136 core principles and requirements applicable to a component entity. This financial report is available on www.irs.gov/about-irs/budget-documents-and-other-resources.

HOW THIS REPORT IS ORGANIZED

The AFR consists of the following sections:

Section 1: Management's Discussion and Analysis

Supplies a high-level overview of the IRS's history, mission and organizational structure, strategic framework, programmatic performance, enterprise risks, forward-looking information, systems, controls and legal compliance, management assurances related to the IRS's internal controls and an overview of the IRS financial statements. More information about the IRS's FY 2022 programs and performance will be available in the Internal Revenue Service Progress Update for FY 2022 in January 2023 (The current version is available on www.irs.gov/pub/irs-pdf/p5382.pdf).

Section 2: Financial Information

Includes a message from the Chief Financial Officer (CFO), audited financial statements, accompanying notes, required supplementary information and the Independent Auditor's Report.

Section 3: Other Information (Unaudited)

Contains a summary of the financial statement audit and management assurances, management and performance challenges named by the Treasury Inspector General for Tax Administration (TIGTA) and the IRS management's response thereto, Refundable Tax Credits and other tax outlays, Grant Programs and an acronym list. Treasury reports on Payment Integrity and Climate–Related Financial Risk in its AFR (home.treasury.gov/about/budget-financial-reporting-planning-and-performance/agency-financial-report). For Payment Integrity, also see www.paymentaccuracy.gov.

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MESSAGE FROM THE COMMISSIONER

I am pleased to present the Internal Revenue Service Agency Financial Report for FY 2022. This report provides an assessment of the IRS's financial status and demonstrates how the IRS used entrusted resources in support of its mission to provide America's taxpayers top-quality service by helping them understand and meet their tax responsibilities and enforce the law with integrity and fairness to all.

The IRS Strategic Plan FY 2022–2026, comprising four goals (Service, Enforcement, People and Transformation), enables us to meet the changing needs and expectations of the nation's taxpayers and tax professionals. These goals reflect a long-standing principle of putting the interests of our taxpayers first in everything we do, and it is what drives us in our mission to provide high-quality services and fairly and impartially enforce the law. Our goals and objectives also support Treasury's Strategic Plan and governmentwide priorities.

In FY 2022, we carried out our tax administration work while also continuing to implement tax changes enacted by Congress. The hard work of our dedicated employees made it possible for the IRS to collect over $4.9 trillion in gross revenues, which is nearly all of the funding that supports the federal government's operations from the roads we drive on, national parks, space exploration, air traffic controls, support for our military and so much more.

IRS employees have always gone above and beyond to sustain our operations during challenging times and the pandemic was no exception. Despite our best efforts, pandemic-related issues caused record levels of activity that continue to affect our operations. We experienced unprecedented amounts of paper returns and correspondence that contributed to an extraordinary higher level of call volumes and related taxpayer inquiries. However, taxpayer service remains the most significant IRS priority, and we have implemented many new strategies in an effort to improve our overall level of service and processing of returns. To address the inventory, we have taken actions that include implementing surge teams, mandatory overtime, giving taxpayers increased access to online self-service tools, innovating to expedite case closures and suspending various notices.

A key focus of our work in FY 2022 and one of my priorities as Commissioner has been enhancing the taxpayer experience for all taxpayers including people in diverse and underserved communities. Building upon our efforts last year, we further improved the assistance provided to taxpayers in multiple languages, such as releasing Form 1040 in Spanish for the first time and giving taxpayers the opportunity to use a new Schedule LEP (Limited English Proficiency) to indicate their preferred contact language instead of English. We completed the conversion of 34 Spanish notice inserts to Braille, text, audio and large print, and also converted Form 1040 and its main schedules into Spanish Braille, text and large print. We have done the same for Forms 1040 NR, 1040 SR, W-4 and six IRS publications. We are committed to finding new ways to serve taxpayers and improve the tax system. It is critically important that everyone who interacts with us have a positive, supportive and seamless experience.

MESSAGE FROM THE COMMISSIONER

During FY 2022, the IRS continued to develop and utilize innovative approaches to understand, detect and resolve potential noncompliance to maintain taxpayer confidence in the tax system. The comprehensive, coordinated enforcement strategy we have been developing to address abusive syndicated conservation easement transactions* has shown success, and we have worked closely with the U.S. Department of Justice to shut down the promotion of them. Another great example involves our aggressive challenges of micro-captive transactions* in court. We have also seen success in our investigations of criminal activity related to COVID relief efforts, including fraudulently obtained loans, credits and payments meant for American workers, families and small businesses.

In addition to these successes in FY 2022, I am pleased to report that the IRS maintained an unmodified (clean) financial statement audit opinion for the 23rd consecutive year. Based upon the results of our internal control evaluations, I can provide reasonable assurance that the performance and financial information in this report is complete and accurate. We continue to strengthen management controls and make progress toward remediating the significant deficiencies in internal control over financial reporting in meeting all U.S. financial systems compliance and conformance objectives as outlined in the Management's Discussion and Analysis – Analysis of Systems, Control and Legal Compliance.

The truly transformational investment in the recently passed Inflation Reduction Act of 2022 (IRA) provides nearly $80 billion to the IRS through FY 2031 for increased enforcement, investments in information technology modernization and improvements to taxpayer services.

Our Taxpayer Experience Office, established last year, is setting the strategic direction for improving the taxpayer experience and identifying opportunities to make continuous improvements in real time for taxpayers and tax professionals. The improvements we have already made and will continue to make over the next few years will produce abundant benefits for our agency, taxpayers and the tax system well into the future.

All of these efforts will strengthen our agency and lead to an IRS that is in a better position to help taxpayers and serve the needs of our great nation. The IRS's dedicated workforce will continue striving to make a positive difference for taxpayers by enhancing the taxpayer experience and ensuring fair enforcement of the tax laws.

Sincerely,

Charles P. Rettig
Commissioner of Internal Revenue
November 7, 2022

*https://www.irs.gov/newsroom/irs-wraps-up-2022-dirty-dozen-scams-list-agency-urges-taxpayers-to-watch-out-for-tax-avoidance-strategies

“THE IRS IS MORE THAN A TAX ADMINISTRATION AGENCY THE SUCCESS OF OUR NATION IS CLOSELY TIED TO THE SUCCESS OF THE IRS "

– Chuck Rettig, IRS Commissioner

MANAGEMENT'S **DISCUSSION** AND **ANALYSIS**

ABOUT THE IRS

The IRS is a bureau of the Treasury. The IRS carries out the responsibilities of the Secretary of the Treasury under Internal Revenue Code (IRC) Section 7801. The Secretary has full authority to administer and enforce the internal revenue laws and has the power to create an agency to enforce these laws.

IRC Section 7803 provides for the appointment of a Commissioner of Internal Revenue to administer and supervise the execution and application of the internal revenue laws.

The IRS is one of the world's largest tax administrators. In FY 2022, the IRS collected more than $4.9 trillion in taxes, which represents nearly all the revenue that supports the federal government's operations.

260M	$4.9T	$1,838	$72.4B
Federal Tax Returns and Forms Processed	Collected in Gross Taxes	Average Individual Refund	Enforcement Revenue Collected

HISTORY

The IRS is one of the oldest bureaus in the U.S. Government. Article 1, Section 8 of the Constitution gave the federal government the "Power To lay and collect Taxes, Duties, Imposts and Excises, to pay the Debts and provide for the common Defence and general Welfare of the United States…" In 1862, President Lincoln and the Congress established the Bureau of Internal Revenue and the nation's first income tax. In 1953, the Bureau of Internal Revenue's name changed to the Internal Revenue Service. Visit the IRS History Timeline at www.irs.gov/irs-history-timeline.

Internal Revenue Service Building, 1111 Constitution Ave. N.W., Washington D. C.

MISSION AND ORGANIZATION

The IRS's mission is to provide America's taxpayers top-quality service by helping them understand and meet their tax responsibilities and enforce the law with integrity and fairness to all.

- This mission statement describes the IRS's role and the public's expectation about how the IRS should perform that role.
- In the U.S., the Congress passes tax laws and requires taxpayers to comply.
- The taxpayer's role is to understand and meet their tax obligations.
- The IRS's role is to help willing taxpayers with the tax law, while ensuring that the minority who are unwilling to comply pay their fair share.

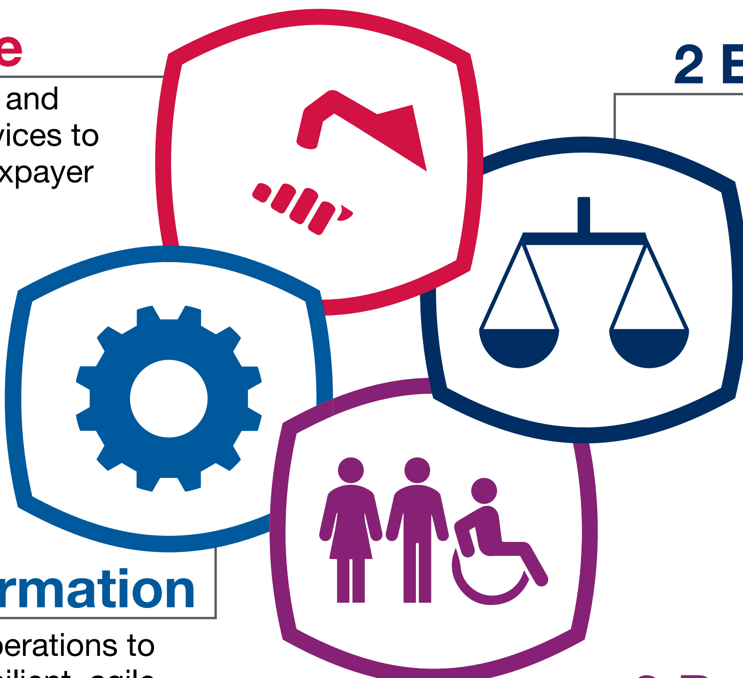
The IRS's core operations include collecting taxes, processing tax returns, assisting taxpayers, enforcing tax laws and investigating tax crimes. The extensive IRS portfolio also includes tax-exempt organizations, tax-exempt bonds, multiple refundable tax credits and other specialized programs.

The IRS's organizational structure closely resembles the private sector model of organizing around customers with similar needs. Four business units focus on unique groups of taxpayers: Wage and Investment (W&I), Small Business/Self-Employed (SB/SE), Large Business and International (LB&I) and Tax Exempt and Government Entities (TE/GE). Additionally, the IRS has other functional organizations that have direct interaction with taxpayers and tax preparers, as well as an operations support structure that supplies direction and guidance to the IRS's administrative functions. The current IRS organization chart is available at: Today's IRS Organization | Internal Revenue Service (www.irs.gov/pub/newsroom/marketing/internet/irs-organization-chart.pdf).

FY 2022–2026 STRATEGIC FRAMEWORK

The IRS Strategic Plan FY 2022–2026 (www.irs.gov/about-irs/irs-strategic-plan) comprises four goals which align to specific objectives that serve as a roadmap to guide IRS operations and to meet the changing needs and expectations of the nation's taxpayers and tax professionals. Each IRS organization aligns its programs and performance within this framework. It supports key governmentwide strategic priorities from the President's Management Agenda including strengthening the federal workforce, delivering an excellent customer experience, enhancing clean energy efforts, increasing equity and supporting underserved communities.

As Treasury's largest bureau, the IRS plays a critical role in advancing Treasury's Strategic Plan 2022–2026 (home.treasury.gov/system/files/266/TreasuryStrategicPlan-FY2022-2026.pdf) by co-leading the "Tax Policy and Administration" strategic objective and supporting eight other objectives across all five Treasury goals. The IRS regularly reports on progress toward these shared priorities and contributes to several of the Cross-Agency Priority Goals and Treasury's two-year Agency Priority Goals.



1 Service

Provide quality and accessible services to enhance the taxpayer experience.

2 Enforcement

Enforce the tax law fairly and efficiently to increase voluntary compliance and narrow the tax gap.

3 People

Foster an inclusive, diverse and well-equipped workforce and strengthen relationships with our external partners.

4 Transformation

Transform IRS operations to become more resilient, agile and responsive to improve the taxpayer experience and narrow the tax gap.

PERFORMANCE OVERVIEW

Major Programs

The IRS demonstrates responsible stewardship over taxpayer dollars by aligning major programs and performance measures with budgetary resources as appropriated by Congress. The IRS Strategic Plan FY 2022–2026 consists of four strategic goals. Three of the goals are major programs: Service, Enforcement and Transformation, and align to the IRS Statement of Net Cost (SNC). The IRS distributes the costs associated with its Strategic Goal 3, People, across the three major programs that receive the benefits derived from the activities and accomplishments achieved by the People goal.

TABLE 1: IRS STRATEGIC PLAN FY 2022–2026 GOALS AND OBJECTIVES

Goal 1: **Service** Total Program Cost: **$7,085 Million**	**1.1** Deliver secure and customized services to meet taxpayer needs. **1.2** Identify and address the needs of underserved and multilingual communities to improve their ability to participate in the tax system. **1.3** Provide proactive outreach and education to improve taxpayer understanding of their rights, responsibilities, and obligations. **1.4** Safeguard taxpayer data and privacy and protect the IRS against internal and external threats.
Goal 2: **Enforcement** Total Program Cost: **$8,441 Million**	**2.1** Improve operations to effectively and efficiently identify and address noncompliance. **2.2** Enhance enforcement efforts to collect unpaid taxes in a fair and impartial manner. **2.3** Proactively identify current and emerging fraud schemes and other threats using real-time intelligence and analytics.
Goal 3: **People***	**3.1** Recruit, hire and retain a workforce that reflects the communities we serve to meet current and future needs. **3.2** Empower our workforce with the proper training, tools and processes to improve the employee experience and better serve taxpayers. **3.3** Strengthen, expand and effectively utilize our network of trusted partners to better serve taxpayers and improve compliance.
Goal 4: **Transformation** Total Program Cost: **$675 Million**	**4.1** Reorganize our operational structure to provide an exceptional taxpayer experience by increasing collaboration and maximizing efficiencies. **4.2** Modernize technology infrastructure and develop secure and sustainable solutions to improve tax administration. **4.3** Increase digitalization to streamline processes, improve access to digital data and lessen our environmental impact. **4.4** Improve data management and application of analytical capabilities to drive evidence-based decisions.

* The IRS distributes costs associated with the People goal objectives among the IRS's Major Programs/Strategic Goals 1, 2 and 4.

IRS Performance Measurement Reporting Process

The IRS Congressional Budget Justification & Annual Performance Report and Plan (APR&P) (www.irs.gov/about-irs/budget-documents-and-other-resources), approved by the IRS Commissioner and Deputy Commissioners, includes key performance measures (KPMs), with annual and outyear targets, and key performance indicators (KPIs), which are tracked a few years before establishing targets. The IRS uses these key metrics to assess progress in achieving the strategic plan goals and reports its performance data in the IRS Congressional Budget Justification and APR&P. The IRS estimates release of the FY 2024 report in the second quarter of FY 2023.

Summary of FY 2022 Results: The IRS has a total of 28 KPMs and KPIs included in the budget and/or published in the strategic plan, of which 15 are KPMs with targets and 13 are KPIs. The IRS exceeded the FY 2022 target for 10 out of 15 KPMs, and 6 out of 8 KPIs met or exceeded last year's results. Results were not available for 5 KPIs; those results will appear in the FY 2024 IRS Congressional Justification (scheduled for publication in the second quarter of FY 2023). Refer to Verification and Validation of Performance Data for details on the IRS's performance measurement reporting and verification and validation processes.

Major Program | **Strategic Goal 1: SERVICE**

The IRS is dedicated to providing an excellent taxpayer experience and is committed to helping taxpayers of all communities participate in the tax system with ease and confidence. To create proactive, convenient, seamless and effective interactions for taxpayers and stakeholders, the IRS developed the Taxpayer Experience Strategy Roadmap. In FY 2022, the IRS enhanced its web communications and increased its online digital services, continued its efforts to improve tax products and services offered to limited-English proficient taxpayers and underserved communities, continued to provide partners and volunteers with the resources needed to assist taxpayers in meeting their tax obligations, conducted filing season outreach activities and products and improved data management and analytics. Moreover, the IRS continued implementing the executive order on improving the nation's Cybersecurity to protect IRS systems and retain public trust. During the last two years, the IRS has experienced unprecedented challenges. The COVID-19 pandemic and resulting emergency closures of facilities as well as three rounds of pandemic-related relief legislation have affected every aspect of its operations since spring 2020, particularly the areas of correspondence and tax return inventory. The IRS is still facing unprecedented inventory levels, which continue to contribute to higher call volumes and related inquiries. The IRS established an inventory surge team consisting of former customer service representatives (CSRs), tax examiners, clerks and other employees who had Campus support experience to help address the inventory, recover from this tremendous challenge and improve the taxpayer experience. The IRS strives to deepen its understanding of the taxpayer experience, be responsive to changing needs and continuously enhance taxpayer service by improving access to phone and face-to-face assistance, reducing paper inventory and expanding online options for taxpayers to meet their needs. With the funding from the IRA, the IRS plans to increase service on the phones and in our Taxpayer Assistance Centers in the coming months and automate the scanning of millions of individual paper returns into digital copies. The IRS is hard at work to make it possible for taxpayers to receive and respond to many notices online. While some changes may take time, taxpayers will see an immediate improvement during the 2023 tax season.

San Francisco cookie company makes fortune cookies with IRS Free File tips inside to give to local seniors and low-income taxpayers

Owner Kevin Chan of the San Francisco Golden Gate Fortune Cookies Company recently partnered with the IRS to make 2,000 fortune cookies with IRS Free File messages inside to give to local seniors and low-income taxpayers

Branch Chief Christine Footit and Carol Xie, public affairs specialist (bilingual Chinese), worked together to come up with the idea and partner with the cookie company and community partners on this effort

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Service Strategic Goal Results

The IRS exceeded 5 out of 6 of its Service KPMs and 3 out of 3 of the KPIs met or exceeded their prior-year results.

TABLE 2: SUMMARY OF KEY STRATEGIC GOAL RESULTS FOR FY 2018–2022

Strategic Goal Key Performance Measures/Indicators*	FY 2018 Actual	FY 2019 Actual	FY 2020 Actual	FY 2021 Actual	FY 2022 Target	FY 2022 Actual
Customer Service Representative Level of Service (LOS) – B	75.9%	65.4%	53.1%	18.5%	30.0%	17.4% **Not Met**
CSR LOS was 17 4% which was 41 9% below plan of 30% IRS reduced the campus phone staffing to a minimal amount to focus on reducing the paper inventory Phone Demand through September of 81 3 million was 32% lower than the prior year of 119 9 million The Primary Abandoned Call Rate of 18 2% is 21% lower compared to last year during the same time frame The IRS will monitor demand in real time and allocate resources down to the half hour enabling the IRS to regularly shift staff between telephones and paper processing to address demand With the receipt of funding from the IRA, the IRS plans to deliver a higher LOS in FY 2023						
Total Ending Inventory (Millions)[1] (Added in FY 2022) – B	600	1,100	1,100	4,100	No Target Set	2,156
The total number of accounts management and correspondence inventory						
Percent of Closures to Receipts[1] (Added in FY 2022) – B	99.0%	92.7%	99.6%	71.9%	No Target Set	116.4%
The percentage of the number of adjustment cases closed compared to the number received						
Customer Accuracy — Tax Law (Phones) – B	95.5%	91.6%	91.0%	92.8%	89.0%	92.0% **Met**
The percentage of correct answers given by a live assistor on toll-free tax law inquiries						
Customer Accuracy — Accounts (Phones) – B	96.1%	94.3%	93.5%	93.0%	89.0%	91.8% **Met**
The percentage of correct answers given by a live assistor on toll-free account inquiries						
Timeliness of Critical Individual Filing Season Tax Products to the Public – B, SP	59.6%	92.6%	78.4%	92.0%	89.0%	96.4% **Met**
The percentage of critical individual filing season tax products available to the public seven calendar days before the official IRS start of the individual filing season						
Timeliness of Critical TE/GE & Business Tax Products to the Public – B, SP	100.0%	96.1%	96.0%	92.9%	89.0%	96.0% **Met**
The percentage of critical TE/GE and business tax products available to the public seven calendar days before the official IRS start of the individual filing season						
Enterprise Self-Assistance Participation Rate – B, SP	82.0%	85.4%	90.6%	92.3%	91.0%	93.9% **Met**
The percentage of taxpayer assistance requests resolved using self-assisted automated services						

*B = Budget, SP = Strategic Plan, KPI's have no target set.

[1] Historical data provided for comparative purpose.

[2] Results not available and are not included in the total KPI count above. Results will appear in the IRS FY 2024 Congressional Budget Justification and APR&P.

Strategic Goal Key Performance Measures/Indicators*	FY 2018 Actual	FY 2019 Actual	FY 2020 Actual	FY 2021 Actual	FY 2022 Target	FY 2022 Actual
Taxpayers Satisfied with the IRS – B, SP	74	73	74	70	No Target Set	N/A[2]
Taxpayers Satisfied with the IRS is based on the American Customer Satisfaction Index (ACSI) survey The All-Individual Tax Filer score is calculated from separate ACSI Individual Paper Filer and Electronic Filer Customer Satisfaction Index Scores based on a 100-point scale						
Enterprise LOS (Added in FY 2022) – SP	69.0%	56.2%	51.2%	21.3%	No Target Set	21.3%
The success rate of taxpayers calling to speak with an assistor on any toll-free phone line						

*B = Budget, SP = Strategic Plan, KPI's have no target set.

[1] Historical data provided for comparative purpose.

[2] Results not available and are not included in the total KPI count above. Results will appear in the IRS FY 2024 Congressional Budget Justification and APR&P.

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Carol Xie (center) with Communication and Liaison's (C&L's) Tax Outreach, Partnership & Education branch displays the fortune cookies with community partners Lily Lo, CEO of Northeast Community Federal Credit Union and Amanda Fung, manager, Chinese Newcomers. The community partners will help distribute the cookies to taxpayers.

Two community partners will distribute the cookies: Northeast Community Federal Credit Union and Chinese Newcomers These partners help the local community including seniors and low-income taxpayers with tax preparation

C&L's Tax Outreach, Partnership & Education Branch Chief Christine Footit and Carol Xie, public affairs specialist (bilingual Chinese), worked together to come up with the idea and partner with the cookie company and community partners on this effort

"We came up with the idea to approach them [the cookie company]," said Christine "They happily agreed to produce 2,000 individual wrapped fortune cookies "

The message inside says *Get Help Filing Taxes for Free: IRS.gov/freefile*

Carol also brought some of the cookies to a Chinese restaurant and bumped into the chef – chef Martin Yan Carol introduced herself, and they made a short **video about filing taxes through Free File**[1]

See the recent IRS gov article, **Here's why IRS Free File is a great value for families**[2], to learn more about IRS free file and how it benefits **taxpayers**[2]

[1] www.irsvideos.gov/?pid=4213

[2] www.irs.gov/newsroom/heres-why-irs-free-file-is-a-great-value-for-families

Major Program | **Strategic Goal 2: ENFORCEMENT**

The IRS commits itself to the highest standards in administering and enforcing the tax code with integrity, transparency and objectivity. The gross tax gap is the difference between taxes owed and taxes paid on time. Taxpayers deserve to know that all taxpayers are accountable to the same tax laws and pay their fair share. To make progress toward improving voluntary compliance, the IRS will continue to strengthen enforcement capabilities, improve outreach, proactively work to analyze new tax requirements and understand taxpayer behaviors and trends. The IRS will also leverage new technology and data analytics to detect and combat sophisticated evasion techniques and facilitate timely audits and collection investigations. In FY 2022, the IRS continued to ensure international tax compliance by assisting taxpayers with understanding how to comply with the law, enhancing IRS's enforcement efforts to collect unpaid taxes and collaborating with partners in automatically exchanging data used for tax compliance purposes. In addition, the IRS began implementing Section 80603, Information Reporting for Brokers and Digital Assets, of the Infrastructure Investment and Jobs Act, continued prioritizing high-income non-filers and systemically pursuing the most egregious noncompliant taxpayers to maintain the trust of all taxpayers. The IRS also proactively identified current and emerging fraud schemes and other threats through cross-collaboration and sharing of information across different offices. The IRS provided employees extensive on-demand training and certification using new technologies and tools to expand the depth and breadth of fraud detection expertise needed to ensure tax compliance in this rapidly evolving area. The IRS enforcement efforts should successfully narrow the tax gap, build trust with all taxpayers and keep pace with emerging threats without burdening compliant taxpayers with unnecessary audits.

Enforcement Strategic Goal Results

The IRS exceeded 2 out of 4 of its Enforcement KPMs and 3 out of 5 of the KPIs met or exceeded their prior-year results.

TABLE 3: SUMMARY OF KEY STRATEGIC GOAL RESULTS FOR FY 2018–2022

Strategic Goal Key Performance Measures/Indicators*	FY 2018 Actual	FY 2019 Actual	FY 2020 Actual	FY 2021 Actual	FY 2022 Target	FY 2022 Actual
Examination Efficiency — Individual – B	131	109	76	108	100	101 **Met**
The sum of all individual 1040 returns closed by SB/SE, W&I and LB&I (Field Exam and Correspondence Exam programs) divided by the total Full-Time Equivalent expended in relation to those individual returns						
Time to Start Compliance Resolution[1] (Added in FY 2020) – B, SP	60.1%	60.9%	66.3%	66.0%	No Target Set	68.0%
The percentage of all individual income tax enforcement cases started within six months of the return posting date						
Time to Resolve Compliance Issue After Filing[1] (Added in FY 2020) – B, SP	494	469	491	484	No Target Set	404
The median time it takes to close all individual income tax enforcement cases in days (excluding disaster, bankruptcy and Tax Equity and Fiscal Responsibility Act cases for exam and collection cases that are not closed as full paid) starting from filing date						

*B = Budget, SP = Strategic Plan, KPI's have no target set.

[1]Historical data provided for comparative purposes.

[2] Results not available and are not included in the total KPI count above. Results will appear in the IRS FY 2024 Congressional Budget Justification and APR&P.

Strategic Goal Key Performance Measures/Indicators*	FY 2018 Actual	FY 2019 Actual	FY 2020 Actual	FY 2021 Actual	FY 2022 Target	FY 2022 Actual
Repeat Noncompliance Rate[1] (Added in FY 2020) – B, SP	30.0%	31.4%	35.6%	30.7%	No Target Set	N/A[2]
The percentage of individual taxpayers in a fiscal year with noncompliance two years after the initial tax year that contains a filing, payment or reporting compliance issue, compared to total taxpayers						
Collection Coverage – B	41.6%	41.3%	34.9%	41.2%	36.5%	38.3% **Met**
The volume of collection work disposed compared to the volume of collection work available						
Exam Starts — High Income Individuals[1] (Added in FY 2021) – B, SP	2,307	2,108	2,693	2,227	No Target Set	3,625
The number of examinations of individual returns with a total positive income of $10 million and above started during the fiscal year						
Exam Starts — Partnerships[1] (Added in FY 2021) – B, SP	9,033	5,823	4,106	4,327	No Target Set	3,155
The number of examinations of partnership returns started during the fiscal year						
Exam Starts — Large Corporations[1] (Added in FY 2021) – B, SP	2,396	2,009	1,700	1,490	No Target Set	1,366
The number of examinations of large corporate returns reporting assets of $250 million and above started during the fiscal year						
Cost to Collect $100 – B	$0.34	$0.33	$0.35	$0.33	No Target Set	N/A[2]
The cost of collecting $100 is computed as total operating costs divided by gross collection divided by 100						
Criminal Investigations Completed – B	3,051	2,797	2,624	2,766	2,600	2,552 **Not Met**
The total number of subject criminal investigations completed during the fiscal year, including those that resulted in prosecution recommendations to the Department of Justice (DOJ) as well as those discontinued due to a lack of prosecution potential Criminal Investigations Completed was 2,552 for FY 2022, falling short of the year-end target of 2,600 COVID-19 continues to impact day-to-day investigative activities, thereby contributing to a higher cycle time for investigations completed Additional factors such as years of steady decrease in the number of special agents available to work cases (due to attrition and limited hiring) as well as Criminal Investigation's (CI) continued focus on traditional tax case programs, which tend to have a higher cycle time, continue to impact overall performance						
Conviction Rate – B	91.7%	91.2%	90.4%	89.4%	92.0%	90.6% **Not Met**
Throughout FY 2022, more U S courts resumed activity in many parts of the country (previously closed or limited by COVID-19 restrictions) thereby accepting more cases from CI than originally anticipated This led to an increase in not only the number of convictions but also cases acquitted and dismissed, thereby contributing to a slight drop in the Conviction Rate Nevertheless, COVID-19 continues to limit court availability and impact day-to-day investigative activities in support of the judicial system, which contributed to fewer cases than normal being adjudicated Additionally, years of steady decrease in the number of special agents available to work cases, due to attrition and limited hiring, has led to a decline in the total amount of cases initiated and consequently recommended for prosecution Despite this, appropriate case selection and effective field performance continue to positively affect the quality of cases resulting in a high rate of convictions Since CI does not prosecute its own cases, it must depend on the ability of the DOJ to accept its cases for prosecution and to move such cases through the courts CI management will continue its current efforts of appropriate and consistent contact with DOJ Tax Division and U S Attorney Offices regarding prosecutorial priorities and the appropriate movement of pipeline investigations to ensure a high rate of conviction						

*B = Budget, SP = Strategic Plan, KPI's have no target set.

[1]Historical data provided for comparative purposes.

[2] Results not available and are not included in the total KPI count above. Results will appear in the IRS FY 2024 Congressional Budget Justification and APR&P.

Winners all around at Puerto Rico recruiting event

While attending a recruiting event at Fort Buchanan near San Juan, Puerto Rico, last month, SB/SE Deputy Commissioner Darren Guillot was amazed at the turnout

“The room was packed with military spouses and veterans waiting to be interviewed,” said Guillot “I’ve never seen this kind of interest and this kind of crowd at an IRS recruiting event ”

That interest resulted in a big win for the IRS in staffing the San Juan Automated Collection System call site 179 applicants left the event with a tentative job offer and pre-employment processing in the works

IRS and military personnel attending agreed the extensive advertising, highly organized interview and hiring process, along with on-site assistance to help applicants navigate online resources, all worked together to make this recruitment event a monumental success

Through collaboration with cross functional partners (e g , HCO, IT, U S Army), a process that would normally take 180 days or longer, was reduced to a matter of hours Truly a win for all

That success was also a big win for U S military personnel stationed at FT Buchanan This is a labor pool unique in a number of ways, in particular that they’ve selflessly given [already] so much to America In a meeting with Guillot, base leadership noted the positive effect the joint effort will have on military families transitioning to civilian life and the significant infusion of employment opportunities, as well as economic development for the Caribbean Island

SB/SE looks forward to continuing the partnership with FT Buchanan to better serve taxpayers and IRS employees in Puerto Rico

> "The room was packed with military spouses and veterans waiting to be interviewed," said Guillot. "I’ve never seen this kind of interest and this kind of crowd at an IRS recruiting event."

Potential IRS employess wait for a job interview at FT Buchanan Puerto Rico recruiting event.

Strategic Goal 3: PEOPLE

The IRS relies on its dedicated workforce and community of partners to provide taxpayers with quality service and fair enforcement. The IRS is committed to developing its employees by providing resources, tools and training that will help meet the needs of today and tomorrow. The IRS will continue to build its workforce using data-driven planning methods to strategically understand future workforce needs. In FY 2022, the IRS deployed deliberate rebranding, marketing and recruitment strategies through social media, student and graduate programs and collaboration with unemployment offices, educational institutions and federal employment programs to prepare for and better support anticipated hiring. The IRS also integrated human capital and other organizational business strategies to define emerging processes and capabilities with the goal of designing and delivering workforce planning capabilities that advance strategic IRS business plans to accomplish the short and long-term goals of the IRS. The IRS Comprehensive Training Strategy (CTS) calls for development of a flexible, responsive and efficient learning organization. To ensure comprehensive, equitable access to learning and development for all employees, the IRS continues to move forward in implementing CTS as outlined in the January 2021 Taxpayer First Act Report to Congress (www.irs.gov/pub/irs-pdf/p5426.pdf). The IRS continues to invest in its people and maintain its partnerships with internal and external entities in order to better serve taxpayers, improve compliance and accomplish its major programs and overall mission.

People Strategic Goal Results

The IRS exceeded 1 out of 1 of its People KPMs.

TABLE 4: SUMMARY OF KEY STRATEGIC GOAL RESULTS FOR FY 2018–2022

Strategic Goal Key Performance Measures/Indicators*	FY 2018 Actual	FY 2019 Actual	FY 2020 Actual	FY 2021 Actual	FY 2022 Target	FY 2022 Actual
Employee Engagement Index – SP	67.1%	68.6%	74.2%	73.5%	No Target Set	N/A[1]
The Office of Personnel and Management (OPM) Employee Engagement Index is a measure of the conditions conducive to engagement The index consists of 15 items grouped into 3 subindices: Leaders Lead, Supervisors, and Intrinsic Work Experience OPM measures this governmentwide						
Number of VITA and TCE Returns Prepared – SP	3.6M	3.6M	2.5M	2.0M	2.0M	2.2M **Met**
The number of individual federal income tax returns prepared by Volunteer Income Tax Assistance (VITA)/Tax Counseling for the Elderly (TCE) volunteers						

*B = Budget, SP = Strategic Plan, KPI's have no target set.

[1] Results not available.

Memphis Campus celebrates 50-year anniversary with Commissioner Rettig

Awash in a sea of gold, black and white commemorative t-shirts, Commissioner Chuck Rettig visited the Memphis Campus to help them celebrate their 50th anniversary on September 14, 2022

Campus Site Coordinator Mary Ray kicked off the event and introduced Commissioner Rettig as the special guest speaker “Since opening its doors on Democrat Road in January 1972 and moving to the Getwell site in 1996, the service center has played an integral part of tax return and payment processing, compliance and customer service,” Ray said “This is a very special milestone This campus has existed since 1972, and it gives me great pleasure to join the Commissioner in recognizing and acknowledging our many accomplishments ”

The Commissioner joined Ray on stage and looked out at all the enthusiastically applauding employees and managers gathered for the occasion He said, “I am very honored to join you today to help you celebrate the Memphis Campus 50th anniversary,” Rettig noted, “Your strength, hard work and dedication through the years is what makes me proud to be your Commissioner ”

He connected with employees, sharing heartfelt personal stories that demonstrated his pride in the military, the IRS, in being an American and his belief that together we are stronger “Every person is important and together we are stronger We live in the greatest country in the world,” he said

The Commissioner also talked about how the employees consistently exceeded annual donation goals to help those less fortunate by contributing record-breaking amounts to the Combined Federal Campaign Memphis also broke records by donating over 52,000 pounds of food to the Mid-South Food Bank to help feed hungry families and individuals in the community

Memphis Campus celebrates 50-year anniversary with Commissioner Rettig

“When I read the W&I Offline article about your outstanding success, I reached out to Mary to extend my congratulations to the campus and to thank her and her staff for a job well done,” he shared “Memphis has a great community inside the IRS Let’s continue to look through

Commissioner Rettig tosses the first shovel of dirt on the large sealed white capsule filled with notable items.

the eyes of other people as we’re all vital to this country I want you to know that your health, safety and well-being are at the forefront of my thoughts,” he added

In closing, Commissioner Rettig thanked employees, saying, “From my heart, my wife and children, thank you for supporting me on this journey ” He joined employees for a catered lunch Many stopped by for a handshake, hug or a kind word, like IT project manager William Cox Jr

During the event, employees proudly displayed in their commemorative anniversary t-shirts to welcome the Commissioner and honor the big day Angala Hobbs, C&L, won the anniversary t-shirt contest with her creative design

He later joined current and retired directors, managers and employees for the time capsule burial ceremony Memphis Campus Exam/AUR/ Director Tiffany Vertison-Cole acknowledged visiting community partners like the United Way of the Mid-South, Mid-South Food Bank, MIRSC Adopted Schools and the American Red Cross

IRS Human Capital Officer Kevin McIver and retired IRS executive Hugh Davis Jr each talked about how proud they were to be a part of such a momentous occasion Three employees with 50 years of service, Verlinda Campbell, Hattie Jackson Hancock and Cordie McFarland were recognized and celebrated The Memphis Campus IRS band, made up of current and retired employees, was on hand to play music for the event The celebration continued throughout the day with a recognition ceremony, an employee sponsored boxed luncheon and a reception

"Your strength, hard work and dedication through the years is what makes me proud to be your Commissioner."

Commissioner Rettig tossed the first shovel of dirt on the large sealed white capsule filled with notable items like an Accounts Management Aspect telephone and headset, a wooden gavel from Appeals, an alma mater college banner from the campus Examination acting director, a tax form from Collections, a copy of the Memphis Service Center History Book (1972–1992), photos of some of the current heads of office and more Various IRS leaders, a few honorees and other employees took turns covering the capsule

Major Program | **Strategic Goal 4: TRANSFORMATION**

To continue delivering on its mission, the IRS must transform its operations to keep pace with a rapidly changing world. Implementation of recommendations from the Taxpayer First Act Report to Congress (www.irs.gov/pub/irs-pdf/p5426.pdf) and updates to the IRS's modernization portfolio will enable the IRS to achieve this transformation and not only support taxpayers, but also handle persistent and sophisticated challenges to tax administration. In FY 2022, the IRS Organizational Redesign Team worked to create a centralized compliance function geared toward breaking down silos, providing consistent outcomes for taxpayers and enhancing employee development. The IRS continues to modernize its technology infrastructure and to develop secure and sustainable solutions to improve the taxpayer experience and narrow the tax gap through the **IRS Integrated Modernization Business Plan** (www.irs.gov/pub/irs-pdf/p5336.pdf), which builds on significant achievements and reflects on an expanded view of requirements to modernize the IRS technology environment. In FY 2022, the IRS converted 100% of its core legacy code into a modern programming language — a major milestone in IRS history. This accomplishment reduces risks to its operating environment and marks a turning point in the IRS's journey to modernize its Individual Masterfile, which is the core tax processing system. The IRS is currently conducting robust testing and parallel processing prior to using the new code for tax processing. The IRS also continues to implement its enterprise digitalization strategy to streamline processes and improve access to digital data. Innovative solutions enhance the taxpayer experience and help the IRS reduce paper volume, increase access to digital data and prepare the IRS workforce to manage digital data. Also, in FY 2022, the IRS made several improvements in data management and the application of analytical capabilities, which make operations more efficient, increase knowledge and increase the selection of appropriate compliance enforcement work among other operational enhancements.

Secretary Yellen: "The work of the IRS is essential to our government and our country."

Treasury Secretary Janet Yellen, right, tours the IRS New Carrolton Federal Building, Thursday, Sept. 15, 2022, in Lanham, Md. (AP Photo/Alex Brandon)

IRS employees at the New Carrollton Federal Building (NCFB) hosted Treasury Secretary Janet Yellen for a special visit Thursday, September 15 Secretary Yellen toured the technology facilities at NCFB, calling them a model for the Information Technology (IT) modernization needed at the IRS, and delivered remarks to an in-person and virtual audience of several thousand employees After introductory remarks from Deputy Commissioners Jeff Tribiano and Douglas O'Donnell, Yellen highlighted the many ways IRS employees went above and beyond in recent years, despite being "severely underfunded" with a shrinking workforce She discussed how the new, transformational IRS funding contained in the recently signed IRA will help our agency modernize, increase staff and ensure all taxpayers pay their fair share "In all, a strong IRS is critical to the economic success of this country – and I am heartened that we are finally reflecting that in our funding decisions," Yellen said, before thanking all employees for continuing to make a difference for American families She ended her visit with a pledge of support, expressing excitement for what's to come for the IRS

Transformation Strategic Goal Results

The IRS exceeded 2 out of 4 of its Transformation KPMs.

TABLE 5: SUMMARY OF KEY STRATEGIC GOAL RESULTS FOR FY 2018–2022

Strategic Goal Key Performance Measures/Indicators*	FY 2018 Actual	FY 2019 Actual	FY 2020 Actual	FY 2021 Actual	FY 2022 Target	FY 2022 Actual
Rentable Square Feet per Person – B	301	298	278	278	270	264 **Met**
The amount of rentable square feet the IRS maintains per person requiring space						
Percent of Aged Hardware – B, SP	45.5%	31.0%	16.0%	9.30%	20.0%	7.1% **Met**
The percentage of all IT hardware in operation that is past its useful life						
Percent of High-Volume IRS Notices Available to be Viewed by Taxpayers Digitally (Added in FY 2022) – SP	N/A	N/A	N/A	N/A	No Target Set	N/A[1]
The percentage of IRS-issued, high-volume notices made available to be viewed by taxpayers digitally through an IRS Online Account High-volume (a percentage of notices sent) is defined by weighted criteria based on complexity of the notice, shared content across notices, business value, taxpayer value and the volume of notices issued to the number of taxpayers						
Percent of Major IT Investments Within +/- 10% Cost Variance at the Investment Level – B	72.2%	88.9%	84.2%	94.1%	90.0%	81.3% **Not Met**
Thirteen of 16 major investments were within the cost variance threshold, with 3 programs being out of variance due to underspend The IRS will continue to closely monitor cost reporting for investments in FY 2023 to improve current performance levels for this measure						
Percent of Major IT Investments Within +/- 10% Schedule Variance at the Investment Level – B	83.3%	88.9%	94.7%	100.0%	90.0%	87.5% **Not Met**
Fourteen of 16 major investments were within the schedule variance threshold One investment outside of variance was delayed and the other was completed early IRS IT will continue to closely monitor schedule reporting for investments in FY 2023 to improve current performance levels for this measure						

*B = Budget, SP = Strategic Plan, KPI's have no target set.

[1]Results not available.

Verification and Validation of Performance Data

The IRS requires complete, accurate and reliable performance data to assess progress toward its strategic objectives and program outcomes to make good management decisions. The IRS's approach to verification and validation of performance data to improve accuracy and reliability is based upon the following:

1. The IRS reviews performance measures through its annual performance assessment process with Treasury. This assessment includes reviewing the extent to which currently reported performance measures support the strategic goals and priorities, identifying performance measures to fill any gaps and developing new performance measures to fill those gaps if none exist.

2. The IRS's business units use a standard template to document detailed information for each performance measure. The IRS includes these measure templates in its comprehensive data dictionary, which it maintains corporately and updates annually. For each measure, the data dictionary includes information including, but not limited to:
   - Definition
   - Business unit
   - Responsible Official
   - Formula/methodology for computation
   - Source of the data
   - Data limitations
   - Management controls
3. The Responsible Official for the measure is responsible for assessing the completeness, consistency, timeliness and quality of the data, following the documented procedures for gathering the data and ensuring management controls are in place. The Heads of Office are accountable for their performance results.
4. The CFO Strategic Planning Office (SPO) reviews quarterly and year-end performance measure results before sharing the results with senior executives and/or publishing them in Treasury and IRS documents. The SPO also independently reviews the performance measure targets and accompanying documentation to ensure the targets reasonably reflect allocated funding. If the SPO identifies anomalies, it informs the business unit, which makes any necessary adjustments. Leadership reviews all target adjustments as part of the budget development and review process.
5. As part of managing the portfolio of enterprise performance measures, the SPO conducts ad-hoc meetings with business units to discuss topics such as: oversight, responsibilities of ownership, guidance on measurement and reporting and organizational change. In addition, the SPO conducts an annual Community of Practice session focused on measures where business units, Treasury contacts and additional outside speakers can share experiences related to performance measurement.
6. At the end of each fiscal year, the IRS's Deputy Performance Improvement Officer sends an email to the performance measures community reminding them of their responsibility for:
   - Ensuring the quality and accuracy of the performance data.
   - Reviewing and following Internal Revenue Manual (IRM) guidelines when proposing new and modifying existing measures.
   - Ensuring there are sufficient controls in place for proper and accurate reporting of their performance results.

Each fiscal year, IRS business unit Heads of Office submit a signed assurance statement that describes the effectiveness of internal controls for their areas of responsibility. The assurance statement identifies any significant deficiencies or weaknesses in internal controls that the IRS Commissioner should consider when forming their statement, including any issues with the quality of program data.

These procedures help to provide assurances that the performance data and internal controls reported by the IRS are sufficiently complete, accurate and reliable.

Detailed guidance on the appropriate use and application of performance information appears in **IRM 1.5.1: The IRS Balanced Performance Measurement System** (www.irs.gov/irm/part1/irm_01-005-001).

ENTERPRISE RISK MANAGEMENT

In compliance with the OMB Circular A-123, Management's Responsibility for Enterprise Risk Management and Internal Control, the IRS conducts an annual Enterprise Risk Assessment and develops an Enterprise Risk Profile. The Enterprise Risk Profile articulates the IRS's top risks to achieving its strategic goals. The annual enterprise risk assessment process includes internal and external environmental scanning activities and a comprehensive aggregation and analysis of business unit risks.

For three years in a row, Adverse Impact of Reduced Enforcement on Compliance and Impact and Implementation of Legislation and Other Requirements have remained in the top six risks on the risk profile. On August 16, 2022, the President signed the IRA, which includes significant multi-year funding directed toward service delivery, enforcement and modernization. This funding will substantially affect general IRS operations and enable the IRS to develop strategies previously not feasible due to years of budget constraints.

This risk profile reflects risks and opportunities associated with initial planning and implementation of the IRA. As noted in the Commissioner's Message and elsewhere, the IRS has already begun developing strategies and establishing project teams to promote responsible stewardship of IRA funding and effective implementation of all IRS-related provisions. However, such a large increase in funding combined with external environmental factors, may also create new organizational risks and/or substantially affect known risks. For example, current unemployment rates may create challenges in hiring due to the competitive labor market. The people the IRS needs to effectively achieve its objectives have in-demand skillsets. The IRS will need to effectively recruit, hire, train and retain these employees to make implementation a success. The ability to address existing inventory, prepare for the filing season and effectively implement IRA is highly dependent on staffing levels and the timely implementation of technology applications that reduce manual processing and improve taxpayer service capabilities.

The goals in the new IRS Strategic Plan FY 2022–2026, which directly align with the funding streams outlined in the IRA, provides the IRS with a significant opportunity to positively impact tax administration for American taxpayers. By demonstrating that the agency can effectively manage the associated risk and leverage available resources to improve the taxpayer experience, fairly enforce tax laws and modernize the business of tax administration, the IRS can strengthen the trust and confidence of American taxpayers. The top IRS Enterprise Risks are:

1. **Critical Staffing Shortages:** The risk that challenges with hiring and backfilling employees, including those with specialized skills and expertise, coupled with increased attrition, may result in critical business failures, diminished service to taxpayers, loss of institutional knowledge, dependence on contractors and a lack of resilience to events impacting employees' ability to work.

2. **Adverse Impact of Reduced Enforcement on Compliance:** The risk that reduced enforcement activities may adversely impact compliance, erode confidence in the tax administration system and contribute to the tax gap.

3. **Taxpayer Experience:** The risk that an inability to execute and improve the customer experience, combined with increased demand for services, may negatively impact taxpayers' ability to meet their tax obligations and erode trust and confidence in the IRS.

4. **Employee Engagement and Morale:** The risk that a wide range of environmental and cultural factors, such as: inadequate staffing, employee turnover, insufficient tools, limited relationship building, insufficient inclusive workplace and a challenging external environment results in poor employee experience and adversely impacts employee engagement and morale.

5. **Impact and Implementation of Legislation and Other Requirements:** The risk that failure to timely and effectively implement an increasing number of complex multi-year legislative and non-statutory requirements may adversely impact the ability to fulfill core responsibilities and commitments to modernize technology, enhance service delivery and more effectively enforce the tax law, ultimately eroding trust and confidence in the IRS.

6. **Cyber and Data Security:** The risk that the increased complexity, sophistication and volume of cyber threats, including insider threats, social engineering, supply chain vulnerabilities and unauthorized access to or use of sensitive information results in data loss, refund fraud, identity theft, ransomware or denial of service.

ANALYSIS OF FINANCIAL STATEMENTS

Financial Management Highlights

IRS Management's Report on Internal Control Over Financial Reporting Fiscal Year 2022

The IRS internal control over financial reporting is a process effected by those charged with governance, management and other personnel with related responsibilities. The objectives of this process are to provide reasonable assurance that: (1) transactions are properly recorded, processed and summarized to permit the preparation of financial statements in accordance with U.S. Generally Accepted Accounting Principles (GAAP), and assets are safeguarded against loss from unauthorized acquisition, use or disposition; and (2) transactions are executed in accordance with provisions of applicable laws, including those governing the use of budget authority, regulations, contracts and grant agreements, noncompliance with which could have a material effect on the financial statements.

IRS management is responsible for designing, implementing and maintaining effective internal control over financial reporting relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error. IRS management evaluated the effectiveness of the IRS's internal control over financial reporting as of September 30, 2022, based on the criteria established under 31 United States Code (U.S.C.) 3512(c) and (d) (commonly known as the Federal Managers' Financial Integrity Act).

Based on that evaluation, we conclude that as of September 30, 2022, the IRS's internal control over financial reporting was effective. The IRS has two significant deficiencies in its internal control over financial reporting, for unpaid assessments and financial reporting systems, which we are actively addressing.

Charles P. Rettig
Commissioner of Internal Revenue

Jeffrey J. Tribiano
Deputy Commissioner, Operations Support

Teresa R. Hunter
Chief Financial Officer

Financial Statement Overview

The financial statements are prepared to report the financial position, financial condition and results of operations, consistent with the requirements of 31 U.S.C. Section 3515(b). The statements are prepared from records of federal entities in accordance with U.S. GAAP and the formats prescribed by OMB. Reports used to monitor and control budgetary resources are prepared from the same records. Users of the statements are advised that the statements are a component of the federal government.

The IRS is responsible for the administration of tax laws and the custodial collections of taxes for the federal government. The financial management activities that support the responsibilities of the IRS are divided into two distinct account categories.

Administrative accounts are included as appropriations and offsetting collections in the Statement of Budgetary Resources (SBR). These resources are reflected as assets, liabilities, costs, revenues and ultimately the net position of the IRS.

Custodial accounts include activity in support of tax collection. The IRS collects the majority of receipts for the U.S. Government. These receipts are reported in designated custodial accounts as presented on the Statement of Custodial Activity (SCA). Custodial accounts are also included as custodial Fund Balance with Treasury (FBWT) for State Innovation Waiver Program (SIWP) grants, taxes receivable not yet collected and Federal tax refunds payable not yet disbursed on the Balance Sheet.

In FY 2022, the IRS received supplemental funding from the IRA for $79,411 million. The budgetary resources were appropriated for two-year and ten-year availability. In FY 2022, the IRS obligated $106 million in IRA supplemental funding.

In FY 2021, the IRS received supplemental funding from the American Rescue Plan Act 2021 (ARP) for $1,862 million and the Coronavirus Response and Relief Supplemental Appropriations Act of 2021 (CRRSAA) for $509 million in budgetary resources totaling $2,371 million. The budgetary resources were appropriated for annual, two-year and three-year availability. In FY 2022, the IRS brought forward $1,415 million in unobligated balances with $1,155 million being obligated in FY 2022 and $332 million being brought forward into FY 2023.

Financial statement fluctuations resulting from this activity are discussed in more depth in the applicable financial statement analysis. Note 21. COVID-19 Activity in the Financial Information section of this report also provides information for budgetary resources, obligations incurred, the remaining available budgetary resources and specific note disclosure data for FY 2022 and FY 2021.

Financial Statement Analysis

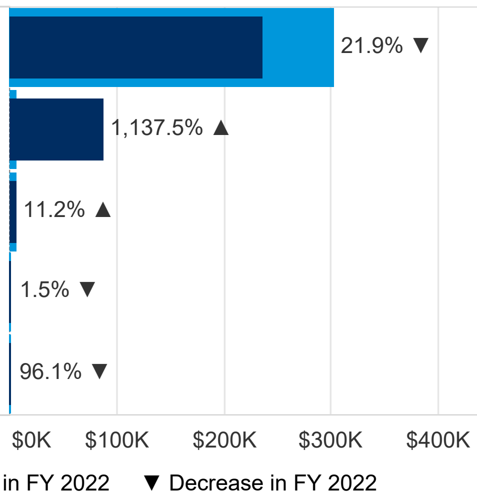
Analysis of the Balance Sheet

The Balance Sheet displays amounts of future economic benefits owned or managed (assets), amounts owed (liabilities) and the residual amounts (net position) at the end of the fiscal year.

Assets of the IRS primarily comprise Federal taxes receivable, net, FBWT, Due from the General Fund of the U.S. Government, and General property and equipment, net. Comparative asset balances as of September 30, 2022 and 2021 are presented below.

Assets (in Millions)

Assets	FY 2022	FY 2021	
Federal Taxes Receivable, Net	$236,000	$302,000	21.9% ▼
Fund Balance with Treasury	$87,389	$7,062	1,137.5% ▲
Due from General Fund of the U.S. Government	$6,947	$6,248	11.2% ▲
General Property and Equipment, Net	$1,795	$1,822	1.5% ▼
Other	$59	$1,522	96.1% ▼



Asset fluctuations in FY 2022 primarily include increased FBWT, decreased Federal taxes receivable, net and increased Due from the General Fund of the U.S. Government.

FBWT increases of $80,327 million are primarily associated with the supplemental appropriations received from the IRA. Due from General Fund of the U.S. Government increased $699 million as this line item correlates to Federal tax refunds payable, net. Amounts Due from General Fund of the U.S. Government represents funds that will be used as resources to disburse federal tax refunds.

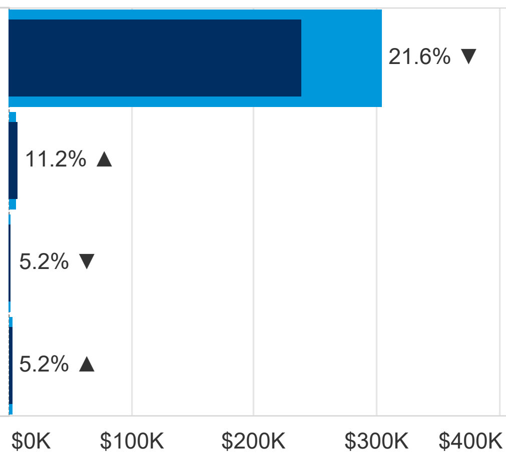
Federal taxes receivable, net, decreased $66,000 million in FY 2022 as compared to FY 2021. This decrease is primarily related to payments on the deferred employer portion of Federal Insurance Contributions Act (FICA) Social Security taxes due to the federal government provided under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). These deferrals are discussed in greater detail in Note 5. Federal Taxes Receivable, Net of the Financial Information section of this report.

Liabilities include Intragovernmental (Accounts Payable, Due to the General Fund of the U.S. Government, and other liabilities), Federal tax refunds payable, Federal employee benefits payable and other liabilities as detailed in Note 8. Other Liabilities of the Financial Information section of this report.

Liability fluctuations in FY 2022 primarily include decreased Intragovernmental liabilities and increased Federal tax refunds payable.

Liabilities (in Millions)

Liabilities	FY 2022	FY 2021
Intragovernmental	$238,624	$304,258
Federal Tax Refunds Payable	$6,947	$6,248
Federal Employee Benefits Payable	$1,003	$1,058
Other	$2,235	$2,125



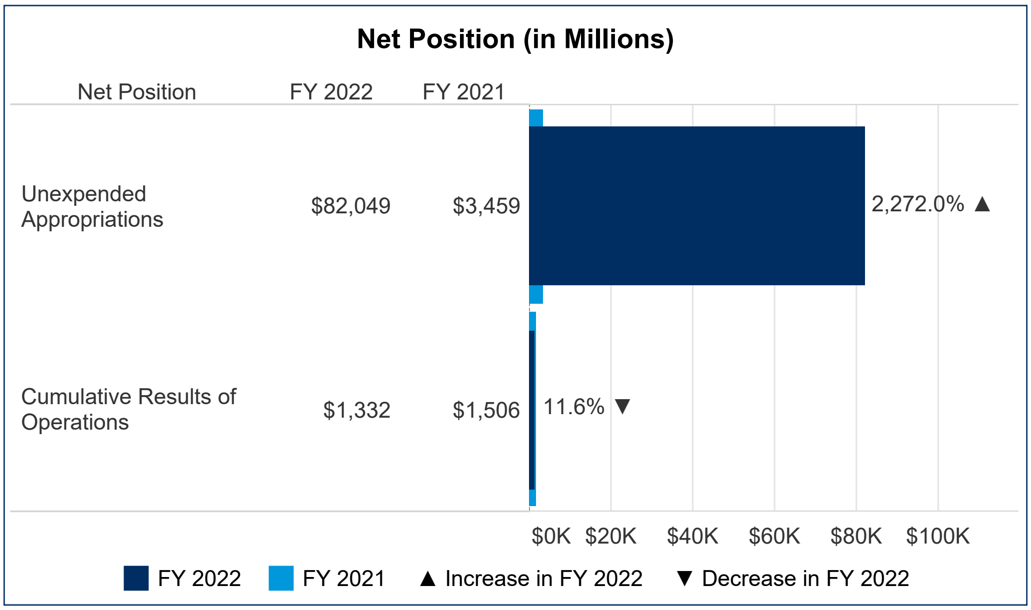
FY 2022 FY 2021 ▲ Increase in FY 2022 ▼ Decrease in FY 2022

The decrease in Intragovernmental liabilities is primarily attributable to a decrease of $66,000 million for the Due to the General Fund line on the Balance Sheet. This line item is representative of funds that will be distributed to the General Fund upon collection and is directly attributable to the decrease in Federal taxes receivable, net.

Federal Tax Refunds Payable increased $699 million primarily due to large corporate tax refunds that have completed processing and are awaiting additional information to reissue the refunds as of September 30, 2022.

Net Position consists of Unexpended Appropriations and the Cumulative Results of Operations. Funds made available by Congress are recorded in Unexpended Appropriations. Cumulative Results of Operations is the net difference between 1) expenses, losses and transfers out from the inception of an agency or activity, and 2) financing sources such as appropriations and revenues, and gains from the inception of an agency or activity (whether financed from appropriations, transfer in, revenues, reimbursements or any combination of the four) to the reporting date of the financial statements.

Unexpended Appropriations increased 2,272% in FY 2022 due to appropriations received from the IRA.



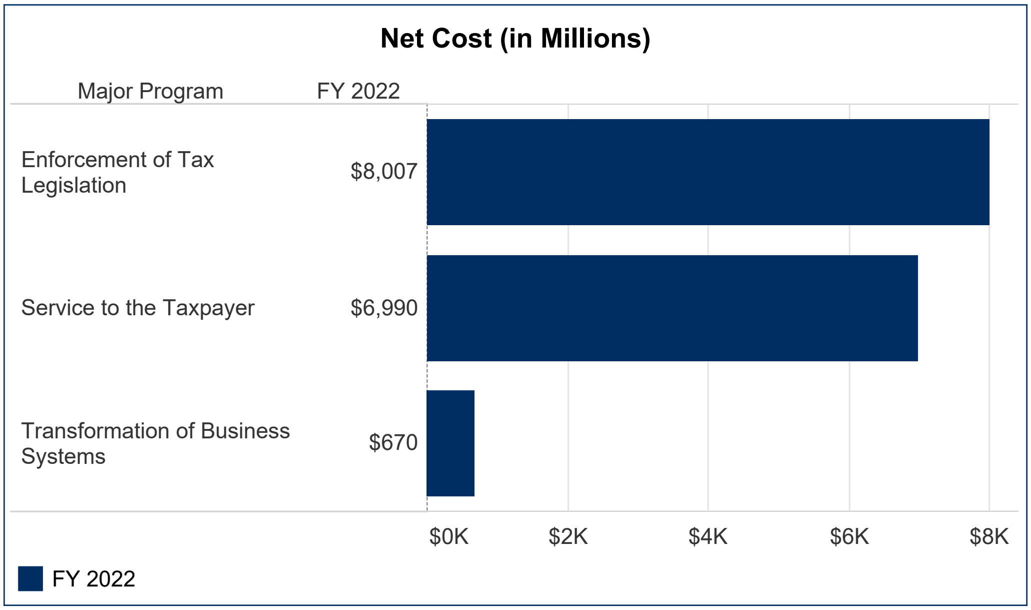
Analysis of the Statement of Net Cost

The SNC presents the annual cost of operating the IRS's three major programs: Service to the Taxpayer, Enforcement of Tax Legislation and Transformation of Business Systems. Net cost includes gross costs incurred less exchange revenue earned from user fees and reimbursable agreements.

The total net cost of IRS operations increased $830 million or 6% over the prior fiscal year. The SNC reflects a total of $15,667 million for the period ending September 30, 2022 as compared to $14,837 million for the period ending September 30, 2021.

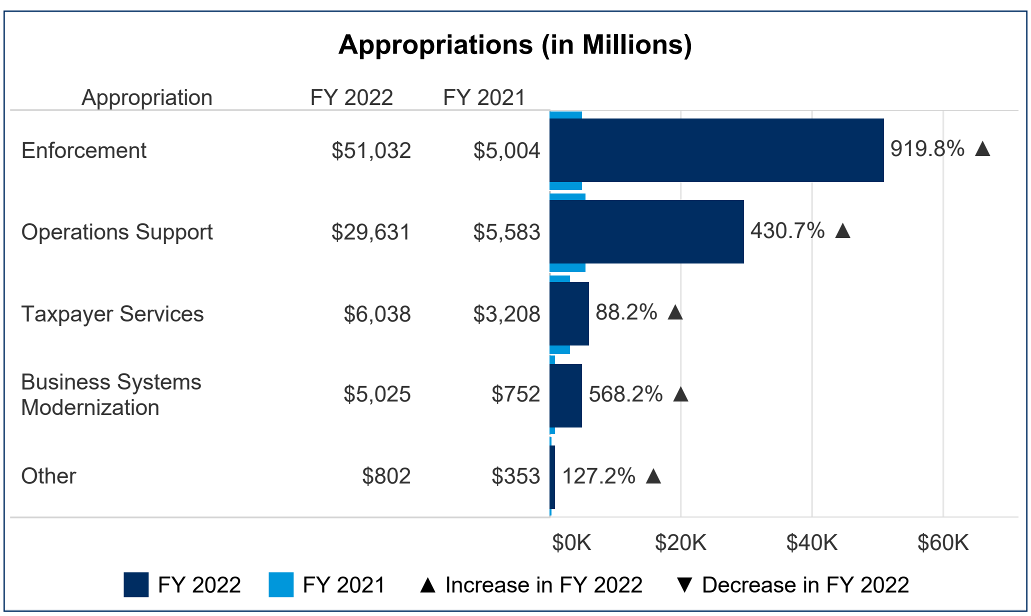
The total gross cost for FY 2022 increased by $731 million due primarily to increases in expenses for consulting services, imputed costs, and payroll and benefits. Total earned revenue decreased $99 million due to decreases in the Income Verification Express Service user fees and the return of excess current year revenues to the General Fund of the U.S. Government.

Net cost of operations by major program are presented in the table below for the period ending September 30, 2022. The FY 2022 SNC presentation aligns with the FY 2022–2026 IRS Strategic Plan and is not comparable to the FY 2021 presentation by major program as detailed in Note 1. Summary of Significant Accounting Policies.



Analysis of the Statement of Budgetary Resources

IRS operations are financed through appropriations, spending authority from offsetting collections and unobligated balances carried forward.



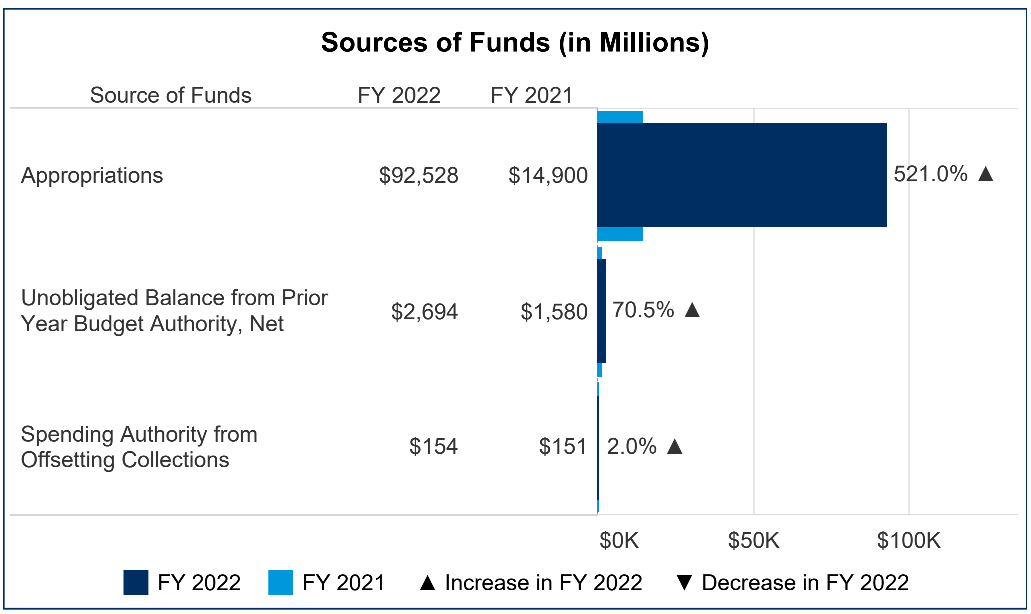
Major Budget Account Descriptions

Enforcement funds the necessary expenses for tax enforcement activities of the IRS to determine and collect owed taxes, provide legal and litigation support, conduct criminal investigations, enforce criminal statutes related to violations of internal revenue laws and other financial crimes.

Operations Support funds the necessary expenses of the IRS to support taxpayer services and enforcement programs, which includes rent payments, facilities services, printing and postage, physical security, headquarters and other IRS-wide administration activities, research and statistics of income, telecommunications, information technology development, enhancement, operations, maintenance and security.

Taxpayer Services funds the necessary expenses of the IRS to provide taxpayer services, including pre-filing assistance and education, filing and account services, taxpayer advocacy services, low-income taxpayer clinic grants and Community Volunteer Income Tax Assistance Matching Grants for tax return preparation assistance.

Business Systems Modernization funds the necessary expenses of the IRS's business systems modernization program for the capital asset acquisition of information technology systems.



IRS's total budgetary resources increased $78,745 million in FY 2022. This increase was primarily attributable to appropriations received for IRA totaling $79,411 million. The Unobligated balance from prior year authority, net, increased $1,114 million as it includes the ARP and CRRSAA carryover funding. The Apportioned, unexpired accounts and Unapportioned, unexpired accounts increased by $78,235 million due to the IRA funding received.

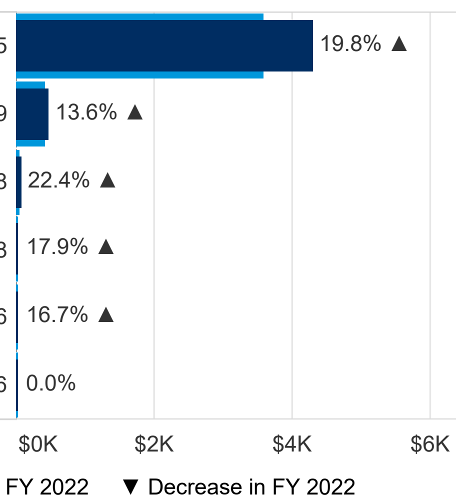
Analysis of the Statement of Custodial Activity

The SCA is the presentation of custodial revenues, appropriations and distributions that occur for the current and prior fiscal years. This activity is performed on behalf of the federal government. The custodial appropriations presented on the SCA are not available to the IRS for operational expenditures and are therefore not included in the presentation of the SBR. Additional information relative to the fluctuations discussed below is provided in the Other Information section of this report.

FY 2022 revenue receipts collected by the IRS totaled $4.9 trillion, an $800 billion increase from $4.1 trillion in FY 2021. Federal tax revenues are reported in six major classifications: Individual income taxes (FICA, Self-Employment Contributions Act (SECA) and Other), corporate income taxes, excise taxes, estate and gift taxes, federal unemployment taxes and railroad retirement taxes. The $800 billion increase is primarily due to a $383 million increase in individual withholding due to expiration of the temporary deferral of the employer's portion of social security; an additional $331 billion due to less tax credits, deductions, and exemptions allowed in filing taxes in 2022; and a $57 billion increase in corporate receipts due to an increase in taxable income of C corporations.

Custodial Revenue (in Billions)

Tax Class	FY 2022	FY 2021	
Individual Income	$4,308	$3,595	19.8% ▲
Corporate Income	$476	$419	13.6% ▲
Excise	$71	$58	22.4% ▲
Estate and Gift	$33	$28	17.9% ▲
Federal Unemployment	$7	$6	16.7% ▲
Railroad Retirement	$6	$6	0.0%



The SCA also presents refunds and outlays made by the IRS on behalf of the federal government. Refund and outlay activities were $642 billion for the period ending September 30, 2022, as compared to $1.1 trillion for the period ending September 30, 2021. The 42% decrease was primarily driven by the Economic Impact Payment (EIP) amounts refunded in FY 2021. Only the recovery rebate amounts from the EIPs were refunded in FY 2022 under the CARES Act, CRRSAA, and the ARP, which included provisions to help stimulate the economy through EIP and/or Recovery Rebate Credit payments.

Federal tax refunds and outlay activities include refunds of tax overpayments, payments for interest, and disbursements for refundable tax credits such as the Earned Income Tax Credit (EITC).

Unpaid Assessments

Under federal accounting standards, federal taxes receivable are unpaid assessments the taxpayer or court has agreed to. Unpaid assessments not agreed to by taxpayers or the courts are categorized as compliance assessments and assessments that have no future collection potential are categorized as write-offs. Compliance assessments and write-offs are not included on the balance sheet as federal taxes receivable.

(In Billions)		2022		2021
UNPAID ASSESSMENTS				
Federal Taxes Receivable	$	437	$	493
Compliance (Amounts not agreed to by taxpayer or courts)		88		80
Write-offs (No future collection potential)		77		85
Total Unpaid Assessments	**$**	**602**	**$**	**658**

The decrease in total unpaid assessments is $56 billion when compared to September 30, 2021. The decrease in total unpaid assessments is primarily due to the decrease in Social Security Tax Deferral amounts (refer to the Other Information section of this report for additional information).

The total unpaid assessment balance consists of delinquent and non-delinquent balances. These balances are owed by taxpayers who file returns without sufficient payment and/or assessed amounts through the IRS's enforcement programs (refer to financial statements Note 1.E. Federal Taxes Receivable, Net and Note 5. Federal Taxes Receivable, Net for further details). Delinquent balances are past due while non-delinquent balances are due at a future point in time and include IRC Section 965(h) amounts, for repatriated foreign earnings, and CARES Act related Social Security Tax Deferral balances.

(In Billions)		2022		2021
FEDERAL TAXES RECEIVABLE, GROSS				
Nondelinquent 965h Unpaid Assessments	$	140	$	158
Nondelinquent Social Security Tax Deferral Unpaid Assessments		51		106
Delinquent Unpaid Assessments		243		227
Delinquent Restitution Based Unpaid Assessments		3		2
Federal Taxes Receivable, Gross	**$**	**437**	**$**	**493**

Collectability Modeling and Economic Conditions

Social Security Tax Deferrals decreased $55 billion during FY 2022. The IRS treated these deferrals as collectable unless there was specific evidence otherwise, as year two amounts are not due until FY 2023. Indicators of financial health were manually reviewed for publicly traded businesses with large dollar IRC Section 965 amounts due. The analysis determined that large dollar IRC Section 965(h) taxpayers are primarily in a favorable long-term economic position to make their future payments. For delinquent unpaid assessments, collectability reflects existing economic conditions of the taxpayers' ability to pay.

The total Federal taxes receivable, net, excludes the estimated uncollectible amount of $201 billion as of September 30, 2022 and $191 billion as of September 30, 2021. Examples of uncollectible taxes include taxpayers who agree they owe the tax but are unlikely to pay and businesses with extreme financial hardships. Overall collectability combines separate collectability calculations for delinquent taxes receivable IRC Section 965(h) amounts, Social Security Tax Deferrals and restitution-based assessments (RBAs).

Estimated Collectability: Federal Taxes Receivable Gross and Net

(In Billions)					**As of September 30, 2022**
	Collectability		**Gross**		**Net**
Nondelinquent 965h Unpaid Assessments	96.5%	$	140	$	135
Nondelinquent Social Security Tax Deferral Unpaid Assessments	90.7%		51		47
Delinquent Unpaid Assessments	21.9%		246		54
Federal Taxes Receivable, Gross and Net		**$**	**437**	**$**	**236**

(In Billions)					**As of September 30, 2021**
	Collectability		**Gross**		**Net**
Nondelinquent 965h Unpaid Assessments	90.6%	$	158	$	143
Nondelinquent Social Security Tax Deferral Unpaid Assessments	99.9%		106		106
Delinquent Unpaid Assessments	23%		229		53
Federal Taxes Receivable, Gross and Net		**$**	**493**	**$**	**302**

ANALYSIS OF SYSTEMS, CONTROL AND LEGAL COMPLIANCE

Federal Managers' Financial Integrity Act (FMFIA)

Background

The FMFIA requires executive branch agencies to establish and maintain internal control and financial systems to provide reasonable assurance that:

- Obligations and costs comply with applicable laws.
- Funds, property and other assets are safeguarded against waste, loss, unauthorized use or misappropriation.
- Revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports, and to maintain accountability over the assets.

OMB Circular A-123 provides implementing guidance for FMFIA and defines management's responsibility for establishing and assessing internal controls. The Circular also requires federal agencies to adhere to the Government Accountability Office's (GAO) Standards for Internal Control in the Federal Government, and to evaluate and report on the effectiveness of the organization's internal controls to achieve: (1) the objectives of effective and efficient operations, (2) reliable reporting for internal and external use and (3) compliance with applicable laws and regulations (FMFIA Section 2). Additionally, agencies are required to assess whether financial management systems comply with federal financial management systems requirements (FMFIA Section 4).

Analysis of Controls

The Commissioner's Assurance Statement is supported by a comprehensive risk-based internal control evaluation plan that adheres to Treasury guidance. This plan includes a methodology that identifies and documents key controls and provides for the assessment and testing of those controls to provide reasonable assurance that the controls are designed, implemented and operating effectively. As part of the evaluation process, the IRS considered results of this extensive testing and assessment across the IRS.

Internal Control over Reporting

In accordance with OMB Circular A-123, Appendix A, Management of Reporting and Data Integrity Risk, the IRS also assessed internal controls over reporting. The IRS applied Treasury's Appendix A guidance to assess the effectiveness of its internal control by testing the design, implementation and operating effectiveness of key internal controls for material transactions to support reliable financial reporting. Based on the results of this assessment, the IRS concluded that as of September 30, 2022, the IRS's internal control over financial reporting was effective. In addition to the financial statements, GAO issues an opinion on Internal Control over Financial Reporting. The IRS Management's report on Internal Control over Financial Reporting provides those assurances.

Federal Financial Management Improvement Act of 1996 (FFMIA) and Financial Management Systems

The FFMIA requires federal agencies to implement and maintain financial management systems that substantially comply with federal financial management systems requirements, applicable federal accounting standards, and the U.S. Standard General Ledger (USSGL) at the transaction level. As described in OMB Circular A-123, Appendix D, "a financial management system includes an agency's overall financial operation, reflecting the people, processes, and technology to capture, classify, summarize, and report data in a meaningful manner to support business decisions."

The FFMIA Section 803(c)(1) requires an annual determination of substantial compliance with Section 803(a) of the Act based on review of relevant factors. To support this determination, the IRS assesses its financial management systems annually for conformance with the requirements of OMB Circular A-123, Appendix D, Compliance with the FFMIA and other federal financial management system requirements. Our assessment process includes the use of the FFMIA Compliance Determination Framework, (Compliance Framework) in OMB Circular A-123, Appendix D, which is a risk and evidence-based assessment model that leverages existing audits, evaluations and reviews that auditors and agency management already perform. The Compliance Framework is an outcome-based approach to assessing FFMIA compliance through a series of financial management goals that are common to all agencies.

In applying the Compliance Framework, the IRS assesses available information from audit reports and other relevant and appropriate sources, such as the Federal Information Security Modernization Act compliance activities, to determine whether our financial management systems substantially comply with FFMIA. The IRS also assesses improvements and ongoing efforts to strengthen financial management systems and the impact of instances of noncompliance on overall financial management system performance. Based on the results of our overall assessment, the IRS concluded that its financial management systems were not substantially compliant with federal financial management system requirements as of September 30, 2022, due to significant deficiencies.

The IRS has two significant deficiencies in internal control over financial reporting related to its unpaid assessments and financial reporting systems. Specifically, these deficiencies relate to (1) limitations in the ability of IRS's financial management systems to classify unpaid assessments and report taxes receivable in accordance with federal accounting standards and (2) IRS's information system security controls related to financial reporting systems. The IRS worked diligently during FY 2022 to continue to enhance its IT security posture and continues to implement a strategy and assessment process to verify the effectiveness of internal controls for the financial systems that affect the financial statements. This assessment supports the IRS's overall internal control framework and helps mitigate deficiencies in the IT environment.

Financial Management Systems

The IRS developed its financial management systems to generate timely and accurate data and comply with applicable laws and regulations, while protecting data and systems through the design, implementation and monitoring of strong internal controls. The IRS objectives are to continuously improve financial management systems by implementing enhancements that expand and streamline financial transaction processing, analysis and reporting, while operating in a robust security environment.

The IRS's financial management systems provide timely, accurate and complete financial information to generate the IRS's financial statements and provide IRS business units data to execute their missions. IRS's financial management systems comprise two major components.

The Redesigned Revenue Accounting Control System (RRACS) is a custom-built software database used to account for and summarize all IRS custodial tax transactions and activities. The IRS uses RRACS to record, control, account for, reconcile and balance all custodial accounting activity including tax payment collections and refunds, receivables, appropriation warrants, refundable tax credits and other transactional custodial activities on behalf of the federal government. RRACS specifically supports the IRS custodial responsibilities to ensure the accuracy and completeness of tax collections, disbursements and related activities in its financial reports and records.

The Integrated Financial System (IFS) is comprised of three Commercial off the Shelf SAP software components: the ERP Central Component, Procurement for Public Sector and Business Warehouse (BW). IFS interfaces with multiple systems, including, but not limited to, Internet Payment Platform, ConcurGov, MoveLINQ and National Finance Center (NFC) systems. IFS provides the IRS with comprehensive automated functionality that supports financial and administrative program management. Its software provides automated functionality for significant administrative business processes including core financials, procurement, intragovernmental transactions, purchase card activities, and budget formulation and execution. IFS also provides robust cumulative reporting capabilities by merging data from all sub-systems in BW.

During FY 2022, IRS implemented several system improvements including:

- System for Award Management (SAM) Unique Entity Identifier as a replacement for the data universal numbering system number to verify federal contractors.
- SAP and BW software upgrades.
- Systemwide technical and cybersecurity upgrades.
- Automation for maintaining digital documentation of goods receipt and acceptance transactions and processes for recording and summarizing transactions related to ARP (Dependent Care Assistance, RRC).

The IRS will build upon successes of FY 2022 with the vision that fully articulates the goals and objectives of the IRS's strategic plan. The IRS is committed to developing its employees by providing resources, tools and training that will help meet the needs of today and tomorrow and continuing to build our workforce using data-driven planning to strategically understand future workforce needs. It is important for us to foster continued partnerships and build new ones with those who are essential contributors in improving the taxpayer experience. The IRS will continue to expand its network for better information sharing and improved service delivery. Within the next five years, the IRS plans to continue to enhance financial management systems including:

- Strengthening G-Invoicing, which is the long-term solution for federal agencies to manage intra-governmental buy/sell transactions within a web-based application.
- Advancing transparency across systems with expanded data analytics capabilities.
- Building core systemic functionality to support financial accounting program changes related to the IRA and the Creating Helpful Incentives to Produce Semiconductors Act.
- Enhancing the IFS functional capability platform with technical upgrades.

Other Laws

The IRS is required to comply with several legal and regulatory requirements, including the Antideficiency Act. The Management Controls Executive Steering Committee, which includes top IRS administrative and programmatic leadership, provides oversight and governance for the design, implementation and monitoring of controls to comply with these legal and regulatory requirements. The IRS is not aware of any violations of the Antideficency Act.

MANAGEMENT ASSURANCES

The IRS's management is responsible for managing risks and maintaining effective internal control and financial management systems to meet the objectives of FMFIA. We conducted our assessment of risk and internal controls in accordance with OMB Circular A-123.

Based on our assessment, we can provide reasonable assurance that, in accordance with Section 2 of the FMFIA, the IRS's internal control over operations, reporting and compliance with laws and regulations were operating effectively as of September 30, 2022. This includes the effective operation of internal control over financial reporting which was considered as part of our assessment. In addition, we can provide reasonable assurance that, as of September 30, 2022, we are in substantial conformance with the federal financial management systems requirements of Section 4 of the FMFIA, except for two significant deficiencies related to unpaid assessments and financial reporting systems.

As a result of these significant deficiencies, our financial management systems are not in substantial compliance with the FFMIA as of September 30, 2022. We continue to make progress in remediating these deficiencies and remain committed to focusing management's attention and resources on appropriate corrective actions. Overall, we continue our efforts to ensure high standards, minimize internal control weaknesses and meet federal financial management requirements. Additional information on the deficiencies can be found in Other Information, Section A.

Charles P. Rettig

Charles P. Rettig
Commissioner of Internal Revenue

FORWARD-LOOKING INFORMATION

The information in this report reflects not only the work the IRS has done to serve taxpayers over the past year, but also the challenges the IRS faces and the vision we have for continuing to improve in the future.

The new dedicated funding from the Inflation Reduction Act will go toward tangible improvements that taxpayers will experience when they interact with the IRS. The IRS will improve customer service, answer more calls, process returns and refunds faster, update computer systems and simplify tax filing. The IRS will also continue building online capabilities to enable taxpayers to interact more fully with the IRS digitally. These resources will also enable the IRS to increase audits of high-income taxpayers and collect taxes from those who have not paid their balances due. Ultimately, this will help ensure a fair tax system, as well as simpler tax filing for taxpayers.

Building on our successes in implementing other major legislative bills, the IRS's new IRA Transformation & Implementation Office will work across the IRS and oversee our implementation efforts. Given the wide scope of the new legislation, four subsidiary offices will support the new office and will focus on specific areas: implementation of new tax law provisions, taxpayer services transformation, tax compliance transformation and human capital transformation. This funding will also build upon and expand our existing IRS Next initiative to revitalize and build a stronger, more modern organization for the next generation.

The IRS has a great deal of hard work ahead to deliver on the high expectations prompted by its receipt of this historic funding. This is a multi-year effort, and it will take time to put these improvements into place. However, IRS employees are up to the task and will deliver for the nation as they have countless times before in the history of the IRS.

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"WE'RE COMMITTED TO CONTINUOUSLY IMPROVING OUR SERVICE TO ENSURE THE TAX PROCESS IS EASY AND ACCESSIBLE AND WORKING WITH THE TAX COMMUNITY TO IMPROVE THE EXPERIENCE "

– Doug O'Donnell, Deputy Commissioner for Services and Enforcement

FINANCIAL **SECTION**

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MESSAGE FROM THE CHIEF FINANCIAL OFFICER

I am pleased to join Commissioner Rettig in presenting the IRS's Agency Financial Report, which carries with it the IRS tradition of fiscal integrity and commitment to ensuring strong financial management. We received the 23rd consecutive unmodified opinion on our financial statements. External auditors also issued an unmodified opinion on the effectiveness of our internal control over financial reporting. We continue to be diligent in our efforts to resolve the two significant deficiencies identified in prior years affecting internal controls over unpaid assessments and financial reporting systems and the related noncompliance.

The IRS financial management operations oversaw more than $4.9 trillion in tax collections, $642 billion in federal tax refunds and other outlays and $602 billion in unpaid assessments, as well as the resources that support the mission of the IRS. I am proud that the stewardship of our operations is a clear demonstration of the commitment we share toward our mission of leading the IRS's financial management with integrity and accountability through expert planning and sound financial advice, ensuring an excellent customer experience.

With sound operations, we are well-prepared to support the IRS operations with the new funding from the IRA, which allocates $79.4 billion through 2031. These funds will be used to add important and critical resources to our tax enforcement, taxpayer service and technology areas to help close the tax gap and improve taxpayer service.

Looking ahead in FY 2023, our objectives are to continue to innovate our processes, increase capacity and enhance efficiency, accuracy, data analytics and on demand reporting to support critical decision making. We continue to support a culture of curiosity and promote resilient, agile and sound financial management operations to continue our tradition of excellence in financial reporting and being prepared for the future while embracing innovative practices.

I want to thank the entire CFO staff for their continued innovation, hard work, resilience and dedication to the IRS and public service. I'm proud of all that we've accomplished and look forward to another great year.

Sincerely,

Teresa R. Hunter
Chief Financial Officer
November 7, 2022

INDEPENDENT AUDITOR'S REPORT

GAO U.S. GOVERNMENT ACCOUNTABILITY OFFICE

441 G St. N.W.
Washington, DC 20548

Independent Auditor's Report

To the Commissioner of Internal Revenue

In our audits of the fiscal years 2022 and 2021 financial statements of the Internal Revenue Service (IRS), we found

- IRS's financial statements as of and for the fiscal years ended September 30, 2022, and 2021, are presented fairly, in all material respects, in accordance with U.S. generally accepted accounting principles;
- although internal controls could be improved, IRS maintained, in all material respects, effective internal control over financial reporting as of September 30, 2022; and
- no reportable noncompliance for fiscal year 2022 with provisions of applicable laws, regulations, contracts, and grant agreements we tested.

The following sections discuss in more detail (1) our report on the financial statements and on internal control over financial reporting, which includes an emphasis-of-matter paragraph related to federal taxes receivable, required supplementary information (RSI),[1] and other information included with the financial statements;[2] (2) our report on compliance with laws, regulations, contracts, and grant agreements; and (3) agency comments.

Report on the Financial Statements and on Internal Control over Financial Reporting

Opinion on the Financial Statements

In connection with fulfilling our requirement to audit the consolidated financial statements of the U.S. government, and consistent with our authority to audit statements and schedules prepared by executive agency components, we have audited IRS's financial statements because of the significance of IRS's tax collections to the consolidated financial statements of the U.S. government.[3] IRS's financial statements comprise the balance sheets as of September 30, 2022, and 2021; the related statements of net cost, changes in net position, budgetary resources, and custodial activity for the fiscal years then ended; and the related notes to the financial statements. In our opinion, IRS's financial statements present fairly, in all material

[1]The RSI consists of Management's Discussion and Analysis and the Required Supplementary Information section, which are included with the financial statements.

[2]Other information consists of information included with the financial statements, other than the RSI and the auditor's report.

[3]See 31 U.S.C. §§ 331(e)(2), 3515, 3521(g), (i). Pursuant to the authority of 31 U.S.C. § 3515, the Office of Management and Budget (OMB) requires IRS to issue annual audited financial statements that are separate from those of the Department of the Treasury or that are presented separately in the department's audited, consolidated financial statements. *See* OMB Bulletin 22-01, *Audit Requirements for Federal Financial Statements,* app. B (Aug. 26, 2022).

respects, IRS's financial position as of September 30, 2022, and 2021, and its net cost of operations, changes in net position, budgetary resources, and custodial activity for the fiscal years then ended in accordance with U.S. generally accepted accounting principles.

Opinion on Internal Control over Financial Reporting

We also have audited IRS's internal control over financial reporting as of September 30, 2022, based on criteria established under 31 U.S.C. § 3512(c), (d), commonly known as the Federal Managers' Financial Integrity Act (FMFIA). In our opinion, although certain internal controls could be improved, IRS maintained, in all material respects, effective internal control over financial reporting as of September 30, 2022, based on criteria established under FMFIA. Our fiscal year 2022 audit continued to identify significant deficiencies in internal control over financial reporting concerning IRS's unpaid assessments and financial reporting systems.[4] We considered these significant deficiencies in determining the nature, timing, and extent of our audit procedures on IRS's fiscal year 2022 financial statements.

Although the significant deficiencies in internal control did not affect our opinion on IRS's fiscal year 2022 financial statements, misstatements may occur in unaudited financial information reported internally and externally by IRS because of these significant deficiencies.

In addition, because of the significant deficiencies in internal controls over unpaid assessments and financial reporting systems that existed during fiscal year 2022, IRS's financial management systems did not comply substantially with federal financial management systems requirements as required by the Federal Financial Management Improvement Act of 1996.[5]

We will be reporting additional details concerning the significant deficiency in internal control over financial reporting systems separately to IRS management, along with recommendations for corrective actions. In addition to the significant deficiencies in internal control over unpaid assessments and financial reporting systems, we also identified other deficiencies in IRS's internal control over financial reporting that we do not consider to be material weaknesses or significant deficiencies. Nonetheless, these deficiencies warrant IRS management's attention.

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[4]An unpaid assessment is an enforceable claim against a taxpayer for which specific amounts are due, have been determined, and the person(s) or entities from which a tax is due have been identified. See implementing guidance in Internal Revenue Manual § 1.34.4.1.6 (1) p, *Terms/Definitions* (Aug. 25, 2015). A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

[5]Section 803(a) of the Federal Financial Management Improvement Act of 1996 (FFMIA), which is reprinted in 31 U.S.C. § 3512 note, requires that certain federal agencies, including Treasury, implement and maintain financial management systems that comply substantially with federal financial management systems requirements, applicable federal accounting standards, and the *U.S. Government Standard General Ledger* at the transaction level. While IRS's financial management systems did not comply substantially with federal financial management systems requirements, IRS's financial management systems did comply substantially with federal accounting standards and the *U.S. Government Standard General Ledger* at the transaction level. As a Treasury component, IRS is not required to be assessed separately; however, it is included in Treasury's agency-wide FFMIA assessment. Since IRS is a significant component of Treasury, we conducted this assessment to support the audit of the Treasury agency-wide financial statements. *See* OMB Circular No. A-123, app. D, *Compliance with the Federal Financial Management Improvement Act of 1996*, § 4.A (Sept. 20, 2013).

We have communicated these matters to IRS management and, where appropriate, will report on them separately.

Significant Deficiency in Internal Control over Unpaid Assessments

During fiscal year 2022, the systems IRS uses to account for federal taxes receivable and other unpaid assessment balances continued to have limitations, as well as other control deficiencies that led to errors in taxpayer accounts. Because of these deficiencies, IRS's systems were unable to provide the timely, reliable, and complete transaction-level financial information necessary to enable IRS to appropriately classify and report unpaid assessment balances.[6]

As in prior years,[7] IRS used a manually driven statistical estimation process to compensate for the effects of its system limitations and other deficiencies on a material portion of its federal taxes receivable balance to determine a balance that was free of material misstatement.[8] During fiscal year 2022, IRS recorded adjustments totaling about $18.5 billion to correct the effects of continued errors in its underlying data that it identified during its estimation process. While using this process to determine a material portion of taxes receivable has enabled IRS to produce reliable related balances for year-end reporting, it does not provide IRS management with readily available, reliable unpaid assessment information on a daily basis throughout the year for effectively managing unpaid assessment balances. Further, errors in taxpayer accounts create a burden for those taxpayers whose accounts were affected.

While not collectively considered a material weakness, IRS's ongoing control deficiencies related to unpaid assessments are important enough to merit attention by those charged with governance of IRS. Therefore, these issues collectively represent a significant deficiency in IRS's internal control over financial reporting as of September 30, 2022. Continued management commitment and sustained efforts are necessary to build on the progress made to date and to fully address IRS's remaining unresolved issues concerning the management and reporting of unpaid assessments.

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[6]Federal accounting standards classify unpaid assessments into one of the following three categories for reporting purposes: federal taxes receivable, compliance assessments, and write-offs. Federal taxes receivable are taxes due from taxpayers that IRS can support through the existence of a taxpayer agreement such as filing of a tax return without sufficient payment, or a court ruling in favor of IRS. Compliance assessments are proposed tax assessments where neither the taxpayer (when the right to disagree or object exists) nor a court has affirmed that the amounts are owed. Write-offs represent unpaid assessments for which IRS does not expect further collections because of factors such as the taxpayer's death, bankruptcy, or insolvency.

Federal accounting standards require that IRS report only federal taxes receivable, net of an allowance for uncollectible taxes receivable, on the financial statements. See Statement of Federal Financial Accounting Standards No. 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting* (May 10, 1996). See also implementing guidance in Internal Revenue Manual, § 1.34.4, *Unpaid Assessments* (Mar. 3, 2021).

[7]See GAO, *Financial Audit: IRS's FY 2021 and FY 2020 Financial Statements*, GAO-22-104649 (Washington, D.C.: Nov. 10, 2021).

[8]In fiscal year 2022, IRS's reported federal taxes receivable consisted of a combination of three distinct types of taxes receivable with different internal control and accounting processes in place: amounts derived from (1) IRS's unpaid assessments statistical estimation process; (2) the Section 965(h) repatriation of foreign earnings provision of the Tax Cuts and Jobs Act of 2017, Pub. L. No. 115-97, § 14103, 131 Stat. 2054, 2195-2208 (Dec. 22, 2017), which is codified at 26 U.S.C § 965; and (3) taxpayer deferral of the employer's share of Social Security taxes and certain self-employment taxes permitted by the CARES Act, Pub. L. No. 116-136, div. A, tit. II, § 2302, 134 Stat. 281, 351-52 (Mar. 27, 2020), which is reprinted in 26 U.S.C. § 3111 note.

Significant Deficiency in Internal Control over Financial Reporting Systems

During our fiscal year 2022 audit, we determined that information system security control deficiencies—primarily unresolved deficiencies identified in prior audits—collectively represent a significant deficiency in IRS's internal control over financial reporting. These control deficiencies relate to general controls.[9]

IRS mitigated the potential effect of the identified control deficiencies primarily through compensating controls that management has designed to detect potential misstatements on the financial statements. Nevertheless, these deficiencies increase the risk of unauthorized access to, modification of, or disclosure of sensitive financial and taxpayer data and disruption of critical operations and are therefore important enough to merit the attention of those charged with governance of IRS.

IRS made progress in addressing certain information system security control deficiencies. For example, IRS addressed deficiencies in (1) the identification and authentication of user and service accounts, (2) certain configuration settings, and (3) security management.[10] However, deficiencies continue to exist as of September 30, 2022. For example, deficiencies exist concerning encryption and improper configuration of security settings. While IRS has expressed its intent to address unresolved deficiencies in fiscal year 2023, continued and consistent management commitment and attention are essential to addressing existing deficiencies and continually improving IRS's information system security controls.

Basis for Opinions

We conducted our audits in accordance with U.S. generally accepted government auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audits of the Financial Statements and Internal Control over Financial Reporting section of our report. We are required to be independent of IRS and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter

This matter deserves emphasis in order to put the information in IRS's financial statements into context. As discussed in Note 1.E., *Federal Taxes Receivable, Net*, taxes receivable consist of unpaid assessments (taxes, associated penalties and interest) due from taxpayers. The existence of a receivable is supported by a taxpayer agreement, such as filing of a tax return

[9]General controls help to provide reasonable assurance that access to data is appropriately restricted, physical access to sensitive computing resources and facilities is restricted, systems are securely configured to avoid exposure to known vulnerabilities, and incompatible duties are segregated among individuals. In addition, controls should ensure that backup and recovery plans are adequate and tested to ensure the continuity of essential operations and that security is managed entity-wide under a framework that provides a continuing cycle of activity for assessing risk, developing and implementing effective security procedures, and monitoring the effectiveness of these procedures.

[10]Identification is the process of verifying the identity of a user, process, or device, usually as a prerequisite for granting access to resources in an information system. Authentication establishes the validity of a user's claimed identity, typically during access to a system or application. Security management establishes a framework and continuous cycle of activity for assessing risk, developing and implementing effective security procedures, and monitoring the effectiveness of these procedures.

without sufficient payment, or a court ruling in favor of IRS. Consistent with federal accounting standards, IRS's financial statements do not include an estimate for the annual tax gap—the difference between the amount of tax that taxpayers owe and the amount they actually pay voluntarily and on time,[11] nor do they include information on tax expenditures.[12] Further detail on the tax gap and tax expenditures, as well as the associated dollar amounts, is provided in the unaudited other information included with the financial statements. Our opinion on IRS's financial statements is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements and Internal Control over Financial Reporting

IRS management is responsible for (1) the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; (2) preparing, measuring, and presenting the RSI in accordance with U.S. generally accepted accounting principles; (3) preparing and presenting other information included in IRS's financial report, and ensuring the consistency of that information with the audited financial statements and the RSI; (4) designing, implementing, and maintaining effective internal control over financial reporting relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; (5) assessing the effectiveness of internal control over financial reporting based on the criteria established under FMFIA; and (6) its assessment about the effectiveness of internal control over financial reporting as of September 30, 2022, included in the accompanying Management's Report on Internal Control over Financial Reporting on page 22.

Auditor's Responsibilities for the Audits of the Financial Statements and Internal Control over Financial Reporting

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and about whether effective internal control over financial reporting was maintained in all material respects, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit of the financial statements or an audit of internal control over financial reporting conducted in accordance with U.S. generally accepted government auditing standards will always detect a material misstatement or a material weakness when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered to be material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

[11]The tax gap arises when taxpayers, whether intentionally or inadvertently, fail to (1) accurately report tax liabilities on tax returns (underreporting), (2) pay taxes due from filed returns (underpayment), or (3) file required tax returns altogether or on time (nonfiling). Based on its most recent study, which relied on 2014–2016 data, IRS estimated the average annual gross tax gap to be $496 billion. IRS estimated it would eventually collect $68 billion of that amount through late payments and enforcement actions, leaving an estimated net tax gap of $428 billion per year.

[12]Tax expenditures are provisions of the Internal Revenue Code (Title 26, U.S. Code) that reduce taxpayers' tax liability and therefore the amount of tax revenue paid to the government. Examples include tax credits, deductions, exclusions, exemptions, deferrals, and preferential tax rates.

In performing an audit of financial statements and an audit of internal control over financial reporting in accordance with U.S. generally accepted government auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audits.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements in order to obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Obtain an understanding of internal control relevant to our audit of the financial statements in order to design audit procedures that are appropriate in the circumstances.
- Obtain an understanding of internal control relevant to our audit of internal control over financial reporting, assess the risks that a material weakness exists, and test and evaluate the design and operating effectiveness of internal control over financial reporting based on the assessed risk. Our audit of internal control also considered IRS's process for evaluating and reporting on internal control over financial reporting based on criteria established under FMFIA. We did not evaluate all internal controls relevant to operating objectives as broadly established under FMFIA, such as those controls relevant to preparing performance information and ensuring efficient operations. We limited our internal control testing to testing controls over financial reporting. Our internal control testing was for the purpose of expressing an opinion on whether effective internal control over financial reporting was maintained, in all material respects. Consequently, our audit may not identify all deficiencies in internal control over financial reporting that are less severe than a material weakness.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Perform other procedures we consider necessary in the circumstances.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the financial statement audit.

<u>Definition and Inherent Limitations of Internal Control over Financial Reporting</u>

An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, the objectives of which are to provide reasonable assurance that (1) transactions are properly recorded, processed, and summarized to permit the preparation of financial statements in accordance with U.S. generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition, and (2) transactions are executed in accordance with provisions of applicable laws, including those governing the use of budget authority, regulations, contracts, and grant agreements, noncompliance with which could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements due to fraud or error. We also caution that projecting any evaluation of effectiveness to future periods is subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Required Supplementary Information

U.S. generally accepted accounting principles issued by the Federal Accounting Standards Advisory Board (FASAB) require that the RSI be presented to supplement the financial statements. Such information is the responsibility of management and, although not a part of the financial statements, is required by FASAB, which considers it to be an essential part of financial reporting for placing the financial statements in appropriate operational, economic, or historical context. We have applied certain limited procedures to the RSI in accordance with U.S. generally accepted government auditing standards, which consisted of inquiries of management about the methods of preparing the RSI and comparing the information for consistency with management's responses to the auditor's inquiries, the financial statements, and other knowledge we obtained during the audit of the financial statements, in order to report omissions or material departures from FASAB guidelines, if any, identified by these limited procedures. We did not audit and we do not express an opinion or provide any assurance on the RSI because the limited procedures we applied do not provide sufficient evidence to express an opinion or provide any assurance.

Other Information

IRS's other information contains a wide range of information, some of which is not directly related to the financial statements. This information is presented for purposes of additional analysis and is not a required part of the financial statements or the RSI. Management is responsible for the other information included in IRS's financial report. The other information comprises certain tax-related and management information, but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements

In connection with our audits of IRS's financial statements, we tested compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements consistent with our auditor's responsibilities discussed below.

Results of Our Tests for Compliance with Laws, Regulations, Contracts, and Grant Agreements

Our tests for compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements disclosed no instances of noncompliance for fiscal year 2022 that would be reportable under U.S. generally accepted government auditing standards. However, the objective of our tests was not to provide an opinion on compliance with laws, regulations, contracts, and grant agreements applicable to IRS. Accordingly, we do not express such an opinion.

Basis for Results of Our Tests for Compliance with Laws, Regulations, Contracts, and Grant Agreements

We performed our tests of compliance in accordance with U.S. generally accepted government auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for Tests of Compliance section below.

Responsibilities of Management for Compliance with Laws, Regulations, Contracts, and Grant Agreements

IRS management is responsible for complying with laws, regulations, contracts, and grant agreements applicable to IRS.

Auditor's Responsibilities for Tests of Compliance with Laws, Regulations, Contracts, and Grant Agreements

Our responsibility is to test compliance with selected provisions of laws, regulations, contracts, and grant agreements applicable to IRS that have a direct effect on the determination of material amounts and disclosures in IRS's financial statements, and perform certain other limited procedures. Accordingly, we did not test compliance with all laws, regulations, contracts, and grant agreements applicable to IRS. We caution that noncompliance may occur and not be detected by these tests.

Intended Purpose of Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements

The purpose of this report is solely to describe the scope of our testing of compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements, and the results of that testing, and not to provide an opinion on compliance. This report is an integral part of an audit performed in accordance with U.S. generally accepted government auditing standards in considering compliance. Accordingly, this report on compliance with laws, regulations, contracts, and grant agreements is not suitable for any other purpose.

Agency Comments

In commenting on a draft of this report, IRS stated that it was pleased to receive an unmodified opinion on its financial statements and commented on its progress in reducing the open recommendations. IRS also noted its intention to continue working to improve its internal controls. The complete text of IRS's response is reproduced in the enclosure.

Dawn Simpson

Dawn B. Simpson
Director
Financial Management and Assurance

November 7, 2022

ENCLOSURE: IRS RESPONSE TO THE INDEPENDENT AUDITOR'S REPORT

COMMISSIONER

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, DC 20224

November 7, 2022

Ms. Dawn B. Simpson
Director
Financial Management and Assurance
U.S. Government Accountability Office
441 G Street, NW
Washington, DC 20548

Dear Ms. Simpson:

Thank you for the opportunity to comment on the draft report titled, Financial Audit: IRS's Fiscal Years 2022 and 2021 Financial Statements. We are pleased the IRS received an unmodified opinion on its combined financial statements and there are no material weaknesses. The unmodified opinion demonstrates that the IRS accurately accounts for tax revenue receipts, tax refunds and IRS appropriated funds.

We appreciate the GAO recognizing our successful efforts, and we look forward to working with you to resolve the remaining two significant deficiencies in internal controls over unpaid assessments and financial reporting systems. We have made noteworthy progress in reducing the open recommendations and will continue to focus our efforts to improve financial management in our agency.

The IRS's ability to produce reliable financial statements each year is due to the efforts of our outstanding management team and staff. We are dedicated to promoting the highest standard of financial management, and we look forward to working with the GAO to continue providing accurate reporting and improving our internal controls.

Sincerely,

Charles P. Rettig
Digitally signed by Charles P. Rettig
Charles P. Rettig

FINANCIAL STATEMENTS

The financial statements have been prepared to report the financial position and results of operations of the IRS, pursuant to the requirements of the Chief Financial Officers Act of 1990 (Public Law 101-576) (P.L.), the Government Management Reform Act of 1994 (P.L. 103-356) and the OMB Circular No. A-136, Financial Reporting Requirements. The responsibility for the integrity of the financial information included in these statements is with the management of the IRS. The audit of the IRS financial statements was performed by GAO.

The IRS financial statements for FY 2022 and FY 2021 are:

- The Balance Sheets present the assets, liabilities and net position.
- The Statements of Net Cost present the gross costs less exchange revenue earned from activities and the net cost of operations. The FY 2022 SNC presentation aligns with the IRS Strategic Plan FY 2022–2026 and is not comparable to the FY 2021 presentation by major program. The current and prior year presentation of this statement are separately provided.
- The Statements of Changes in Net Position (SCNP) present the change in net position resulting from the net cost of operations, budgetary financing sources other than exchange revenues and other financing sources.
- The Statements of Budgetary Resources present the budgetary resources, the status of those resources and the agency outlays, net. Additional detail by major budget accounts is available in the Required Supplementary Information section.
- The Statements of Custodial Activity present the sources of non-exchange federal tax revenues collected and disposition of refunds and outlays disbursed.

Balance Sheets
As of September 30, 2022 and 2021
(in Millions)

	2022	2021
ASSETS		
Intragovernmental		
Fund Balance with Treasury (Notes 2, 3)	$ 87,389	$ 7,062
Accounts Receivable, Net	39	34
Advances and Prepayments	1	10
Other Assets		
Due From General Fund of the U.S. Government (Note 3)	6,947	6,248
Total Intragovernmental	**94,376**	**13,354**
With the Public		
Cash and Other Monetary Assets (Note 4)	4	1,459
Accounts Receivable, Net		
Federal Taxes Receivable, Net (Notes 3, 5, 7)	236,000	302,000
Other Receivables, Net	6	9
General Property and Equipment, Net (Note 6)	1,795	1,822
Advances and Prepayments	9	9
Inventory and Related Property, Net	–	1
Total with the Public	**237,814**	**305,300**
Total Assets	**$ 332,190**	**$ 318,654**
LIABILITIES		
Intragovernmental		
Accounts Payable	$ –	$ 6
Other Liabilities		
Due To General Fund of the U.S. Government (Note 7)	238,407	304,058
Other Liabilities (Note 8)	217	194
Total Intragovernmental	**238,624**	**304,258**
With the Public		
Accounts Payable		
Federal Tax Refunds Payable	6,947	6,248
Other Payables	15	3
Federal Employee Benefits Payable (Note 9)	1,003	1,058
Other Liabilities (Note 8)	2,220	2,122
Total with the Public	**10,185**	**9,431**
Total Liabilities	**248,809**	**313,689**
Commitments And Contingencies (Note 12)		
NET POSITION		
Unexpended Appropriations		
Funds From Other Than Dedicated Collections	82,049	3,459
Cumulative Results of Operations		
Funds From Dedicated Collections (Note 13)	181	206
Funds From Other Than Dedicated Collections	1,151	1,300
Total Cumulative Results of Operations	**1,332**	**1,506**
Total Net Position	**83,381**	**4,965**
Total Liabilities and Net Position	**$ 332,190**	**$ 318,654**

The accompanying notes are an integral part of these statements.

Statements of Net Cost
For the Years Ended September 30, 2022 and 2021
(in Millions)

		2022
MAJOR PROGRAMS		
Service to the Taxpayer		
Gross Cost	$	7,085
Earned Revenue		(95)
Net Cost of Program		**6,990**
Enforcement of Tax Legislation		
Gross Cost		8,441
Earned Revenue		(434)
Net Cost of Program		**8,007**
Transformation of Business Systems		
Gross Cost		675
Earned Revenue		(5)
Net Cost of Program		**670**
Net Cost of Operations	**$**	**15,667**

The accompanying notes are an integral part of these statements.

		2021
MAJOR PROGRAMS		
Taxpayer Assistance and Education		
Gross Cost	$	542
Earned Revenue		(1)
Net Cost of Program		**541**
Filing and Account Services		
Gross Cost		5,882
Earned Revenue		(146)
Net Cost of Program		**5,736**
Compliance		
Gross Cost		8,914
Earned Revenue		(486)
Net Cost of Program		**8,428**
Administration of Tax Credit Programs		
Gross Cost		132
Net Cost of Program		**132**
Net Cost of Operations	**$**	**14,837**

The accompanying notes are an integral part of these statements.

Statement of Changes in Net Position
For the Years Ended September 30, 2022
(in Millions)

	2022		
	Consolidated Funds From Dedicated Collections	**Consolidated Funds From Other Than Dedicated Collections**	**Consolidated Total**
UNEXPENDED APPROPRIATIONS			
Beginning Balances	$ –	$ 3,459	$ 3,459
Appropriations Received	–	92,005	92,005
Appropriations Transferred In/Out	–	30	30
Other Adjustments	–	(74)	(74)
Appropriations Used	–	(13,371)	(13,371)
Net Change	–	**78,590**	**78,590**
Total Unexpended Appropriations, Ending Balances	–	**82,049**	**82,049**
CUMULATIVE RESULTS OF OPERATIONS			
Beginning Balances	206	1,300	1,506
Appropriations Used	–	13,371	13,371
Non-exchange Revenue	90	–	90
Transfers In/Out Without Reimbursement	–	26	26
Imputed Financing (Note 14)	2	2,008	2,010
Transfers To General Fund of the U.S. Government	–	(4)	(4)
Net Cost of Operations	**(117)**	**(15,550)**	**(15,667)**
Net Change	**(25)**	**(149)**	**(174)**
Total Cumulative Results of Operations, Ending Balances	**181**	**1,151**	**1,332**
Net Position	**$ 181**	**$ 83,200**	**$ 83,381**

The accompanying notes are an integral part of these statements.

Statement of Changes in Net Position
For the Years Ended September 30, 2021
(in Millions)

	2021		
	Consolidated Funds From Dedicated Collections	**Consolidated Funds From Other Than Dedicated Collections**	**Consolidated Total**
UNEXPENDED APPROPRIATIONS			
Beginning Balances	$ –	$ 2,005	$ 2,005
Appropriations Received	–	14,290	14,290
Other Adjustments	–	(63)	(63)
Appropriations Used	–	(12,773)	(12,773)
Net Change	–	**1,454**	**1,454**
Total Unexpended Appropriations, Ending Balances	–	**3,459**	**3,459**
CUMULATIVE RESULTS OF OPERATIONS			
Beginning Balances	126	1,419	1,545
Appropriations Used	–	12,773	12,773
Non-exchange Revenue	110	–	110
Transfers In/Out Without Reimbursement	–	31	31
Imputed Financing (Note 14)	3	1,885	1,888
Transfers To General Fund of the U.S. Government	–	(4)	(4)
Net Cost of Operations	**(33)**	**(14,804)**	**(14,837)**
Net Change	**80**	**(119)**	**(39)**
Total Cumulative Results of Operations, Ending Balances	**206**	**1,300**	**1,506**
Net Position	**$ 206**	**$ 4,759**	**$ 4,965**

The accompanying notes are an integral part of these statements.

Statements of Budgetary Resources
For the Years Ended September 30, 2022 and 2021
(in Millions)

		2022		2021
BUDGETARY RESOURCES				
Unobligated Balance From Prior Year Budget Authority, Net	$	2,694	$	1,580
Appropriations (Discretionary and Mandatory)		92,528		14,900
Spending Authority From Offsetting Collections (Discretionary and Mandatory)		154		151
Total Budgetary Resources	**$**	**95,376**	**$**	**16,631**
STATUS OF BUDGETARY RESOURCES				
New Obligations and Upward Adjustments (Total)	$	14,570	$	14,071
Unobligated Balance, End of Year				
Apportioned, Unexpired Accounts		34,338		2,296
Exempt From Apportionment, Unexpired Accounts		7		7
Unapportioned, Unexpired Accounts		46,196		3
Unexpired Unobligated Balance, End of Year		80,541		2,306
Expired Unobligated Balance, End of Year		265		254
Unobligated Balance, End of Year (Total)		80,806		2,560
Total Budgetary Resources	**$**	**95,376**	**$**	**16,631**
OUTLAYS, NET				
Outlays, Net (Total) (Discretionary and Mandatory)	$	13,855	$	13,293
Distributed Offsetting Receipts		(312)		(370)
Agency Outlays, Net (Discretionary and Mandatory)	**$**	**13,543**	**$**	**12,923**

The accompanying notes are an integral part of these statements.

Statements of Custodial Activity
For the Years Ended September 30, 2022 and 2021
(in Billions)

		2022		2021
REVENUE ACTIVITY				
Collections of Federal Tax Revenue (Note 17)				
Individual Income, FICA, SECA and Other	$	4,308	$	3,595
Corporate Income		476		419
Excise		71		58
Estate and Gift		33		28
Railroad Retirement		6		6
Federal Unemployment		7		6
Total Collections of Federal Tax Revenue		**4,901**		**4,112**
(Decrease)/Increase in Federal Taxes Receivable, Net		(66)		66
Total Federal Tax Revenue	**$**	**4,835**	**$**	**4,178**
Distribution of Federal Tax Revenue Due To General Fund of the U.S. Government	$	4,901	$	4,112
(Decrease)/Increase in Amount Due		(66)		66
Total Disposition of Federal Tax Revenue		**4,835**		**4,178**
Net Federal Revenue Activity	**$**	**–**	**$**	**–**
FEDERAL TAX REFUND AND OUTLAY ACTIVITIES				
Total Refunds of Federal Taxes and Outlays (Note 18)	$	642	$	1,138
Appropriations Used For Refund of Federal Taxes and Outlays		(642)		(1,138)
Net Federal Tax Refund and Outlay Activities	**$**	**–**	**$**	**–**

The accompanying notes are an integral part of these statements.

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended September 30, 2022 and 2021

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The IRS is a bureau of the Treasury. The IRS originated in 1862, when Congress established the Office of the Commissioner of Internal Revenue. The IRS administers the nation's tax laws and annually collects the tax receipts funding the federal government. The organizational divisions and programs within the IRS contribute to this achievement.

B. Basis of Accounting and Presentation

The financial statements have been prepared from the accounting records of the IRS in conformity with U.S. GAAP and in accordance with OMB Circular No. A-136, Financial Reporting Requirements. Accounting principles for federal entities are the standards prescribed by the Federal Accounting Standards Advisory Board, which is the official body for setting accounting standards of the federal government.

The accounting structure of federal agencies is designed to reflect both accrual and budgetary accounting transactions. Under the accrual method of accounting, revenues are recognized when earned and expenses are recognized when incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal constraints and controls over the use of federal funds. The SCA is presented on the modified cash basis of accounting. Under this method, cash collections and transfers to the General Fund of the U.S. Government are reported on a cash basis. The collections and transfers are adjusted on the face of the SCA for the net change in taxes receivable, producing modified cash basis balances.

The preparation of financial statements in conformity with U.S. GAAP requires management to make certain estimates and assumptions related to the reporting of assets, liabilities, revenues, expenses and the disclosure of contingent liabilities. Actual results could differ from these estimates. Estimates are used in computing tax receivables, allocation of costs to strategic goals in the SNC, year-end accruals for payables and actuarial liabilities. Actual results could differ from these estimates.

Certain assets, liabilities, earned revenues and costs have been classified as intragovernmental in the financial statements and notes. Intragovernmental is defined as transactions made between two reporting entities within the federal government.

Accounting standards require all reporting entities to disclose that accounting standards allow certain presentations and disclosures to be modified, if needed, to prevent the disclosure of classified information.

C. Fund Balance with Treasury

The FBWT is an asset of a reporting entity and a liability of the General Fund of the U.S. Government. The amounts represent commitments by the federal government to provide resources for certain programs, but do not represent net assets to the federal government.

When the IRS seeks to use the FBWT to liquidate budgetary obligations, Treasury will finance the disbursements in the same way it finances all other disbursements, using some combination of receipts, other inflows and borrowing from the public (if there is a budget deficit).

D. Accounts Receivable, Net

Accounts receivable, net, are due to the IRS from federal agencies and the public. With the Public, Accounts Receivable, Net are reported as Other Receivables on the balance sheet. Intragovernmental receivables include an expenditure transfer receivable from the Treasury Forfeiture Fund for the repayment of costs incurred in criminal investigations related to seizure and forfeitures. Reimbursable agreements with Federal agencies are recorded as receivables and revenues are recognized as services are performed and costs are incurred.

Receivables with the public include reimbursable agreements and payroll receivables collected by the NFC. These receivables are the IRS and NFC pay adjustments due to duplicate salary payments, salary overpayments, overdrawn leave, leave buybacks under workers' compensation and federal employees health benefit payments.

The allowance for uncollectible accounts is based on an annual review of groups of accounts by age for accounts receivable balances older than one year.

E. Federal Taxes Receivable, Net

The IRS reduces its taxes receivable amount by an allowance to report the amount of Federal taxes receivable, net, on its Balance Sheets. The allowance reflects an estimate of the portion of total taxes receivable deemed to be uncollectible.

Accruals are made to reflect penalties and interest on taxes receivable through the Balance Sheet date. The majority of the Due to General Fund of the U.S. Government balance is the offsetting liability of Federal taxes receivable, net.

Taxes receivable consist of unpaid assessments (taxes, associated penalties and interest) due from taxpayers. The existence of a receivable is supported by a taxpayer agreement, such as filing of a tax return without sufficient payment, or a court ruling in favor of the IRS. RBAs, to compensate the federal government for revenue losses caused by tax-related crimes, including conspiracy to defraud IRS and tax evasion, federal courts may order RBAs against defendants, are included in the taxes receivable balance. The IRC Section 965(h) requires U.S. shareholders to pay a transition tax on the untaxed foreign earnings of certain specified foreign corporations as if those earnings had been repatriated to the U.S. This provision allowed taxpayers to elect to pay their transition tax on an eight-year installment schedule. The CARES Act, Section 2302, contains a provision which allows employers to defer payment, without penalty, of the entire amount of the employer's share of the social security portion of FICA. This also includes the employer's and employee representative's share of the Railroad Retirement tax. The deferred amount is due in two installments with 50% due as of December 31, 2021, and the remaining amount by December 31, 2022.

Other Unpaid Assessments

Compliance assessments are unpaid assessments which neither the taxpayer nor a court has affirmed is owed to the federal government. This includes assessments resulting from an IRS audit or examination in which the taxpayer does not agree with the results. Write-off assessments consist of unpaid assessments for which the IRS does not expect further collections due to factors such as taxpayers' bankruptcy, insolvency, or death. Compliance assessments and write-off assessments are not reported on the balance sheets. Statutory provisions authorize the IRS to collect on unpaid assessments for a specific statutory timeframe. To pursue collections and account for collection efforts, the IRS maintains unpaid assessment accounts in the financial records until the statute for collection expires.

Tax Assessments

Under IRC Section 6201, the Secretary of the Treasury is authorized and required to make inquiries, determinations and assessments of all taxes imposed and accrued under any internal revenue law, which have not been duly paid, including interest, additions to the tax and assessable penalties. The Secretary of the Treasury has delegated this authority to the Commissioner of the IRS. Unpaid assessments result from taxpayers filing returns without sufficient payments and from the enforcement programs of the IRS, such as examination, under-reporter, substitute for return and combined annual wage reporting.

Abatements

IRC Section 6404 authorizes the Commissioner of the IRS to abate certain paid or unpaid portions of assessed taxes, interest and penalties. Abatements occur for several reasons and are a standard part of the tax administration process. Abatements may be allowed for qualifying corporations claiming net operating losses that create a credit when carried back and applied against a prior year's tax liability. Additionally, abatements can correct previous assessments from enforcement programs, eliminate taxes discharged in bankruptcy, reduce, or eliminate taxes encompassed in offers-in-compromise, eliminate penalty assessments for reasonable cause, eliminate contested assessments caused by mathematical or clerical errors and eliminate assessments contested after the liability has been satisfied. Abatements may result in claims for refunds or reductions of the unpaid assessed amounts.

F. Cash and Other Monetary Assets

Imprest funds are maintained by headquarters and field offices in commercial bank accounts. Other monetary assets consist primarily of offers-in-compromise, voluntary deposits received from taxpayers pending application of the funds to unpaid tax assessments and seized monies pending the results of criminal investigations.

G. General Property and Equipment

General property and equipment are recorded at historical cost. They consist of tangible and intangible assets, including software. At a minimum, disposals are recorded at year-end.

In FY 2021, the IRS changed its capitalization policy to expense acquisitions of laptop/desktop, furniture and end user software regardless of the amount. Prior to FY 2021, these categories were capitalized if they met the capitalization threshold of $50 thousand.

In FY 2022, the IRS changed its depreciation policy and calculates depreciation on a straight-line basis using the in-service date. Prior to FY 2022, except for leases meeting the 75% useful life and/or 90% of net present value criteria, depreciation was calculated on a straight-line basis over the estimated useful life using a half year convention in the first and final year of the estimated useful life. Leases were depreciated over the life of the lease; there is no change to the treatment of leases in FY 2022.

IRS Capitalization Policy	
Asset Class	Capitalization Threshold
IT equipment (Mainframe, Server & Telecommunication)	Bulk cost of $50 thousand or greater.
Non-IT equipment	Assets with bulk cost of $50 thousand or greater and the individual cost is $5 thousand or greater.
Investigative equipment	Bulk cost of $50 thousand or greater.
Vehicles	No threshold.
Internal use software (IUS)	Projects with an estimated cost of greater than or equal to $10 million per year or greater than or equal to $50 million over the life cycle.
Leasehold improvements (LHI)	Improvements with bulk cost of $50 thousand or greater.
Assets under capital lease	Assets with bulk cost of $50 thousand or greater.

H. Advances and prepayments

Intragovernmental advances and prepayments include postage purchased from the United States Postal Service (USPS) for postage meters, business reply mail, bulk mailing permits, stamps and postage paid envelopes. The USPS requires payment for the postage in advance. Advances and prepayments to the public represent cash outlays for criminal investigations and employee travel.

I. Inventory and Related Property

Forfeited property held for sale is acquired as a result of forfeiture proceedings or foreclosure sales to satisfy a tax liability. The Federal Tax Lien Revolving Fund, established in accordance with Title 26 U.S.C. Section 7810, is used to redeem real property foreclosed upon by a holder of a lien. The IRS may sell the property, reimburse the revolving fund in an amount equal to the redemption and apply any net proceeds to the outstanding tax obligation.

J. Due to General Fund of the U.S. Government

Due to General Fund of the U.S. Government comprises two sources, Federal taxes receivable, net, and SIWP. The portion of the liability for Federal taxes receivable is to be distributed to the General Fund of the U.S. Government upon collection. The portion of the liability for the SIWP are awards by the Centers for Medicare and Medicaid Services (CMS), under Section 1332 of the Patient Protection and Affordable Care Act, where the grantees participating in the program have not drawn down the funds per the term of the grant. The program is also referred to as a State Relief and Empowerment Waiver.

K. Federal Tax Refunds Payable and Due from General Fund of the U.S. Government

Federal tax refunds payable comprises measurable and legally payable amounts due to taxpayers under established refund processes of the IRS. It is a fully funded liability offset by a corresponding asset, Due from General Fund of the U.S. Government. The IRS records an amount Due from General Fund of the U.S. Government to designate approved funding to pay year-end tax refund liabilities to taxpayers.

L. Financing Sources and Revenues

Appropriations Received

The IRS receives most of its funding through annual, multi-year and no-year appropriations available for use within statutory limits for operating and capital expenditures. Appropriations are presented as a budgetary financing source on the SCNP.

Exchange Revenue

Exchange revenue is recognized when earned and is derived from transactions where both the government and the other party receive value. The IRS exchange revenue represents reimbursements, user fees and collections of outstanding inactive tax receivables. Reimbursements are recognized as the result of costs incurred for services performed for federal agencies or the public under reimbursable agreements. User fees are from transactions with the public and are generally recognized when earned. The Private Collection Agencies program has the authority to procure qualified tax collection contracts for private collection contractors to perform the collection of outstanding inactive tax receivables from the public. A portion of the collections are retained for cost of services performed through the contracts.

Non-exchange Revenue

Non-exchange revenue results from the government's power to demand payments from the public. The Special Compliance Personnel Program has a specifically, identifiable, legally enforceable claim to a portion of the collections from outstanding inactive tax receivables to fund the administration of the program.

Imputed Financing Source

The IRS receives goods and services from other federal entities at no cost or at less than the full cost to the providing entity. When costs are identifiable to the IRS, these amounts are recognized as imputed costs in the SNC and as an imputed financing source on the SCNP. Imputed financing sources include Bureau of the Fiscal Service (Fiscal Service) costs of processing tax payments and collections, employee benefits administered by OPM and claims to be settled by the Treasury Judgement Fund.

M. Programs

The SNC major programs, in FY 2022, present the strategic goals which align to the IRS mission of delivering high quality taxpayer service and fair enforcement of the tax law. The cause for this change in presentation is the implementation of the IRS Strategic Plan FY 2022–2026. The FY 2021 IRS mission areas by major programs are not comparable to the FY 2022 IRS mission areas by major programs.

FY 2022 Major Programs

Service to the Taxpayer includes activities and programs, such as printing forms and publications, processing tax returns and related documents, offering filing and account services, taxpayer assistance, providing taxpayer advocacy services and supporting activities. Earned revenues include reimbursable revenues for services provided and user fees including several services performed including photocopies, U.S. residency certifications and Income Verification Express Service.

Enforcement of Tax Legislation includes the examination of tax returns, both domestic and international; administrative and judicial settlement of taxpayer appeals of examination findings; technical rulings; monitoring of employee pension plans; determination of qualifications of organizations seeking tax-exempt status; examination of tax returns of exempt organizations; enforcement of statutes relating to detection and investigation of criminal violations of the internal revenue laws; identification of underreporting of tax obligations; securing of unfiled tax returns; collection of unpaid accounts; and supporting activities. Earned revenues are primarily from user fees for installment agreements, letter rulings and determinations, offers in compromise, enrolled agent and actuary programs, return preparer registrations, advance pricing agreements, services provided from reimbursable revenues and the Private Collection Agencies program.

Transformation of Business Systems includes resources for the planning and capital asset acquisition of IT to modernize the IRS business systems. Primary activities include expanding online account capabilities to improve the taxpayer experience, improving individual tax processing technologies, streamlining case and workload management processes and promoting cybersecurity.

FY 2021 Major Programs

Taxpayer Assistance and Education provides services to assist taxpayers with tax return preparation. Primary activities include tax law interpretations, developing and disseminating tax forms and publications, researching customer needs and establishing partnerships with stakeholder groups and taxpayer advocacy. In addition, these programs continue to emphasize taxpayer education, outreach and enhancing pre-filing taxpayer support through electronic media. Earned revenues include reimbursable revenues for services provided.

Filing and Account Services provides resources and support services to taxpayers with filing returns or paying taxes and for the issuance of refunds and maintenance of taxpayer accounts. Program activities include assistance, education and compliance services to taxpayers through telephone, correspondence and electronic means to resolve account and notice inquiries. Earned revenues include reimbursable revenues for services provided and user fees for several services performed including photocopies, U.S. residency certifications and Income Verification Express Service disclosures.

Compliance administers compliance activities after a return is filed to identify and correct possible errors or underpayments. This program includes examination and collection programs, which ensure proper payment and tax reporting; criminal investigation programs to uncover violations of internal revenue tax laws and other financial crimes; the development and printing of published IRS guidance materials; and support of taxpayers for pre-filing agreements, determination letters and advance pricing agreements. It also includes specialty program examinations, international collections and international examinations. Earned revenues are primarily from user fees for installment agreements, letter rulings and determinations, offers in compromise, enrolled agent and actuary programs, return preparer registrations, advance pricing agreements and for services provided from reimbursable revenues and the Private Collection Agencies program.

Administration of Tax Credit Programs primarily administers the EITC program, which works closely with internal and external stakeholders through expanded customer service and public outreach, enforcement and research efforts to increase the number of eligible taxpayers who claim the EITC and to reduce the number of EITC claims paid in error. EITC payments refunded to individuals or credited against tax liabilities are not included in program costs.

N. Custodial Activity

Revenues

The IRS collects custodial non-exchange revenues for taxes levied against taxpayers for: individual and corporate income, FICA, SECA, excise, estate, gift, railroad retirement and federal unemployment taxes. These collections are not available to the IRS for obligation or expenditure and are recognized as custodial revenues when collected. The sources of federal tax revenue and their distribution to the General Fund of the U.S. Government are reported on the SCA.

Appropriations

The IRS was granted permanent and indefinite budgetary authority through legislation to disburse tax refund principal and related interest as they become due. The permanent and indefinite appropriations are not subject to budgetary ceilings set by Congress during the annual appropriation process.

Refunds due to taxpayers are reported as Federal tax refunds payable on the Balance Sheets. The IRS recognizes an offsetting asset, Due from General Fund of the U.S. Government, to reflect the year-end budget authority to pay this liability.

Disbursements for tax refunds, refundable tax credits and other outlays, reported on the SCA, are offset by appropriations used for refunds. Disbursements for refunds are not a cost to the IRS, but rather a cost to the federal government as a whole.

O. Funds from Dedicated Collections

Funds from Dedicated Collections are specifically identified revenues, often supplemented by other financing sources, which remain available over time. These specifically identified revenues and other financing sources are required by statute to be used for designated activities, benefits, or purposes and must be accounted for separately from the federal government's general revenues.

P. Allocation Transfers

The IRS is a party to allocation transfers with other federal agencies as both a transferring (parent) entity and a receiving (child) entity. Allocation transfers are legal delegations by one federal entity of its authority to obligate budget authority and outlay funds to another federal entity. A separate fund account (allocation account) is created in Treasury as a subset of the parent fund account for tracking and reporting purposes. All allocation transfers of balances are credited to this account and subsequent obligations and outlays incurred by the child entity are charged to this allocation account as they execute the delegated activity on behalf of the parent entity. Financial activity related to these allocation transfers is reported in the financial statements of the parent entity, from which the underlying legislative authority, appropriations and budget apportionments are derived. The IRS allocates funds, as the parent entity, to the Department of Health and Human Services (HHS). Also, the IRS receives allocation transfers, as the child entity, from the Department of Transportation's Federal Highway Administration and HHS.

Q. Fiduciary Activities

Fiduciary activities are the collection or receipt, and the management, protection, accounting, investment and disposition by the federal government of cash or other assets in which non-federal individuals or entities have an ownership interest the federal government must uphold.

The IRS fiduciary activities include the net collections for a taxable year from U.S. military and federal employees working in the U.S. territories of the Northern Mariana Islands, the U.S. Virgin Islands, Guam and American Samoa. These fiduciary assets are not assets of the IRS.

R. Budgetary Terms

The purpose of Federal budgetary accounting is to control, monitor and report on funds made available to Federal agencies by law and help ensure compliance with the law.

Appropriation. A provision of law (not necessarily in an appropriations act) authorizing the expenditure of funds for a given purpose. Usually, but not always, an appropriation provides budget authority.

Budgetary resources. Amounts available to incur obligations in a given year. Budgetary resources consist of new budget authority and unobligated balances of budget authority provided in previous years.

Obligation. A binding agreement resulting in outlays, immediately or in the future. Budgetary resources must be available before obligations can be incurred legally.

Offsetting collections. Payments to the Government, by law, are credited directly to expenditure accounts and deducted from gross budget authority and outlays of the expenditure account, rather than added to receipts. Usually, offsetting collections are authorized to be spent for the purposes of the account without further action by Congress. They usually result from business-like transactions with the public, including payments from the public in exchange for goods and services, reimbursements for damages, and gifts or donations of money to the Government and from intragovernmental transactions with other Government accounts.

Offsetting receipts. Payments to the Government are credited to offsetting receipt accounts and deducted from gross budget authority and outlays, rather than added to receipts. Usually, they are deducted at the level of the agency and subfunction, but in some cases they are deducted at the level of the Government as a whole. They are not authorized to be credited to expenditure accounts. The legislation authorizing the offsetting receipts may earmark them for a specific purpose and either appropriate them for expenditure for the specific purpose or require them to be appropriated in annual appropriations acts before they can be spent. Like offsetting collections, they usually result from business-like transactions with the public, including payments from the public in exchange for goods and services, reimbursements for damages, and gifts or donations of money to the Government, and from intragovernmental transactions with other Government accounts.

Outlay. A payment to liquidate an obligation. Not every disbursement is an outlay liquidating an obligation, such as, deposit funds are excluded from the budget and refunds of receipts resulting from overpayments are decreases in receipts. Outlays generally are equal to cash disbursements but also are recorded for cash-equivalent transactions, such as Federal employee salary deductions, and in a few cases are recorded on an accrual basis. Outlays are the measure of Government spending.

Expenditures resulting from offsetting receipts are recorded as gross outlays and the collections of offsetting receipts are then subtracted from gross outlays to derive net outlays. Net outlays reflect the Government's net transactions with the public.

S. Employee Compensation and Benefits

Accrued Annual, Sick and Other Leave

Annual and compensatory leave is accrued and expensed as earned and used. Each year, the IRS adjusts the balance in the accrued annual leave liability account to reflect current pay rates. To the extent current or prior year appropriations are not available to fund annual and compensatory leave earned but not taken, funding is obtained from future financing sources. Sick leave and other types of non-vested leave are expensed as used.

Federal Employees' Compensation Act

The Federal Employees' Compensation Act (FECA) provides income and medical cost protection and other death benefits to beneficiaries for federal civilian employees with proper coverage who are injured on the job, have incurred work-related occupational diseases and whose deaths were attributed to job-related injuries or occupational diseases. The FECA program is administered by the Department of Labor (DOL), which pays valid claims and subsequently seeks reimbursement for claims paid. Accrued FECA liability represents amounts due to the DOL for claims paid on behalf of the IRS. Actuarial FECA liability represents the liability for future workers' compensation benefits, which includes the expected liability for death, disability, medical and miscellaneous costs for approved cases. The DOL estimates the liability for future payments as a result of past events.

Employee Health and Life Insurance Benefits

Employees are eligible to participate in the Federal Employees Health Benefit Program (FEHB) and Federal Employees' Group Life Insurance Program (FEGLI). The FEHB offers a wide variety of group plans and coverage. The coverage is available to employees, retirees and their eligible family members. The cost for each plan varies and is shared between the IRS and the employee.

An employee participating in the FEGLI program can obtain basic term life insurance, with the employee paying two-thirds of the cost and the IRS paying one-third. Additional coverage is optional, to be paid fully by the employee. The basic life coverage may continue into retirement if certain requirements are met. The IRS recognizes the full cost of providing these benefits.

Employee Pension Benefits

The IRS recognizes the full costs of its employees' pension benefits. The liabilities associated with these costs are reported by the OPM, who administers the plans. Eligibility of employees to participate in the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS) is based on their hire date with the federal government and the IRS contributes a percentage of an employee's basic pay toward the retirement plan.

Employees covered by either CSRS or FERS are also eligible to contribute to the Thrift Savings Plan (TSP), a defined contribution plan. The IRS is required to contribute to TSP a minimum of 1% per year of the basic pay of employees covered by this system, match voluntary employee contributions up to 3% of the employee's basic pay and match one-half of contributions between 3% and 5% of the employee's basic pay. No TSP matching contributions are made to the CSRS.

Employee Pension Benefit Contribution Rates			
	Category	Employee	Agency
CSRS Rates	Regular	7.0%	7.0%
	Law Enforcement Officers	7.5%	7.5%
FERS Rates Hired Prior to January 1, 2013	Regular	0.8%	18.4%
	Law Enforcement Officers	1.3%	37.6%
FERS — Revised Annuity Rate Hired January 1, 2013–December 31, 2013	Regular	3.1%	16.6%
	Law Enforcement Officers	3.6%	35.8%
FERS — Further Revised Annuity Rate Hired January 1, 2014 or Later	Regular	4.4%	16.6%
	Law Enforcement Officers	4.9%	35.8%

T. Changes in Presentation

Certain disclosures have been revised to reflect more detail for previous line items as presented in the prior year disclosures. Revised or added line items are included in Non-entity Assets, Budget and Accrual Reconciliation and COVID-19 Activity.

Note 2. Fund Balance with Treasury

(In Millions)	2022	2021
UNOBLIGATED BALANCES		
Available	$ 34,345	$ 2,303
Unavailable	46,461	257
Obligated Balance Not Yet Disbursed	2,786	2,434
Non-Budgetary and Other FBWT	3,797	2,068
Status of Fund Balance with Treasury	**$ 87,389**	**$ 7,062**

Non-budgetary and other FBWT includes Section 1332 SIWP funds. As of September 30, 2022, the grantee has not drawn down the funds per the terms of the grant. The non-budgetary and other FBWT comprises the SIWP, clearing (suspense) accounts and deposit fund accounts. In FY 2022 and FY 2021, the SIWP funds were $2,407 million, and $2,058 million, respectively.

The status of FBWT includes obligated and unobligated balances. The obligated balances not yet disbursed represent the unpaid funds with budgetary obligations. Unobligated balances, available represent amounts in unexpired appropriations as of the end of the current fiscal year. Unobligated balances become available when apportioned by the OMB. Unobligated balances, unavailable represent amounts in expired appropriations and amounts not apportioned for obligation as of the end of the current fiscal year.

Note 3. Non-entity Assets

(In Millions)	2022	2021
INTRAGOVERNMENTAL		
Due From General Fund of the U.S. Government	$ 6,947	$ 6,248
Fund Balance With Treasury	1,383	–
Intragovernmental	8,330	6,248
WITH THE PUBLIC		
Federal Taxes Receivable, Net	236,000	302,000
Other Monetary Assets	–	1,455
With the Public	236,000	303,455
Non-entity Assets	244,330	309,703
Entity Assets	87,860	8,951
Assets	**$ 332,190**	**$ 318,654**

Non-entity assets are not available for use by the IRS. Federal taxes receivable, net are collected for the U.S. Government, but the IRS does not have the authority to spend them.

Note 4. Cash and Other Monetary Assets

(In Millions)	2022	2021
WITH THE PUBLIC		
Imprest Fund	$ 4	$ 4
Other Monetary Assets	–	1,455
Cash and Other Monetary Assets	**$ 4**	**$ 1,459**

Imprest funds are used by investigative services to provide special agents with funding for ongoing covert operations and is non-restricted cash. Other monetary assets are non-entity assets recorded in the clearing (suspense) accounts and deposit fund accounts.

Note 5. Federal Taxes Receivable, Net

(In Billions)	2022	2021
WITH THE PUBLIC		
Federal Taxes Receivable	$ 437	$ 493
Allowance For Uncollectible Taxes Receivable	(201)	(191)
Federal Taxes Receivable, Net	**$ 236**	**$ 302**

Federal taxes receivable are taxes due from taxpayers for which the IRS can support the existence of a receivable through either a taxpayer agreement or a court ruling determining an assessment. Federal taxes receivable, net is the portion of Federal taxes receivable estimated to be collectible and the corresponding liability is Due to General Fund of the U.S. Government which is to be transferred when collected. The taxes receivable consists primarily of two categories:

- Delinquent tax assessments, penalties and interest not paid or abated, which were agreed to by the taxpayer and the IRS or upheld by the courts. As of September 30, 2022, the net Federal taxes receivable for this category was $54 billion, a decrease of $1 billion over the $53 billion reported for FY 2021.
- Non-delinquent assessments are detailed in Note 1.E. Federal Taxes Receivable, Net. As of September 30, 2022, the net Federal taxes receivable for this category was $182 billion. These non-delinquent assessments consist of two categories:
  - IRC Section 965(h) which allowed taxpayers to elect to pay this tax on an eight-year installment schedule. As of September 30, 2022, net Federal taxes receivable for IRC Section 965(h) consist of $135 billion, a decrease of $8 billion from $143 billion reported for FY 2021. The decrease was primarily due to yearly installment payments applied to these deferrals.
  - The CARES Act, Section 2302, contains a provision for employers to defer payment of the employer's share of the social security portion of FICA, and their portion and the employee representative's share of the Railroad Retirement tax. The net Federal taxes receivable for Section 2302 deferrals consists of $47 billion, a decrease of $59 billion from the $106 billion reported for FY 2021. The decrease was primarily due to the 50% year 1 installment payment that was applied to these deferrals.

For taxes receivable, specific collectability methods were applied to each of the categories mentioned above to determine allowance for uncollected taxes receivable:

- **Delinquent tax assessments.** In FY 2022, to derive the estimated collectability rate applied to delinquent gross Federal taxes receivable, the IRS utilized the FY 2022 sample collectible point estimate of $52 billion (+/- $10.7 billion). The IRS averaged three years of collectability rates (FY 2020–2023) to normalize the effect of year-to-year fluctuations. In FY 2021, the $53 billion in taxes receivable, net, was derived from a three-year average including the FY 2021 collectible point estimate of $57 billion (+/- $10.0 billion).

- **IRC Section 965(h) elections**. In FY 2022, the IRS used an updated econometric methodology to derive its collectability estimate. This methodology considered indicators of financial health of the largest business modules (more than 90% of the remaining unpaid deferral balance) along with industry specific data in determining the degree to which IRC Section 965(h) taxpayers are considered at-risk of non-payment. IRC Section 965(h) taxes receivable estimated collectability was 96.5% overall due to the high collectability from large businesses outweighing the remaining smaller businesses and individuals who are at-risk due to global uncertainties. The FY 2021 overall collectability estimate for IRC Section 965(h) was 90.6%.
- **Social Security Tax Deferral**. For FY 2022, the first installment payment was due on or before December 31, 2021 and the second installment is due in FY 2023. Modules were considered at-risk of less than full payment if there was evidence of nonpayment. The IRS considered modules not at-risk to be fully collectible. This resulted in an estimated 90.7% collectability for Social Security Tax Deferrals in FY 2022. In FY 2021, overall estimated collectability for Social Security Tax Deferrals was 99.9%.

Note 6. General Property and Equipment, Net

	Useful Life (Years)	(In Millions) Cost	Accumulated Depreciation	2022 Net Book Value	2021 Net Book Value
IT Equipment	3 to 7	$ 955	$ (626)	$ 329	$ 381
IUS	2 to 15	3,512	(2,819)	693	826
IUS — In Development	N/A	579	–	579	454
LHI	2 to 10	279	(148)	131	79
Vehicles	5	4	(3)	1	1
Non-IT	8 and 10	77	(48)	29	37
Assets Under Capital Lease	4.5 to 8	27	(21)	6	9
Investigative Equipment	10	4	(3)	1	2
LHI Construction in Progress	N/A	26	–	26	33
Property and Equipment		**$ 5,463**	**$ (3,668)**	**$ 1,795**	**$ 1,822**

The Cost column represents the historical cost of property and equipment, net of disposals. The cost basis for FY 2022 and FY 2021 was $5,463 million and $5,309 million, respectively. Accumulated depreciation for FY 2022 and FY 2021 was $3,668 million and $3,487 million, respectively.

In FY 2021, the IRS changed the capitalization policy to expense new acquisitions of laptops/desktops, furniture and end user software. Accordingly, the IRS removed $221 million in FY 2021, and $51 million in FY 2022, of cost and accumulated depreciation related to fully depreciated assets in these categories previously capitalized.

In FY 2022, the IRS entered an Energy Savings Performance Contract with a useful life of 17 years to align the amortization with the liability. This agreement is the only exception to the leasehold improvement useful life threshold in the table above.

Components of the Changes in General Property and Equipment, Net

(In Millions)	2022	2021
Balance Beginning of Year	$ 1,822	$ 1,871
Capitalized Acquisitions	354	345
Dispositions	(4)	(8)
Depreciation Expense	(377)	(386)
Balance at End of Year	**$ 1,795**	**$ 1,822**

Note 7. Due to General Fund of the U.S. Government

(In Millions)	2022	2021
INTRAGOVERNMENTAL		
Federal Taxes Receivable, Net	$ 236,000	$ 302,000
FBWT	2,407	2,058
Due to General Fund of the U.S. Government	**$ 238,407**	**$ 304,058**

Due to General Fund of the U.S. Government reports General Fund assets held and managed on behalf of the U.S. Government. These General Fund assets constitute resources available to meet the operating needs of the U.S. Government. The Federal taxes receivable, net is the portion of gross Federal taxes receivable estimated to be collectible and will be transferred to the General Fund when collected. The FBWT represents funds to administer the SIWP. These funds are not available for use by the IRS.

Note 8. Other Liabilities

(In Millions)	2022	2021
INTRAGOVERNMENTAL		
Benefit Program Contributions Payable	$ 138	$ 120
Unfunded FECA	69	73
Accrued Expenses	9	–
Unfunded Unemployment Compensation for Federal Employees (UCFE)	1	1
Other Liabilities	**$ 217**	**$ 194**
WITH THE PUBLIC		
Accrued Funded Payroll	$ 414	$ 371
Accrued Expenses	391	294
Deposit Fund and Clearing Accounts	1,385	1,456
Energy Savings Performance	30	1
Other Liabilities	**$ 2,220**	**$ 2,122**

The current liabilities not covered by budgetary resources for FY 2022 are unfunded FECA for $32 million, unfunded UCFE for $1 million and energy savings performance for $2 million. In FY 2021, the current liabilities not covered by budgetary resources for unfunded FECA, unfunded UCFE and energy savings performance were $33 million, $1 million and $1 million, respectively.

Note 9. Federal Employee Benefits Payable

(In Millions)	2022	2021
WITH THE PUBLIC		
Unfunded Accrued Annual Leave	$ 583	$ 602
Actuarial FECA	403	442
Employer Contributions For TSP	17	14
Federal Employee Benefits Payable	**$ 1,003**	**$ 1,058**

Unfunded accrued annual leave is a current liability not covered by budgetary resources.

Note 10. Liabilities Not Covered by Budgetary Resources

(In Millions)	2022	2021
INTRAGOVERNMENTAL		
Unfunded FECA	$ 69	$ 73
Unfunded UCFE	1	1
Capital Lease Liability	–	1
Intragovernmental	70	75
WITH THE PUBLIC		
Unfunded Accrued Annual Leave	583	602
Actuarial FECA	403	442
Energy Savings Performance	30	1
With the Public	1,016	1,045
Liabilities Not Covered By Budgetary Resources	1,086	1,120
Liabilities Covered By Budgetary Resources	10,338	9,113
Liabilities Not Requiring Budgetary Resources	237,385	303,456
Liabilities	**$ 248,809**	**$ 313,689**

Liabilities not covered by budgetary resources are from the receipt of goods and services, or occurrence of eligible events in the current or prior periods, for which revenue or other funds to pay the liabilities has not been made available through appropriations of the IRS.

Liabilities covered by budgetary resources are liabilities which Congress has appropriated funds or funding is otherwise available to pay amounts due.

Liabilities not requiring budgetary resources are liabilities that have not in the past required and will not in the future require the use of budgetary resources. This includes liabilities for clearing accounts, non-fiduciary deposit funds and custodial collections.

Note 11. Leases

Capital Leases

The IRS leases IT telecommunications equipment for toll-free call centers, and currently has one two-year lease and two seven-year leases. There are no future payments due for equipment under these active leases.

The IRS has leases with the General Services Administration (GSA) for furniture. Furniture is being leased over a period of five years.

The capital lease liability is less than $1 million in FY 2022 and totaled $1 million in FY 2021. These leases are not covered by budgetary resources. The future payments due for FY 2023 through FY 2024 are less than $1 million each year.

Summary of Assets Under Capital Lease:

(In Millions)	2022	2021
CAPITAL LEASE CATEGORY		
Telecom Equipment	$ 8	$ 8
Software License Agreement	17	17
Furniture	2	2
Accumulated Depreciation	(21)	(18)
Assets Under Capital Lease, Net	**$ 6**	**$ 9**

Operating Leases

The IRS leases office space from GSA under non-cancelable occupancy agreements with lease terms from 1 to 30 years. Future lease payments under non-cancelable leases of office spaces are:

(In Millions)	Intragovernmental
FISCAL YEAR	
2023	$ 139
2024	127
2025	104
2026	104
2027	103
After 2027	560
Future Lease Payments	**$ 1,137**

Also, the IRS maintains annual operating leases with GSA, for office space, and with commercial entities, for equipment and software licenses. These leases may be canceled or renewed on an annual basis by the IRS.

Note 12. Commitments and Contingencies

The IRS is a party to legal actions that may ultimately result in settlements or decisions adverse to the federal government. This IRS is currently party to a reasonably possible lawsuit with a range of loss depicted in the table below that seeks the return of user fees to obtain a tax identification number plus interest.

(In Millions)		2022		2021
REASONABLY POSSIBLE				
Lower End Range of Loss	$	–	$	–
Upper End Range of Loss	$	230	$	275

The IRS does not have a contingent legal liability recognized as of September 30, 2022 and 2021 respectively. The IRS does not accrue for probable, inestimable losses. The IRS is a party in three cases that are indeterminable in probability and range of loss as of September 30, 2022, and one case indeterminable in probability and range of loss as of as of September 30, 2021. These cases include actions that argue malicious prosecution and negligent prosecution by the IRS. The IRS is also a party to actions that have a likelihood of loss classified to be remote.

Note 13. Funds from Dedicated Collections

The IRS administers four Funds from Dedicated Collections. They are presented in accordance with Statement of Federal Financial Accounting Standards (SFFAS) No. 27, Identifying and Reporting Earmarked Funds, as amended by SFFAS No. 43, Funds from Dedicated Collections: Amending SFFAS No. 27. There are no eliminations between the four funds from dedicated collections for FY 2022 and FY 2021.

						2022
(In Millions)		**Private Debt Collection**		**Other Dedicated Collections**		**Consolidated Funds from Dedicated Collections**
BALANCE SHEET						
ASSETS						
INTRAGOVERNMENTAL						
FBWT	$	249	$	8	$	257
Total Intragovernmental		**249**		**8**		**257**
Total Assets	**$**	**249**	**$**	**8**	**$**	**257**
LIABILITIES						
INTRAGOVERNMENTAL						
Other Liabilities	$	1	$	–	$	1
Total Intragovernmental		1		–		1
WITH THE PUBLIC						
Federal Employee Benefits Payable		67		–		67
Other Liabilities		8		–		8
Total with the Public		75		–		75
Total Liabilities		76		–		76
NET POSITION						
Cumulative Results of Operations		173		8		181
Total Liabilities and Net Position	**$**	**249**	**$**	**8**	**$**	**257**
STATEMENT OF NET COST						
Gross Costs	$	181	$	–	$	181
Earned Revenue		(64)		–		(64)
Net Costs of Operations	**$**	**117**	**$**	**–**	**$**	**117**
STATEMENT OF CHANGES IN NET POSITION						
CUMULATIVE RESULTS OF OPERATIONS						
Beginning Balances	$	198	$	8	$	206
Intragovernmental Non-exchange Revenues		90		–		90
Imputed Financing		2		–		2
Net Costs of Operations		(117)		–		(117)
Net Change		(25)		–		(25)
Ending Balances	**$**	**173**	**$**	**8**	**$**	**181**

		2021	
(In Millions)	Private Debt Collection	Other Dedicated Collections	Consolidated Funds from Dedicated Collections
BALANCE SHEET			
ASSETS			
INTRAGOVERNMENTAL			
FBWT	$ 204	$ 7	$ 211
Total Intragovernmental	**204**	**7**	**211**
With the Public			
General Property and Equipment, Net	1	–	1
Inventory and Related Property	–	1	1
Total with the Public	1	1	2
Total Assets	**$ 205**	**$ 8**	**$ 213**
LIABILITIES			
With the Public			
Federal Employee Benefits Payable	$ 1	$ –	$ 1
Other Liabilities	6	–	6
Total with the Public	7	–	7
Total Liabilities	7	–	7
NET POSITION			
Cumulative Results of Operations	198	8	206
Total Liabilities and Net Position	**$ 205**	**$ 8**	**$ 213**
STATEMENT OF NET COST			
Gross Costs	$ 143	$ –	$ 143
Earned Revenue	(110)	–	(110)
Net Costs of Operations	**$ 33**	**$ –**	**$ 33**
STATEMENT OF CHANGES IN NET POSITION			
CUMULATIVE RESULTS OF OPERATIONS			
Beginning Balances	$ 118	$ 8	$ 126
Intragovernmental Non-exchange Revenues	110	–	110
Imputed Financing	3	–	3
Net Costs of Operations	(33)	–	(33)
Net Change	80	–	80
Ending Balances	**$ 198**	**$ 8**	**$ 206**

Private Debt Collection

Established under the American Jobs Creation Act of 2004, the Private Collection Agent Program, Treasury Account Symbol 20X5510, ended in March 2009. The remaining unobligated funds were retained by the IRS. The Fixing America's Surface Transportation Act, (P.L. 114-94), enacted in December 2015, amended Title 26 U.S.C. Section 6306, requiring the IRS to enter one or more qualified tax collection contracts for the collection of outstanding inactive tax receivables in the Private Collection Agencies Program. This program has the authority to retain a portion of these collections to use for the costs performed under the contracts. The revenue is recognized as exchange revenue on the SNC.

The Fixing America's Surface Transportation Act amended Title 26, U.S.C., Section 6307, to establish the Special Compliance Personnel Program Account, Treasury Account Symbol 20X5622. The program requires hiring, training and employment of special compliance personnel. A portion of the collections from outstanding inactive tax receivables fund the program. The revenue is recognized as non-exchange revenue on the SCNP.

Other Dedicated Collections

The Federal Tax Lien Revolving Fund, Treasury Account Symbol 20X4413, was established pursuant to Section 112(a) of the Federal Tax Lien Act of 1966, to serve as the source of financing for the redemption of real property by the U.S. The forfeited property may be sold at auction to reimburse the revolving fund in an amount equal to the redemption. The net proceeds are applied to the outstanding tax obligation. The inventory and related property on the balance sheets is capitalized for purchases and reduced for sales.

The Informant Payments Fund, Treasury Account Symbol 20X5433, was established by the Taxpayer Bill of Rights of 1996 (P.L. 104-168). It provides for payments to individuals from the proceeds of amounts collected by reason of the information provided, and any amount collected shall be available for such payments. The custodial collection activities are reported in the SCA.

Note 14. Inter-Entity Costs

(In Millions)		2022		2021
Fiscal Service Cost For Tax Collections and Refunds	$	1,355	$	1,177
Federal Employees Benefit Programs		654		634
Treasury Judgement Fund		1		77
Inter-Entity Costs	**$**	**2,010**	**$**	**1,888**

Imputed financing sources are recognized for goods or services received from other federal agencies without reimbursement from the IRS. This includes pension and other benefit costs administered by the OPM, costs of processing payments and collections by the Fiscal Service and legal judgments paid by the Treasury Judgment Fund. Unreimbursed costs of goods and services other than those identified above are not included in the IRS financial statements.

Note 15. Undelivered Orders at the End of the Period

2022 (In Millions)	Intragovernmental	With the Public	Total
Unpaid	$ 235	$ 1,618	$ 1,853
Paid	1	9	10
Undelivered Orders at the End of the Period	**$ 236**	**$ 1,627**	**$ 1,863**

2021 (In Millions)	Intragovernmental	With the Public	Total
Unpaid	$ 238	$ 1,442	$ 1,680
Paid	10	9	19
Undelivered Orders at the End of the Period	**$ 248**	**$ 1,451**	**$ 1,699**

Undelivered orders are the value of goods and services ordered and obligated, but not yet received. Amounts include any prepaid or advanced orders for which delivery or performance has not yet occurred.

Note 16. Statement of Budgetary Resources

Explanation of Differences Between the FY 2021 SBR and the FY 2023 Budget of the U.S. Government

(In Millions)	Budgetary Resources	New Obligations and Upward Adjustments	Distributed Offsetting Receipts	Outlays, Net
SBR	$ 16,631	$ 14,071	$ 370	$ 13,293
Expired Funds In SBR	(345)	–	–	–
Refundable Tax Credits, Interest Refunds to Taxpayers and Other Outlays Not In SBR	808,234	808,234	–	804,147
Informant Payments Not In SBR	26	26	–	26
Other	2	2	–	(3)
Budget of the United States Government	**$ 824,548**	**$ 822,333**	**$ 370**	**$ 817,463**

The FY 2024 Budget of the U.S. Government presenting the actual amounts for the year ended September 30, 2022, has not been published as of the issue date of these financial statements and will be available at a future date on the OMB President's Budget webpage. A reconciliation of the FY 2021 SBR and the FY 2021 actual amounts in the FY 2023 Appendix, Budget of the U.S. Government for budgetary resources, new obligations and upward adjustments, distributed offsetting receipts and outlays, net is presented above.

Refundable tax credits, interest refunds, other outlays and informant payments total $808 billion in appropriations. These appropriations are primarily EIPs, Additional Child Tax Credit (ACTC), Advance Child Tax Credit, EITC and Premium Tax Credit (PTC) reported with refunds as custodial activities on the SCA and are not reported as budgetary resources on the SBR.

Net Adjustments to Unobligated Balance, Brought forward, October 1

(In Millions)	2022	2021
Unobligated Balance, Brought Forward From Prior Year	$ 2,560	$ 1,396
Adjustments to Unobligated Balance Brought Forward:		
Recoveries of Prior Year Unpaid Obligations	152	165
Recoveries of Prior Year Paid Obligations	56	82
Cancelled Authority	(74)	(63)
Unobligated Balance from Prior Year Budget Authority, Net	**$ 2,694**	**$ 1,580**

Net adjustments to the Unobligated Balance, Brought Forward, October 1 primarily includes activity related to downward adjustments of prior year undelivered orders and delivered orders, and cancelled authority.

Note 17. Collections of Federal Tax Revenue

(In Billions)	Tax Year 2022	Tax Year 2021	Tax Year 2020	Tax Year Prior Years	Collections Received FY 2022	Collections Received FY 2021
Individual Income, FICA, SECA and Other	$ 2,495*	$ 1,680	$ 100	$ 33	$ 4,308	$ 3,595
Corporate Income	294**	157	3	22	476	419
Excise	51	20	–	–	71	58
Estate and Gift	2	26	2	3	33	28
Railroad Retirement	5	1	–	–	6	6
Federal Unemployment	5	2	–	–	7	6
Collections of Federal Tax Revenue	**$ 2,852**	**$ 1,886**	**$ 105**	**$ 58**	**$ 4,901**	**$ 4,112**

*Includes other collections of $316 million.

**Includes Tax Year 2023 corporate income tax receipts of $12 billion.

Note 18. Federal Tax Refund and Outlay Activities

Federal tax refunds and outlays include overpayments from taxpayers; payments for the various refundable credits; including EITC and the PTC; and other payments, Basic Health Program (BHP) and the SIWP under the PPACA. The CARES Act, CRRSAA and the ARP included provisions to help stimulate the economy through EIPs and/or RRCs for those eligible taxpayers who did not receive the full amount of the EIP. The IRS disbursed $13 billion payments in FY 2022, and $570 billion payments in FY 2021, respectively, to eligible taxpayers based upon the criteria in each Act. The CARES Act authorized an EIP for eligible taxpayers of up to $1,200 for individuals and $2,400 for individuals filing a joint tax return, with up to an additional $500 for each eligible child. The CRRSAA created an additional EIP of up to $600 for individuals and $1,200 for individuals filing a joint tax return, with up to an additional $600 for each eligible child. Additionally, the ARP created an additional EIP of up to $1,400 for individuals, and $2,800 for individuals filing a joint tax return, with up to an additional $1,400 for each qualifying dependent.

(In Billions)	Tax Year 2022	Tax Year 2021	Tax Year 2020	Tax Year Prior Years	Refunds & Outlays FY 2022	Refunds & Outlays FY 2021
Individual Income, FICA, SECA and Other	$ 86	$ 419	$ 64	$ 16	$ 585	$ 1,082
Corporate Income	4	12	6	33	55	53
Excise	–	1	–	–	1	2
Estate and Gift	–	–	1	–	1	1
Federal Tax Refund and Outlay Activities	**$ 90**	**$ 432**	**$ 71**	**$ 49**	**$ 642**	**$ 1,138**

Note 19. Fiduciary Activities

The IRS has four fiduciary funds not reported on the Balance Sheets:

- Internal Revenue Collections for Northern Mariana Islands 20X6737
- Coverover Withholdings — U.S. Virgin Islands 20X6738
- Coverover Withholdings — Guam 20X6740
- Coverover Withholdings — American Samoa 20X6741

(In Millions)	20X6737	20X6738	20X6740	20X6741	2022 Total
Fiduciary Net Assets, Beginning of Year	$ –	$ 28	$ –	$ –	$ 28
Contributions	42	37	697	47	823
Disbursements To and On Behalf of Beneficiaries	(42)	(25)	(697)	(46)	(810)
Increase In Fiduciary Net Assets	–	12	–	1	13
Fiduciary Net Assets, End of Year	**$ –**	**$ 40**	**$ –**	**$ 1**	**$ 41**

(In Millions)	20X6737	20X6738	20X6740	20X6741	2021 Total
Fiduciary Net Assets, Beginning of Year	$ –	$ 17	$ –	$ –	$ 17
Contributions	168	207	4,866	140	5,381
Disbursements To and On Behalf of Beneficiaries	(168)	(196)	(4,866)	(140)	(5,370)
Increase In Fiduciary Net Assets	–	11	–	–	11
Fiduciary Net Assets, End of Year	**$ –**	**$ 28**	**$ –**	**$ –**	**$ 28**

In fiduciary fund 20X6738, the fiduciary net assets, end of year balances are pending a tax matter resolution.

IRC Section 7654 governs the tax coordination between the governments of the U.S. and the U.S. territories of the Northern Mariana Islands, the U.S. Virgin Islands, Guam and American Samoa.

The collections of federal income taxes withheld from U.S. military and federal employees working in these U.S. territories are maintained in fiduciary funds of the IRS. The disbursements of these collections to these U.S. territory governments represent the transfer of the individual tax liability for a taxable year.

Note 20. Budget and Accrual Reconciliation

(In Millions)	Intragovernmental	With the Public	2022 Total
Net Cost of Operations	$ 5,780	$ 9,887	$ 15,667
COMPONENTS OF NET COST THAT ARE NOT PART OF NET OUTLAYS:			
Property and Equipment Depreciation	–	(377)	(377)
Property and Equipment Disposal and Reevaluation	–	(4)	(4)
Private Collection Agencies Revenue Not In Actual Offsetting Collections	64	–	64
Applied Overhead and Cost Capitalization Offset	3	241	244
Other	–	26	26
INCREASE/(DECREASE) IN ASSETS:			
Accounts Receivable	5	(3)	2
Advances, Prepayments and Inventory	(10)	–	(10)
INCREASE/(DECREASE) IN LIABILITIES			
Accounts Payable	–	(12)	(12)
Federal Employee Benefits Payable	–	55	55
Other Liabilities	(17)	(138)	(155)
OTHER FINANCING SOURCES			
Federal Costs Imputed to the Agency	(2,010)	–	(2,010)
Transfers Out(In) Without Reimbursement	(26)	–	(26)
Total Components of Net Cost Not Part of the Net Outlays	(1,991)	(212)	(2,203)
COMPONENTS OF THE NET OUTLAYS THAT ARE NOT PART OF NET COST			
Acquisition of Capital Assets	(3)	82	79
Total Components of the Net Outlays That Are Not Part of Net Cost	(3)	82	79
Net Outlays	$ 3,786	$ 9,757	$ 13,543

In accordance with SFFAS No. 53, Budget and Accrual Reconciliation, the IRS's relationship between the net cost of the programs and operations presented on an accrual basis must be reconciled to the net outlays presented on the budgetary basis during the reporting period. The accrual basis of accounting reports the net cost of resources used and includes information about costs arising from the consumption of assets and the incurrence of liabilities. Budgetary accounting reports the outlays of financial resources to acquire or provide goods and services.

The IRS transactions are recorded in both budgetary and proprietary accounts, and because different accounting guidelines are used for budgetary and proprietary accounting, some transactions may appear in only one set of accounts. This reconciliation serves not only to identify costs paid for in the past and those to be paid in the future, but also to assure integrity between budgetary and financial accounting.

			2021
(In Millions)	**Intragovernmental**	**With the Public**	**Total**
Net Cost of Operations	**$ 5,523**	**$ 9,314**	**$ 14,837**
COMPONENTS OF NET COST THAT ARE NOT PART OF NET OUTLAYS:			
Property and Equipment Depreciation	–	(386)	(386)
Property and Equipment Disposal and Reevaluation	–	(8)	(8)
Private Collection Agencies Revenue Not In Actual Offsetting Collections	110	–	110
Applied Overhead and Cost Capitalization Offset	(3)	258	255
Other	1	28	29
INCREASE/(DECREASE) IN ASSETS:			
Accounts Receivable	(9)	4	(5)
Advances, Prepayments and Inventory	10	–	10
INCREASE/(DECREASE) IN LIABILITIES			
Accounts Payable	–	10	10
Federal Employee Benefits Payable	–	10	10
Other Liabilities	(9)	(101)	(110)
OTHER FINANCING SOURCES			
Federal Costs Imputed to the Agency	(1,888)	–	(1,888)
Transfers Out(In) Without Reimbursement	(31)	–	(31)
Total Components of Net Cost Not Part of the Net Outlays	(1,819)	(185)	(2,004)
COMPONENTS OF THE NET OUTLAYS THAT ARE NOT PART OF NET COST			
Acquisition of Capital Assets	3	87	90
Total Components of the Net Outlays That Are Not Part of Net Cost	3	87	90
Net Outlays	**$ 3,707**	**$ 9,216**	**$ 12,923**

Note 21. COVID-19 Activity

Program Administration

The IRS received COVID-19 funding for program administration in FY 2021 and FY 2020, for issues related to the COVID-19 pandemic.

In FY 2020, the IRS received $15 million in the Families First Coronavirus Response Act (FFCRA) and $751 million in the CARES Act for the IRS to change its operations to operate during the pandemic and implement EIPs and other tax changes. The CARES Act funds expired at the end of FY 2021 and the FFRCA funds are available through FY 2022.

COVID-19 supplemental funding was received in FY 2021 from the ARP for $1,862 million and the CRRSAA for $509 million. The appropriations totaled $2,371 million in FY 2021 for annual, two-year and three-year availability. The ARP funded third round of EIPs, and Child Tax Credit (CTC) payments. This funding also accelerates the IRS efforts to integrate, modernize and secure the IRS information technology systems. The CRRSAA funding provided program administration to carry out a second round of EIPs and address COVID-related tax administration issues.

COVID-19 Activity

(In Millions)		2022		2021
Budgetary Resources: Unobligated (and unexpired) Balance Carried Forward from Prior Year	$	1,415	$	327
New Budget Authority		–		2,371
Recissions/Other Changes to Budgetary Resources		72		38
Budgetary Resources Obligated (less)		(1,155)		(1,321)
Budgetary Resources: Ending Unobligated (and unexpired) Balance to be Carried Forward	$	332	$	1,415
Outlays, Net	$	1,237	$	1,060

Note Disclosures with COVID-19 Activity

(In Millions)		2022		2021
FBWT	$	556	$	1,793
General Property and Equipment	$	73	$	29
Other Liabilities, With the Public	$	39	$	42
Undelivered Orders at the End of the Period	$	184	$	195

REQUIRED SUPPLEMENTARY INFORMATION

Unaudited, See Accompanying Auditor's Report

Combining Statement of Budgetary Resources by Major Budget Account

(In Millions)	Taxpayer Services	Enforcement	Business Modernization	Operations Support	Other	Total
						2022
BUDGETARY RESOURCES						
Unobligated Balance From Prior Year Budget Authority, Net	$ 604	$ 350	$ 240	$ 1,212	$ 288	$ 2,694
Appropriations (Discretionary & Mandatory)	6,038	51,032	5,025	29,631	802	92,528
Spending Authority From Offsetting Collections (Discretionary & Mandatory)	33	65	–	55	1	154
Total Budgetary Resources	**$ 6,675**	**$ 51,447**	**$ 5,265**	**$ 30,898**	**$ 1,091**	**$ 95,376**
STATUS OF BUDGETARY RESOURCES						
New Obligations and Upward Adjustments (Total)	$ 3,343	$ 5,459	$ 414	$ 5,235	$ 119	$ 14,570
UNOBLIGATED BALANCE, END OF YEAR						
Apportioned, Unexpired Accounts	3,296	275	4,848	25,512	407	34,338
Exempt From Apportionment, Unexpired Accounts	–	–	–	–	7	7
Unapportioned, Unexpired Accounts	–	45,638	–	–	558	46,196
Unexpired Unobligated Balance, End of Year	3,296	45,913	4,848	25,512	972	80,541
Expired Unobligated Balance, End of Year	36	75	3	151	–	265
Unobligated Balance, End of Year (Total)	3,332	45,988	4,851	25,663	972	80,806
Total Budgetary Resources	**$ 6,675**	**$ 51,447**	**$ 5,265**	**$ 30,898**	**$ 1,091**	**$ 95,376**
OUTLAYS, NET						
Outlays, Net (Total) (Discretionary & Mandatory)	$ 3,169	$ 5,182	$ 392	$ 5,000	$ 112	$ 13,855
Distributed Offsetting Receipts	–	–	–	–	(312)	(312)
Agency Outlays, Net (Discretionary & Mandatory)	**$ 3,169**	**$ 5,182**	**$ 392**	**$ 5,000**	**$ (200)**	**$ 13,543**

2022					
	Major Budget Accounts				
Major Programs	Taxpayer Services	Enforcement	Business Modernization	Operations Support	Other
Service to the Taxpayers	X			X	X
Enforcement of Tax Legislation		X		X	X
Transformation of Business Systems			X	X	

Other Claims for Refunds

Management has estimated amounts that may be paid out as other claims for tax refunds. This estimate represents the amount (principal and interest) which may be paid for claims pending judicial review by the federal courts or internally by Appeals. In FY 2022, the total estimated payout (including principal and interest) for claims pending judicial review by the federal courts is $2.1 billion and by Appeals is $1.3 billion. In FY 2021, the total estimated payout (including principal and interest) for claims pending judicial review by the federal courts was $1.5 billion and by Appeals was $1.0 billion. To the extent judgments against the government in these cases prompt other similarly situated taxpayers to file similar refund claims, these amounts could become significantly greater.

Federal Taxes Receivable, Net

In accordance with the SFFAS No. 7, some unpaid assessments do not meet the criteria for financial statement recognition as discussed in Note 1.E. Federal Taxes Receivable, Net, and Note 1.J. Due to General Fund of the U.S. Government. Although compliance assessments and write-offs are not considered receivables under federal accounting standards, they represent legally enforceable claims of the IRS acting on behalf of the federal government. There is, however, a significant difference in the collection potential of these categories.

The components of the total unpaid assessments and derivation of net Federal taxes receivable were as follows:

(In Billions)		2022		2021
Total Unpaid Assessments	$	602	$	658
Compliance Assessments		(88)		(80)
Write-Offs		(77)		(85)
Gross Federal Taxes Receivables		437		493
Allowance for Uncollectible Taxes Receivable		(201)		(191)
Federal Taxes Receivable, Net	**$**	**236**	**$**	**302**

The total unpaid assessments as of September 30, 2022, decreased $56 billion since September 30, 2021, due primarily to the decrease in Social Security Tax Deferral and IRC Section 965(h).

Total unpaid assessments include $182 billion of nondelinquent taxes receivable, including $135 billion in IRC Section 965(h) tax, which is collectible based on the type of taxpayer and the financial health of large dollar businesses. The nondelinquent IRC Section 965(h) component refers to taxpayers who elected to pay their IRC Section 965(h) tax on an eight-year installment schedule. The remaining balance is Social Security Tax Deferral. The Social Security Tax Deferral is from the CARES Act, Section 2302, which contains a provision for employers to defer the employer's share of the Social Security portion of FICA and the employer's and employee representative's share of the Railroad Retirement tax (refer to **Note 1.E. Federal Taxes Receivable, Net**). The deferred amount is due by December 31, 2022 (refer to **Note 5. Federal Taxes Receivable, Net**). The $56 billion decrease in total unpaid assessments comes from the $56 billion decrease in gross taxes receivables. The $66 billion decrease in net taxes receivables is primarily due to the $59 billion reduction of non-delinquent Social Security Tax Deferral.

To eliminate double counting, the compliance assessments reported above exclude duplicated trust fund recovery penalties assessed against officers and directors of businesses involved in the non-remittance of federal taxes withheld from their employees. These penalties totaled approximately $1.1 billion and $1.2 billion as of September 30, 2022 and 2021, respectively. The related unpaid assessments of those businesses are reported as taxes receivable or write-offs, but the IRS may also recover portions of those businesses' unpaid assessments from any and all individual officers and directors against whom a trust fund recovery penalty is assessed.

In FY 2022, the IRS cannot reasonably estimate the allowance for uncollectible amounts pertaining to the value of pre-assessment work in process. The IRS was not able to fully operationalize its econometric model by incorporating pandemic conditions, thus it cannot determine the net realizable value of compliance assessments. In accordance with federal accounting standards, this does not include the compliance assessments amount in its taxes receivable.

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> COMBINING EIPs AND REFUNDS, IRS EMPLOYEES HAVE PROUDLY DISTRIBUTED MORE THAN $580 BILLION DURING THE COVID-19 PANDEMIC WHILE PERSONALLY SHARING THE SAME HEALTH AND SAFETY CONCERNS OF EVERY OTHER AMERICAN!"
>
> *– Jeff Tribiano, Deputy Commissioner for Operations Support*

OTHER **INFORMATION**

SECTION A: SUMMARY OF FINANCIAL STATEMENT AUDIT AND MANAGEMENT ASSURANCES

The following table summarizes the results of the IRS's FY 2022 financial statement audit, as well as management's assurances regarding conformance with FMFIA and compliance with FFMIA.

Summary of Financial Statement Audit

Audit Opinion: Unmodified

Restatement: No

Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Total Material Weakness	0	0	0	0	0

Summary of Management Assurances

Effectiveness of Internal Control Over Financial Reporting (FMFIA Section 2)

Statement of Assurance: Unmodified

Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Total Material Weakness	0	0	0	0	0

Effectiveness of Internal Control Over Operations (FMFIA Section 2)

Statement of Assurance: Unmodified

Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Total Material Weakness	0	0	0	0	0

Conformance with Federal Financial Management System Requirements (FMFIA Section 4)

Statement of Assurance: Federal systems conform, except instances of non-conformance, to financial management system requirements

Non-Conformances	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Unpaid Assessments[1]	1	0	0	0	0	1
Financial Reporting Systems (Security Controls)[1]	1	0	0	0	0	1
Total Non-Conformances	2	0	0	0	0	2

[1]Refer to Independent Auditor's Report in Section 2 of this report.

Compliance With FFMIA Section 803(a)

	Agency	Auditor
1. Federal Financial Management System Requirements	Lack of Compliance Noted	Lack of Compliance Noted
2. Applicable Federal Accounting Standards	No Lack of Compliance Noted	No Lack of Compliance Noted
3. U.S. Standard General Ledger (USSGL) at Transaction Level	No Lack of Compliance Noted	No Lack of Compliance Noted

FMFIA and FFMIA Requirements

The FMFIA requires agencies to establish and maintain internal control to ensure that federal programs operate efficiently, effectively and in compliance with laws and regulations. In support of the Treasury Secretary's Assurance Statement, the Commissioner must evaluate and report annually on (a) whether there is reasonable assurance that the IRS's controls are achieving their intended objectives and (b) material weaknesses in the IRS's controls (FMFIA Section 2). Additionally, the Commissioner must evaluate and report separately on whether the IRS's financial management systems comply with governmentwide requirements (FMFIA Section 4). The FMFIA requires agencies to implement and maintain financial management systems that substantially comply with federal financial management systems requirements. The requirements of the FMFIA serve as an umbrella under which other reviews, evaluations and audits should be coordinated and considered to support management's assertion about the effectiveness of internal controls over operations, reporting and compliance with laws and regulations.

As of September 30, 2022, the IRS had no material weaknesses under Section 2 or Section 4 of the FMFIA. However, the IRS has two instances of nonconformance with the federal financial management systems requirements of Section 4 of the FMFIA. These nonconformances also constitute a lack of compliance with the federal financial management system requirements, as reported above under FFMIA Section 803(a); the IRS is actively working on resolving these non-conformances in the near future. Refer to Section 1: Management's Discussion and Analysis — Analysis of Systems, Legal Compliance and Internal Control and the *Independent Auditor's Report* for additional information on the non-conformances in Section 2: Financial Section.

SECTION B: MANAGEMENT CHALLENGES AND IRS RESPONSE

The Reports Consolidation Act of 2000 requires TIGTA to identify specific management and performance challenges facing the IRS. This section contains the TIGTA identified management and performance challenges and IRS management's response.

TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

U.S. DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20024

October 13, 2022

MEMORANDUM FOR SECRETARY YELLEN

FROM: J. Russell George
Inspector General

SUBJECT: Management and Performance Challenges Facing the Internal Revenue Service for Fiscal Year 2023

The Reports Consolidation Act of 2000[1] requires that the Treasury Inspector General for Tax Administration (TIGTA) summarize, for inclusion in the annual *Department of the Treasury Agency Financial Report*, its perspective on the most serious management and performance challenges confronting the Internal Revenue Service (IRS).

Each year, TIGTA evaluates IRS programs, operations, and management functions to identify the most vulnerable areas in the Nation's tax system. For Fiscal Year (FY) 2023, the passage of the Inflation Reduction Act of 2022[2] (IRA) will provide the IRS with approximately $79 billion in funding that will remain available through the end of FY 2031. This funding supplements the IRS's annual appropriations. In addition, the IRA contains numerous tax provisions. It will be a significant challenge for the IRS to administer these provisions and effectively use the additional funding to address the challenges of improving taxpayer service, modernizing outdated technological infrastructure, and increasing equity in the tax system through added enforcement actions.

As in years past, the IRS must balance its tax compliance activities against the rights of taxpayers to receive fair and equitable treatment. Protecting taxpayer rights, such as the right to be informed, the right to quality service, the right to challenge the IRS's position and be heard, and the right to privacy and confidentiality, are interconnected with the management and performance challenges outlined in this memorandum. In addition, as required by the

[1] 31 U.S.C. § 3516(d) (2006).
[2] Pub. L. No. 117-169.

IRS Restructuring and Reform Act of 1998,[3] TIGTA performs audits of certain taxpayer rights provisions and reports whether the IRS complied with those provisions. However, we are mindful of the IRS's need to protect the rights of taxpayers in all of our oversight work.

For FY 2023, we have identified the IRS's top management and performance challenges as:

- Improving Taxpayer Service;
- Protecting Taxpayer Data and IRS Resources;
- Modernizing IRS Operations;
- Administering Tax Law Changes;
- Increasing Domestic and International Tax Compliance and Enforcement; and
- Reducing Tax Fraud and Improper Payments.

Although not listed separately, human capital is also a significant concern and it affects the IRS's ability to address the above challenges. It remains a serious, underlying issue with wide-ranging implications for both the IRS and taxpayers. At a time when the IRS is taking on new challenges, such as implementation of the IRA, the recruitment of new employees and retention of existing employees are critical to ensuring the maintenance of a quality workforce capable of meeting the needs of the American public.

The following information detailing the management and performance challenges is provided to promote the economy, efficiency, and effectiveness of the IRS's administration of the Nation's tax laws.

[3] Pub. L. No. 105-206, 112 Stat. 685 (codified as amended in scattered sections of Titles 2, 5, 16, 19, 22, 23, 26, 31, 38, and 49 U.S.C.).

IMPROVING TAXPAYER SERVICE

As the IRS prepares for the 2023 Filing Season, it continues to struggle with eliminating the backlog of unprocessed tax returns and other types of tax account work from prior filing seasons. The pandemic, pandemic-related tax law changes, and significant staffing shortages hampered the IRS's efforts to address the backlog inventories, resulting in millions of tax returns not being timely processed, refunds not being timely issued, the Federal Government paying interest on delayed refunds, and taxpayers not timely receiving assistance with their tax account issues. As of August 12, 2022, the IRS had more than 14 million individual and business paper returns waiting to be processed.

Figure 1: Status of Paper Returns Waiting to Be Processed as of August 12, 2022

Category	Returns			
	Individual	Business	Unspecified	Total
Received in Calendar Year 2021	0	135,240	0	135,240
Received in Calendar Year 2022	7,560,022	6,531,163	259,754	14,350,939
Totals	**7,560,022**	**6,666,403**	**259,754**	**14,486,179**

Source: IRS Submission Processing Weekly Inventory Report, as of August 12, 2022.

The IRS Accounts Management function, which is responsible for assisting individual and business taxpayers with tax law and tax account inquiries, including making adjustments to taxpayer accounts, is also dealing with correspondence backlogs. The IRS requires taxpayers to use written correspondence as the primary method when responding to an IRS notice or letter; however, TIGTA reported that the IRS has not taken any significant actions to address the continued lack of quality customer service it offers taxpayers corresponding with the IRS.[4]

In addition to the processing delays, during the 2022 Filing Season, the IRS saw the number of calls answered and Level of Service (*i.e.*, how many of those who call are able to speak to a Customer Service Representative) for its toll-free telephone lines decline, and wait times increase. Figure 2 shows a comparison for Calendar Years 2021 and 2022.

[4] TIGTA, Report No. 2022-46-027, *Program and Organizational Changes Are Needed to Address the Continued Inadequate Tax Account Assistance Provided to Taxpayers* (Mar. 2022).

Figure 2: Toll-Free Performance Statistics for Calendar Years 2021 and 2022

Performance Statistics	Calendar Year	
	2021	2022
Assistor Calls Answered	15,400,000	7,783,000
Level of Service	16.4%	14.1%
Average Speed of Answer (Minutes)	20	30
Level of Access[5]	23.8%	28.0%

Source: IRS management information reports (as of August 14, 2021, for Calendar Year 2021 and as of August 13, 2022, for Calendar Year 2022).

Significant staffing shortages have hampered the IRS's efforts to address the backlog inventories and provide the level of customer service expected by taxpayers. Demand for IRS toll-free telephone assistance has increased each year since November 2018, which directly correlates with the increase in tax law changes in recent years, including the tax law changes related to the pandemic. However, TIGTA reported that many Accounts Management employees split their time between working Accounts Management cases and answering IRS toll-free telephone calls.[6]

To address the backlogs and staffing shortages, the IRS announced its *Get Healthy Plan* on March 10, 2022. The *Get Healthy Plan* is an effort to return the IRS to pre-pandemic inventory levels by the end of Calendar Year 2022. As shown in Figure 1, as of August 12, 2022, the IRS had processed all of the individual paper tax returns received in 2021. While this is a step in the right direction, the IRS still has a significant backlog of returns received during the 2022 Filing Season that needs to be worked. Additionally, as the IRS develops and deploys more automated tools for taxpayers, it will need to ensure that the tools are operating as intended and improving the quality of its customer service.

In the IRS's *Strategic Plan FY 2022-2026*,[7] providing quality and accessible services to enhance the taxpayer experience is the IRS's top strategic goal. The IRS notes in its plan that it will continue to be challenged to meet this goal due to insufficient funding, a shrinking workforce, hiring difficulties, and reliance on paper processes. The passage of the IRA will provide the IRS with an additional $3.2 billion through FY 2031 to improve customer service, representing a 9 percent increase over current budget projections.[8]

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[5] A TIGTA calculated telephone measure determined by taking the sum of all assistor and automated calls answered divided by the total number of call attempts made while the various toll-free help lines are open. The hours each toll-free help line are open vary by line.
[6] TIGTA, Report No. 2022-46-027, *Program and Organizational Changes Are Needed to Address the Continued Inadequate Tax Account Assistance Provided to Taxpayers* (Mar. 2022).
[7] *Strategic Plan FY 2022-2026*, IRS Pub. 3744 (Rev. 7-2022).
[8] Congressional Research Service, *IRS-Related Funding in the Inflation Reduction Act* (Updated August 9, 2022).

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PROTECTING TAXPAYER DATA AND IRS RESOURCES

The trillions of dollars that flow through the IRS each year make it an attractive target for criminals who want to exploit the tax system for personal gain. The proliferation of stolen Personally Identifiable Information poses a significant threat to tax administration by making it difficult for the IRS to distinguish legitimate taxpayers from fraudsters. Tax-related scams, and the methods used to perpetrate them, are continually changing and require constant monitoring by the IRS. The IRS's ability to continuously monitor and improve its approach to taxpayer authentication is a critical step in defending the agency against evolving cyber threats and fraud schemes and in protecting trillions of taxpayer dollars. According to the Commissioner of Internal Revenue, the IRS was experiencing just over 1 million cyberattacks per day in 2017. Currently, the IRS sustains more than 1.5 billion attacks each year.[9]

Security controls provide a range of safeguards and countermeasures for organizations and information systems to protect information during processing, while in storage, and during transmission. However, TIGTA reported that the IRS's mainframe computer platforms did not satisfy the minimum mainframe security requirements in several key areas, which can have serious adverse effects on tax administration and the protection of taxpayer data.[10] The failure to timely remediate high-risk and medium-risk security vulnerabilities could compromise the security posture of the mainframe platform and could lead to unauthorized accesses, increased vulnerability to attacks, and unauthorized data sharing, all of which compromise the integrity, confidentiality, and availability of the platform.

In addition, the failure to resolve or track existing computer vulnerabilities compromises the security posture of an organization, potentially exposing taxpayer data and information to unnecessary risks. Vulnerability scanners are commonly used in organizations to identify known vulnerabilities on hosts and networks and on commonly used operating systems and applications. Scanning tools can proactively identify vulnerabilities, provide a fast and easy way to measure exposure, identify out-of-date software versions, validate compliance with an organizational security policy, and generate alerts and reports about identified vulnerabilities. In December 2021, TIGTA reported that the IRS does not effectively oversee vulnerability remediation across the enterprise.[11] For example, the IRS did not verify or monitor the remediation efforts for all vulnerabilities or consistently track and report vulnerability remediation metrics.

The protection of taxpayer data will continue to be a top priority for the IRS as it tries to leverage technology to be responsive to taxpayers' needs for its services, while minimizing the risks from cyberattacks and insider threats. For the 2022 Filing Season, the IRS initially required taxpayers to use a third-party service, ID.me, to help authenticate individuals creating online

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[9] Testimony of Charles P. Rettig, Commissioner of Internal Revenue, *On the Filing Season and the IRS Budget,* House Appropriations Committee, Subcommittee on Financial Services and General Government (May 18, 2022).
[10] TIGTA, Report No. 2022-20-050, *Mainframe Platform Configuration Compliance Controls Need Improvement* (Sept. 2022).
[11] TIGTA, Report No. 2022-20-006, *Vulnerability Scanning and Remediation Processes Need Improvement* (Dec. 2021).

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accounts by using facial recognition to verify their identity. The IRS adopted the technology as a way to enhance the security of taxpayer information. However, in response to privacy concerns related to taxpayers providing biometric data to a private company, the IRS announced in February 2022 that taxpayers could sign up for IRS online accounts with ID.me without the use of any biometric data. In addition, the IRS stated that it would shift from ID.me to the General Services Administration's Login.gov identity authentication service after the current tax filing season.

IRS systems are often prime targets that are exploited both internally and externally in an effort to steal taxpayer data. Individuals constantly attempt to corrupt or impede tax administration through the manipulation and the unauthorized access of IRS systems. The IRS continually works with application developers and third-party contractors who assist in the taxpayer identity verification process known as the Secure Access Digital Identity initiative. This program is an effort to be compliant with new Federal mandates and regulations governing the protection of Personally Identifiable Information.

In addition to safeguarding taxpayer data, the IRS also faces the daunting task of protecting its employees and facilities. Recent incidents involving taxpayers who threatened or assaulted IRS employees underscore the dangers that these employees face. As reported by the IRS, threat-related reports have rapidly increased. TIGTA attributes this to the increased presence of IRS personnel returning to the office, as well as recent legislation that directly impacts the IRS. After passage of the IRA, threats directed at the IRS and its employees increased. As a result, the Commissioner of Internal Revenue announced efforts to perform a comprehensive review of existing IRS safety and security measures. Threats and assaults directed at IRS employees, facilities, and infrastructure impede the effective and safe administration of the Federal tax system and the IRS's ability to collect tax revenue.

Funding provided to the IRS by the IRA is expected to significantly increase IRS staffing levels over the course of the next 10 years. As a result, the IRS should anticipate the potential for increased employee misconduct allegations. The IRA also includes funding for the IRS to study the cost and feasibility of creating a free direct e-file program, which would expand the overall scope and control of the current IRS Free File Program. The implementation of such a system will create additional avenues for malicious actors looking to exploit the IRS network and its online portals.

MODERNIZING IRS OPERATIONS

Successful modernization of systems and the development and implementation of new information technology applications are critical to meeting the IRS's evolving business needs and enhancing services provided to taxpayers. The IRS uses different legacy case management systems that vary widely in complexity, size, and customization to support tax administration. Modernization is necessary to deliver efficient taxpayer services and enforcement with enhanced user experiences. Modernizing the IRS's computer systems has been a persistent challenge for many years and will likely remain a challenge for the foreseeable future.[12]

According to the Commissioner of Internal Revenue, delays in updating the IRS's information technology system have resulted in the IRS's continued use of certain paper-based processes.[13] These paper processes can result in significant delays, contributing to IRS backlogs and limiting taxpayers' ability to know the status of their cases. The Commissioner testified that this will continue to present challenges because the IRS has not sustained sufficient multi-year investment for information technology modernization. As part of the IRA, the IRS will receive an additional $4.7 billion for modernization efforts through FY 2031, representing a 153 percent increase over current budget projections.

One of the most complex modernization programs in the Federal Government is the IRS's Customer Account Data Engine 2 (CADE 2) Program, which involves major changes to core IRS tax processing systems. One of the goals of CADE 2 is to reengineer core components of the Individual Master File. The IRS currently has a project that is converting lines of legacy code to a modern software language. The code conversion is a major milestone towards retiring the Individual Master File. TIGTA reported that the IRS has taken steps to improve the process for estimating the development time required to convert the lines of code and that the IRS's methodology is consistent with industry best practices.[14] However, due to completing an extensive analysis to account for the project's complexity and capturing all required work, the IRS determined in September 2019 that the development end date for the project should be moved from August 2021 to September 2022. In August 2020, the IRS extended the development end date again from September 2022 to April 2023.

TIGTA reported that more effective program management would help the IRS coordinate information technology investments in a cost-effective and efficient manner. Specifically, the Next Generation Infrastructure program is part of the *IRS Integrated Modernization Business Plan* that emphasizes modernizing core tax administration systems, operations, and cybersecurity to improve the taxpayer experience. The Plan is a road map for achieving necessary modernization of systems and taxpayer services in two three-year phases that are comprised of a series of discrete projects and programs. Although TIGTA determined the IRS implemented several capabilities of the Next Generation Infrastructure program in Calendar Years 2019 and 2020, no clear or comprehensive program management structure was established. This decentralized approach makes it difficult to determine ultimate responsibility and accountability over the Next Generation Infrastructure program.[15]

[12] TIGTA, Report No. 2022-20-005, *Annual Assessment of the IRS's Information Technology Program for Fiscal Year 2021* (Dec. 2021).
[13] Written testimony of Charles P. Rettig, Commissioner of Internal Revenue, *On the Filing Season and IRS Operations,* House Oversight and Reform Committee, Subcommittee on Government Operations (April 21, 2022).
[14] TIGTA, Report No. 2022-25-029, *The Individual Tax Processing Engine Project's Estimation Methodology Aligns with Best Practices and the Project Addressed the Independent Verification and Validation Recommendations* (Mar. 2022).
[15] TIGTA, Report No. 2022-20-001, *Some Next Generation Information Technology Infrastructure Capabilities Were Implemented, but Program Management Improvements Are Needed* (Nov. 2021).

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Successful modernization of systems and the development and implementation of new information technology applications will continue to be a critical challenge for the IRS to meet its evolving business needs and enhance services provided to taxpayers.

ADMINISTERING TAX LAW CHANGES

One of the continuing challenges the IRS faces each year in processing tax returns is the implementation of new tax law changes as well as changes resulting from expired tax provisions. Legislative actions generating the changes often occur late in the year, shortly before the filing season begins. The recently passed IRA includes numerous tax provisions, including the creation of a corporate alternative minimum tax and tax incentives for companies and consumers who make cleaner energy choices. This will require the IRS to act quickly to assess the change and determine the necessary actions to ensure that all legislative requirements are satisfied. These actions may require revisions to various tax forms, instructions, and publications, as well as reprogramming computer systems to ensure that tax returns are accurately processed based on the changes. Errors in the IRS's tax return processing systems may delay tax refunds, affect the accuracy of taxpayer accounts, or result in incorrect taxpayer notices.

The primary legislation affecting the 2022 Filing Season was the American Rescue Plan Act of 2021 (ARPA),[16] signed into law on March 11, 2021, which included approximately $1.9 trillion in economic relief and stimulus to address the continuing impact of the pandemic on the economy, public health, State and local governments, individuals, and businesses. It also contained numerous tax-related provisions intended to provide relief to individuals and businesses. The ARPA modified several credits, including the Child and Dependent Care Credit (CDCC) and Child Tax Credit (CTC), as well as creating a third Recovery Rebate Credit.

One key provision in the ARPA is the expanded CTC. Determining eligibility for and the amount of the CTC is a complex process. As of March 2, 2022, the IRS processed more than 14.9 million tax returns claiming $82.7 billion in CTCs, of which $33.7 billion was paid in advance. This required a significant undertaking on the IRS's part as it needed to develop processes and procedures to determine eligibility, compute advance payment amounts, and develop an online portal and nonelectronic assistance options for taxpayers to provide the IRS with updates to key information used to compute the advance payment amounts.

TIGTA reported that the IRS established controls to track advance CTC updates and detect potentially fraudulent tax returns.[17] Although the IRS also developed a process to identify discrepancies between the advance payments reported on the tax return and advance payments recorded on the taxpayer's account, the process did not account for undelivered checks. In these situations, taxpayers do not receive their payments and need to work with the IRS, after filing their tax returns, to recover them. TIGTA recommended that the IRS develop a process to

[16] Pub. L. No. 117-2, 135 Stat 4 (codified in scattered sections of Titles 7, 12, 15, 19, 20, 26, 29, 42, and 45 U.S.C.).
[17] TIGTA, Report No. 2022-47-042, *American Rescue Plan Act: Assessment of the Child Tax Credit Update Portal's Capabilities and Related Processes* (July 2022).

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continue to proactively identify and correct accounts with undelivered advance CTCs that post to accounts after the IRS processes the Tax Year 2021 tax return.

In addition to legislative changes, the IRS must frequently issue additional guidance to taxpayers on emerging trends that impact tax administration, such as cryptocurrencies and gig work. Expanding access to information about new or expiring tax legislation is a critical step in improving voluntary compliance. In the IRS's *Strategic Plan FY 2022-2026*, the IRS noted that it needs to engage with more segments of the population, like those with limited English proficiency, that face unique challenges in accessing the information, forms, or services they need.

INCREASING DOMESTIC AND INTERNATIONAL TAX COMPLIANCE AND ENFORCEMENT

One of the IRS's key responsibilities is to ensure that taxpayers comply with the tax law. Sustaining and improving taxpayer compliance is important because small declines in compliance cost the Nation billions of dollars in lost revenue and shift the tax burden from those who do not pay their taxes to those who pay their taxes on time every year. If the IRS can increase the rate of voluntary compliance, it can reduce the Tax Gap. The Tax Gap is defined as the difference between the estimated amount taxpayers owe and the amount they voluntarily and timely pay for a tax year.

However, the IRS has indicated that insufficient funding remains a constraint to address its operations.[18] Specifically, the Commissioner of Internal Revenue indicated the IRS's budget has decreased by more than 15 percent in real dollars over the past decade. Because of this decrease, the IRS indicates its staffing is close to 1974 levels. Over the next six years, the IRS estimates it will need to hire 52,000 employees just to maintain its current staffing levels.[19] As part of the IRA, the IRS will receive an additional $45.7 billion for enforcement activities through FY 2031, representing a 69 percent increase over current budget projections. Although increased funding will assist the IRS in replacing employees lost through attrition, onboarding, training, and assimilating large numbers of employees will create its own challenges for the IRS.

The IRS's research shows that examinations have a strong positive impact on voluntary compliance.[20] Comparing FYs 2016 and 2020, there were 55 percent fewer correspondence examinations and 59 percent fewer field examinations conducted in FY 2020.[21] The decrease in staffing within the Examination functions has contributed to the decline in examinations. Specifically, the number of Examination staff decreased 9.9 percent from 10,101 in FY 2017 to 9,116 in FY 2020. The trending decline in enforcement activity is likely causing growth in the overall Tax Gap as taxpayers are less likely to be subject to an examination. While examinations have declined over the years, the Secretary of the Treasury has directed that any additional

[18] Testimony of Charles P. Rettig, Commissioner of Internal Revenue, *On the Filing Season and the IRS Budget,* Senate Finance Committee (April 7, 2022).
[19] Testimony of Charles P. Rettig, Commissioner of Internal Revenue, *On the Filing Season and the IRS Budget,* House Appropriations Committee, Subcommittee on Financial Services and General Government (May 18, 2022).
[20] IRS, *The Impact of the IRS on Voluntary Tax Compliance: Preliminary Empirical Results* (Nov. 2002).
[21] TIGTA, Report No. 2022-30-033, *Trends in Compliance Activities Through Fiscal Year 2020* (May 2022).

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resources not be used to increase the share of small business or households below the $400,000 threshold that are audited relative to historical levels.

The IRS will continue to be challenged to enforce international tax compliance. U.S. taxpayers, regardless of whether they live in the U.S. or abroad, are required to report and pay applicable taxes on worldwide income to the IRS, including income from offshore accounts and other assets. While taxpayers can hold offshore accounts for a number of legitimate reasons, some taxpayers have used such accounts to hide income and evade taxes, and the IRS has not developed a reliable estimate of the international tax gap. The Tax Gap is estimated using statistics from the IRS's National Research Program data that does not measure international noncompliance.[22] Complexity and change in the international tax environment will continue to challenge the IRS in enforcing compliance in this area.

The Foreign Account Tax Compliance Act (FATCA) was intended to reduce tax evasion by creating greater transparency and accountability with respect to offshore accounts and other assets held by U.S. taxpayers.[23] However, TIGTA reported that due to resource limitations, the IRS has significantly departed from its original comprehensive FATCA Compliance Roadmap in favor of a more limited compliance effort.[24] Continued emphasis by the IRS will be necessary to address offshore tax noncompliance.

To ensure confidence in the tax system, American taxpayers expect that everyone pays their Federal tax obligations. This includes entities receiving the benefits of contracts and grants from the Federal Government. Starting with the Consolidated and Further Continuing Appropriations Act, 2015,[25] Congress now prohibits Federal agencies from using appropriated funds to award a contract or grant to a corporation that owes any amount of delinquent Federal tax, unless suspension or debarment is considered. Congress provided the IRS $30 million to establish an application through which entities could request from the IRS a certification that the entity did or did not owe seriously delinquent taxes.

However, TIGTA reported that Federal agencies across the Government awarded contracts and grants to entities that owed millions in delinquent Federal taxes.[26] Between October 2018 and December 2019, the Federal Government awarded 2.1 million Federal contracts and grants to more than 83,000 awardees. Of these, 3,040 contractors received almost $10.2 billion in Federal contracts while owing $621.8 million in delinquent Federal taxes. Figure 3 depicts the amounts of contracts and grants the Federal Government awarded to entities with delinquent taxes between October 2018 and December 2019.

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[22] TIGTA, Report No. 2009-IE-R001, *A Combination of Legislative Actions and Increased IRS Capability and Capacity Are Required to Reduce the Multi-Billion Dollar U.S. International Tax Gap* (Jan. 2009).
[23] Pub. L. No. 111-147, Subtitle A, 124 Stat 97 (2010) (codified in scattered sections of 26 U.S.C.).
[24] TIGTA, Report No. 2022-30-019, *Additional Actions Are Needed to Address Non-Filing and Non-Reporting Compliance Under the Foreign Account Tax Compliance Act* (Apr. 2022).
[25] Pub. L. No. 113-235, 128 Stat. 2130 (2014).
[26] TIGTA, Report No. 2022-10-066, *Reliance on Self-Certifications Resulted in Federal Agencies Awarding Contracts and Grants to Entities With Delinquent Federal Taxes; However, the IRS Is Making Progress on Establishing the Federal Contractor Tax Check* (Sept. 2022).

Figure 3: Federal Contracts and Grants Awarded to Entities With Delinquent Taxes

	Contractors	Grantees
Entities owing delinquent taxes that received Federal awards between October 2018 and December 2019.	3,040 Entities	938 Entities
Federal awards that went to entities owing delinquent taxes.	$10.2 billion	$22.7 billion
Delinquent Federal taxes owed.	$621.8 million	$269.2 million

Source: TIGTA analysis of entity data from the System for Award Management, contracts data from the Federal Procurement Data System, grants data from USAspending.gov, and tax data from the IRS's Transaction Category Reports.

Increasing voluntary taxpayer compliance and reducing the Tax Gap will remain a persistent challenge facing the IRS. As such, the IRS will need to stay committed to a strong, visible, and robust tax enforcement presence to support voluntary compliance and protect the integrity of the tax system.

REDUCING TAX FRAUD AND IMPROPER PAYMENTS

Identity theft tax refund fraud involves the use of another person's name and Taxpayer Identification Number[27] to file a fraudulent tax return reporting false income and withholding in an effort to receive a fraudulent tax refund. The IRS continues to increase the number of fraudulent tax returns detected and stopped from entering the tax processing system (*i.e.*, rejecting e-filed tax returns and preventing paper tax returns from posting).[28] For the 2022 Filing Season, the IRS used 168 filters to identify potential identity theft tax returns and prevent the issuance of fraudulent refunds. In comparison, the IRS used 155 filters for the 2021 Filing Season. These filters incorporate criteria based on characteristics of confirmed identity theft tax returns, including amounts claimed for income and withholding, filing requirements, prisoner status, taxpayer age, and filing history. Tax returns identified by these filters are held during processing until the IRS can verify the taxpayer's identity.

[27] A nine-digit number assigned to taxpayers for identification purposes. Depending upon the nature of the taxpayer, it can be an Employer Identification Number, a Social Security Number, or an Individual Taxpayer Identification Number.
[28] TIGTA, Report No. 2022-40-035, *Interim Results of the 2022 Filing Season* (May 2022).

Identity theft not only affects individuals, it can also affect businesses. The IRS defines business identity theft as creating, using, or attempting to use a business's information without authority to obtain tax benefits. The IRS continues to improve and expand its detection capabilities to include additional types of business tax returns. During Processing Year 2021, the IRS used 84 selection filters to identify business tax returns claiming refunds for potential fraud. These filters identified and selected for review 62,096 business returns as potentially fraudulent.

However, TIGTA's assessment of the IRS's efforts to combat business identity theft and assist these types of victims identified that efforts can be improved if the IRS adopts successful taxpayer detection and assistance options, similar to what it provides to individual taxpayers. These include developing clustering filters for business identity theft detection and expanding Identity Protection Personal Identification Numbers to business taxpayers.[29]

In addition, TIGTA continues to find that IRS processes and procedures do not ensure that Individual Taxpayer Identification Numbers (ITIN) are issued only to individuals who have a Federal income tax need.[30] An ITIN is a tax processing number issued by the IRS for certain resident and nonresident aliens, their spouses, and their dependents who are not eligible to obtain a Social Security Number from the Social Security Administration. Only individuals who have a valid filing requirement, who are filing a return to claim a refund, or who are claiming reduced withholding under an applicable income tax treaty are eligible to receive an ITIN. TIGTA made several recommendations to improve administration of the ITIN program, such as ensuring that the IRS receives complete data extracts for identifying ITIN applications with duplicate entity information or supporting documents, regularly identifying and addressing retroactive claims that were processed incorrectly, and updating programming to systemically identify and deactivate all ITINs when required.

The IRS continues to work diligently to combat various scams designed to steal taxpayers' money or personal information. Compiled annually, the IRS's "Dirty Dozen" lists a variety of common scams that taxpayers may encounter. In 2022, the IRS added pandemic–related scams to its list. These scams involve the theft of a person's money and identity with bogus e-mails, social media posts, and unexpected telephone calls, among other things. The scams can take a variety of forms, including using unemployment information and fake job offers to steal money and information from people. All of these efforts can lead to sensitive personal information being stolen, with scammers using it to try filing a fraudulent tax return as well as harming victims in other ways.

Improper payments (*i.e.*, payments that should not have been made, were made in an incorrect amount, or were made to an ineligible recipient) continue to be a challenge facing the IRS. TIGTA found that the IRS inaccurately assessed the risk for the U.S. Coronavirus Economic Impact

[29] TIGTA, Report No. 2022-40-041, *Successful Detection and Assistance Processes Used to Combat Individual Identity Theft Should Be Implemented for Business Identity Theft* (July 2022).
[30] TIGTA, Report No. 2022-40-013, *Administration of the Individual Taxpayer Identification Number Program* (Jan. 2022).

Payment program as not susceptible to improper payments despite reports issued by TIGTA suggesting otherwise.[31]

In addition, the IRS continues not to be in compliance with the goal of reducing the overall improper payment rate for the Earned Income Tax Credit (EITC), the Additional Child Tax Credit (ACTC), and the American Opportunity Tax Credit (AOTC) to less than 10 percent. The IRS estimates it issued approximately $26.1 billion in potentially improper EITC, ACTC, and AOTC payments in FY 2021. As shown below, this represents a significant loss to the Federal Government:

- EITC – The IRS estimates 28 percent ($19.0 billion) of the total EITC payments of $68.3 billion were improper.
- ACTC – The IRS estimates 13 percent ($5.2 billion) of the total ACTC payments of $39.4 billion were improper.
- AOTC – The IRS estimates 26 percent ($1.9 billion) of the total AOTC payments of $7.1 billion were improper.

Further, the passage of the ARPA temporarily expands the CDCC. Beginning on January 1, 2021, the credit is fully refundable and the amount of the credit and the income phase-out limits have significantly increased. The unintended consequence of refundable credits is that they can result in the issuance of improper payments and can be the targets of unscrupulous individuals.

TIGTA's review of nearly 6.3 million Tax Year 2019 tax returns that received the CDCC identified a number of weaknesses in the controls over the processing of CDCC claims.[32] Although IRS management agreed to take actions to address some of these processing weaknesses, the IRS is not taking actions to address all deficiencies identified by TIGTA. This includes not taking the steps needed to ensure that requirements to claim the CDCC are met at the time tax returns are processed. In addition, the IRS is not taking actions to update its filing instructions and publications to provide additional guidance to taxpayers or revising programming and processes to identify potentially erroneous CDCC claims. As a result, the IRS may potentially allow improper payments associated with erroneous CDCC claims.

CONCLUSION

This memorandum is provided as our annual summary of the most serious major management and performance challenges confronting the IRS in FY 2023. TIGTA's *Fiscal Year 2023 Annual Audit Plan* and *Fiscal Year 2023 Inspections and Evaluations Program Plan* contain our proposed

[31] TIGTA, Report No. 2022-40-037, *Programs Susceptible to Improper Payments Are Not Adequately Assessed and Reported* (May 2022).
[32] TIGTA, Report No. 2022-47-023, *American Rescue Plan Act: Assessment of Processes to Identify and Address Improper Child and Dependent Care Credit Claims* (Mar. 2022).

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reviews. If you have any questions or wish to discuss our views on the challenges in greater detail, please contact me at (202) 622-6500.

cc: Deputy Secretary of the Treasury
Acting Assistant Secretary for Management
Deputy Chief Financial Officer
Commissioner of Internal Revenue

IRS Response to TIGTA Identified Management and Performance Challenges Facing the IRS for Fiscal Year 2023

The IRS appreciates TIGTA's management and performance challenges as valuable feedback to improving administrative processes and accomplishing our mission. Currently, the IRS is moving quickly to begin implementing the IRA signed into law in August 2022, which provides the resources needed to address many of the issues addressed in TIGTA's report. The IRA funding will help provide resources for tax enforcement, taxpayer service and technology. The funding will also ensure that a steady flow of resources will be in place to protect the nation's future revenue needs. Many of the employee gains will occur in future years of the IRS plan, and we will continue to focus on retaining existing employees to share knowledge and help train new staff. The IRS created a new centralized IRA Transformation & Implementation Office which will oversee the implementation of all IRS-related provisions in the IRA.

TIGTA Challenge 1: Improving Taxpayer Service

In FY 2022, the IRS took aggressive actions to address challenges related to pandemic recovery and new tax laws that led to an unprecedented amount of unprocessed tax returns and correspondence that contributed to an extraordinarily high level of call volumes and related taxpayer inquiries.
To improve the customer service overall LOS and processing of tax returns, actions included implementing mandatory overtime, increasing access to online self-service tools, and deploying surge teams, consisting of employees with relevant experience from other operations, to work on reducing inventory levels.

The IRS obtained direct hiring authority through OPM and the Consolidated Appropriations Act of 2022 to reach a broader applicant pool and reduce the number of days to hire. These authorities were used to hire personnel such as Tax Examiners, Clerks, CSRs and critical operations support positions.

The IRS also deployed technology to aid in processing returns and improving the toll-free experience, to include:

- Deploying an automated tool to process many of the Error Resolution System cases.
- Expanding voicebot options to help taxpayers with general payment and notice questions, to get answers quickly and avoid waiting.
- Expanding customer callback, which saved taxpayers over 3.4 million hours of hold time in FY 2022.

The IRS will continue to pursue technology to improve paper processing and the toll-free experience, and will continue to evaluate processes for improvement, including the appropriate resources and staffing allocation.

TIGTA Challenge 2: Protecting Taxpayer Data and IRS Resources

The IRS is committed to improving IT configuration compliance controls and making significant progress in FY 2023. The IRS will:

- Continue to address additional improvements to mainframe platform configuration compliance controls in several key areas, including logical partition configuration compliance controls, vulnerability age tracking and remediation, and compliance with required checklists.
- Implement a monitoring process for all production z/Series Operating System (z/OS) logical partitions and formalize the checklist adjudication process for z/OS to align with the current process for Tier II devices.

In FY 2022, the IRS took the following critical steps to improve the overall effectiveness of vulnerability remediation:

- Established a forum for sharing across the agency to ensure rightful ownership of the remediation responsibility to address security risk management issues within required timeframes. Identified owners will continue performing weekly scans for vulnerabilities and prioritizing the remediation of those identified vulnerabilities based on a risk model formula. For vulnerabilities exceeding remediation time frames, the IRS will remedy the vulnerabilities and/or create a Plan of Action and Milestones or Risk-Based Decisions to establish prioritization for the remediation of vulnerabilities.
- Implemented a process to ensure network updates related to vulnerability scanning are properly communicated.
- Deployed enterprise vulnerability scanning tool agents to ensure that privileged access scans are completed on required devices to determine the full extent of vulnerabilities affecting the installed operating systems and applications.
- Revised current guidance on conducting periodic reviews of the scanning exception list to ensure that vulnerability scanning exceptions were properly documented and devices lacking the required documentation were added back to the vulnerability scanning footprint.

TIGTA Challenge 3: Administering Tax Law Changes

The IRS implemented controls to track advance CTC updates and detect potentially fraudulent tax returns. A TIGTA review shows an accuracy rate of 98% on these payments. To address undelivered checks, the IRS updated programming to generate a new internal account transcript when an advance CTC payment (or EIP) is returned after the tax return is posted. This allows the IRS to proactively adjust the account without the taxpayer having to contact the IRS. Treasury updated its website to ensure accuracies in information on the CTC and Credit for Other Dependents.

Enhancing the taxpayer experience for all taxpayers including people in diverse and under-served communities is one of the IRS's highest priorities. The IRS is committed to improving the tax system and to serving taxpayers, ensuring they have a positive experience when interacting with the IRS. In FY 2022, the IRS released Form 1040 in Spanish, completed the conversion of 34 Spanish notice inserts to Braille, text, audio and large print, and converted Form 1040 and its main schedules, Form 1040 NR, Form 1040 SR, Form W-4 and six IRS publications into Spanish Braille, text and large print. The IRS also developed a new Schedule LEP for taxpayers to indicate their preferred contact language other than English.

TIGTA Challenge 4: Modernizing IRS Operations

The nation's tax system has changed significantly since the IRS was established more than 150 years ago, and over time, the agency harnessed the opportunity to leverage technology and provide services the public needs to fulfill their tax obligations. The IRS continues to implement modernization efforts to improve the taxpayer experience by modernizing core tax administration systems, IRS operations and cybersecurity. In FY 2022, the IRS published the IT Strategic Plan FY 2022–2026 which is structured to address key factors such as meeting the public's expectations, simplifying the existing IRS technology base, adopting emerging technology trends, staying ahead of cybersecurity threats, continually driving the adoption of new ways of working, complying with federal mandates and guidelines and supporting the workforce with advanced technology training to enhance their skills. Technology innovation and the multi-year funding required to modernize the legacy systems and technology at the IRS will be critical to improving the taxpayer experience and protecting the integrity of our nation's tax system.

The IRS is building the foundation to become a digital-first agency with the ability to unlock the power of data, adapt to evolving taxpayer expectations and create innovative tools to match the pace of change throughout the technology landscape. The IRS will transform with automated digital workflows, real-time access to impactful data, and intelligently automated submission reviews, all of which take the foundational modernization steps to support this future vision. The IRS will also continue to make progress toward quick implementation of tax law changes and responses to legislation and mandates which requires an increasingly agile organization.

TIGTA Challenge 5: Increasing Domestic and International Tax Compliance and Enforcement

The IRS develops and implements international compliance workstreams for the many groups of taxpayers including U.S. citizens living and/or working abroad or in a U.S. Territory, U.S. citizens or resident aliens who hold income producing assets in a foreign country or claim the foreign earned income exclusion or foreign tax credit, permanent residents and non-resident aliens who have a U.S. filing requirement. In addition, the Foreign Payments Practice and Automatic Exchange of Information operation interacts with and monitors a variety of entities and individuals who have reporting and payment requirements under Chapter 3 (Withholding of Tax on Nonresident Aliens and Foreign Corporations) and Chapter 4 (Taxes to Enforce Reporting on Certain Foreign Accounts) of the IRC, and collaborates with treaty partners in automatically exchanging data used for tax compliance purposes. Some of the workstreams include Virtual Currency, Offshore Service Providers, Section 965 for Individuals, Voluntary Disclosures, Offshore Private Banking, Form 1042 Compliance, and FATCA Filing Accuracy campaigns. Since the standup of the campaign compliance program, IRS has initiated over 70 compliance campaigns.

Processing information under the FATCA and identifying individual offshore and foreign financial entity noncompliance remains a resource intensive undertaking. FATCA is an information reporting regime designed to encourage reporting of foreign bank and brokerage accounts of US persons and closely held entities. As such, FATCA is a data source that is woven into the IRS's enforcement framework throughout the organization. The IRS will continue to increase analytics around comparing submissions received on Form 8938, Statement of Specified Foreign Financial Assets, filed by U.S. persons, and Form 8966, FATCA Report, filed by foreign financial institutions to identify both substantial discrepancies in individual reporting and individuals potentially failing to report their foreign financial accounts and/or not providing appropriate customer information to their foreign financial institution.

The IRS implemented a multi-pronged compliance approach around this analysis, which includes the issuance of soft letters, education letters, civil and criminal examinations, penalty consideration when appropriate, termination of the Global Intermediary Identification Numbers for foreign financial institutions, and a Horizontal Scan Project geared toward emerging tax risks and trends in FATCA compliance.

The IRS is ensuring its compliance workforce is well-prepared to examine complex tax returns, especially those with offshore compliance and transfer pricing issues, through a continued emphasis on training and knowledge sharing. The IRS has faced challenges in hiring revenue agents who specialize in cross border tax issues. Because of this and the relatively few numbers of specialists in this and other international areas, the IRS's hiring challenges have impacted the ability to enforce international tax compliance. In providing directives to the IRS on the implementation of the IRA, Secretary Yellen emphasizes the priority to hire and invest in training employees for identifying most complex tax evasion schemes.

The IRS continues to prioritize development of its cross-functional Federal Contractor Tax Check System (FCTCS). Its FCTCS working group is coordinating with Treasury and the OMB to resolve legislative and regulatory requirements necessary to obtain approval for further development, deployment and use. The FCTCS technology solution is on track for a foundational release in November 2022, which will automate the rules that perform a tax check at the request of authenticated business taxpayers and has the capability of identifying whether a business has a seriously delinquent tax debt pursuant to legislative mandate of the Consolidated Appropriations Act. The IRS technology solution satisfies the requirements of the Act and Congressional intent and can be implemented without further legislative changes or any dependence on updates to the SAM by the GSA.

TIGTA Challenge 6: Reducing Tax Fraud and Improper Payments

Reducing improper payments continues to be a top priority for the IRS. The IRS strategy with respect to improper payments is to intervene early to ensure compliance with the law. In FY 2022, the IRS addressed improper payments through its compliance programs as well as through expansive outreach and education efforts to taxpayers and preparers. Programs that contribute to the IRS's strategy of identifying and reducing improper refund claims associated with various refundable tax credits include examinations, math error notices, document matching, utilizing two- and ten-year bans, identity theft and fraud, criminal investigations and soft notices.

To reduce improper payments and protect taxpayers from tax-related identity theft, Form 8849, Claim for refund of Excise Taxes, was included in the 2021 Business Identity Theft Risk Assessment. The IRS is currently conducting an analysis to determine the feasibility of assigning Identity Protection Personal Identification Numbers (IP PINs) to business taxpayers since it presents numerous challenges that are not associated with the assignment of IP PINs to individual taxpayers.

The IRS will also evaluate various common tax return characteristics to determine if clustering filters should be developed for business tax returns and explore opportunities to reduce improper payments while promoting the availability of refundable credits to eligible taxpayers.

The IRS continues to make improvements on processes associated with erroneous CDCC claims. For Processing Year 2022, the IRS developed a compliance filter to identify tax returns claiming CDCC for an adult dependent who may not be disabled for possible post-refund treatment.

Returns that claim the CDCC are considered for further review per the duplicate TIN process when any child has been claimed as a dependent by more than one taxpayer.

For Tax Year 2021, the IRS revised the Instructions for Form 2441, Child and Dependent Care Expenses, by adding a caution paragraph to address the issue of potentially ineligible individuals being listed as qualifying individuals. Further, to better educate taxpayers, the IRS added examples to Publication 503, Child and Dependent Care Expenses, to help clarify the requirements for qualifying care and expenses.

For Tax Year 2022, the IRS will revise Form 2441 by adding a checkbox to indicate whether a taxpayer or their spouse was a student or disabled during the tax year and they intend to enter deemed income on Form 2441. Form 2441 will also include a new question to identify disabled individuals. Once adequate data is available, the IRS will assess the effectiveness of these changes and evaluate the population of returns with couples who filed using the Married Filing Separately status on at least one of the tax returns and claimed more than the maximum amount of the credit per family.

The IRS will work with the Office of Tax Policy to identify issues with CDCC for consideration of legislative changes.

SECTION C: REFUNDABLE TAX CREDITS AND OTHER OUTLAYS

Refundable Tax Credits

To offer tax relief to targeted individuals and businesses, Congress has provided assistance in the form of tax credits. For the majority of tax credits, the economic benefit is limited to the taxpayer's tax liability. Credits limited in this manner are termed non-refundable credits. Refundable credits, in contrast, are fully payable to the taxpayer, even if the credit exceeds the tax liability. These types of credits provide greater economic benefits because the taxpayer realizes the full amount of the credit, regardless of the underlying tax liability.

The following overview summarizes the refundable credits the IRS administers and pays. This overview describes refundable credits in existence for many years and those created more recently by Congress, including those enacted as part of the American Recovery and Reinvestment Act of 2009, PPACA, CARES Act, FFCRA, CRRSAA and ARP.

Additional Child Tax Credit

Prior to Tax Year 2021, the ACTC was a special refundable credit for taxpayers who worked, had earnings below an established ceiling, and had a qualifying child. The CTC was limited to the taxpayer's tax liability. Certain individuals who received less than the full amount of the CTC may qualify for the ACTC. Under this credit, subject to additional criteria, the taxpayer may receive the full credit amount even if such amount exceeds the taxpayer's tax liability.

Under the ARP, the CTC became fully refundable and increased from $2,000 to $3,000 for the 2021 tax year only. In the case of a qualifying child who has not attained the age of six as of the close of the calendar year, the credit increased to $3,600. In addition, the term qualifying child was broadened to include a qualifying child who had not attained the age of 18. The program also included the ability to receive a portion of the child tax credit as an advance from July through December of 2021.

Earned Income Tax Credit

The EITC is a refundable tax credit for low to moderate income working individuals and families. Congress originally approved the tax credit legislation in 1975, in part, to offset the burden of social security taxes and to provide an incentive to work. To qualify, taxpayers must meet certain requirements and file a tax return, even if they did not have sufficient income to meet regular tax return filing requirements.

Premium Tax Credit

Starting January 1, 2014, persons who purchase health insurance coverage through the Health Insurance Marketplace may be eligible for the PTC. In general, a person is eligible for the refundable tax credit if they (a) buy health insurance through the Marketplace, (b) are ineligible for coverage through an employer or government plan, (c) are within certain income limits, (d) do not file a Married Filing Separately tax return (unless they meet specific criteria that allow certain victims of domestic abuse to claim the PTC using the Married Filing Separately filing status) and (e) cannot be claimed as a dependent by another person.

Eligible individuals may elect to have some, or all of their estimated credit paid in advance directly to their insurance company to lower the amount they must pay out-of-pocket for their monthly premiums, or they may elect to receive all of the credit when they file their tax return. Each person who receives the benefit of a credit advance or who wishes to claim the credit must file an income tax return.

Sick & Paid Family Leave, Employee Retention Tax Credit and Consolidated Omnibus Budget Reconciliation Act

Sick and Paid Family Leave credit was created by the FFCRA Section 7001–7004, CRRSAA and ARP. The credit allows employers a payroll credit on the qualified sick leave and family leave wages paid in the calendar quarter, limited to ten sick days and $200 leave wages per day. In addition, the family leave wages paid is limited to $10,000. The credit is available to employers with fewer than 500 employees.

Sick and Paid Family Leave was extended by CRRSAA until March 31, 2021. The ARP tax credits extended to eligible employers sick and family leave pay from April 1, 2021 through September 30, 2021. The tax credit for paid sick leave wages is equal to the sick leave wages paid for COVID-19 related reasons for up to two weeks (80 hours), limited to $511 per day and $5,110 in the aggregate, at 100% of the employee's regular rate of pay. The tax credit for paid family leave wages is equal to the family leave wages paid for up to 12 weeks, limited to $200 per day and $12,000 in the aggregate, at two thirds of the employee's regular rate of pay.

ERC was created by CARES Act, Section 2301, CRRSAA and ARP. The provision provides a refundable payroll tax credit for 50% of wages (up to $10,000) paid by employers to employees during the COVID-19 pandemic. The credit is available to employers whose (1) operations were fully or partially suspended due to a COVID-19 related shut-down order or (2) gross receipts declined by more than 50% when compared to the same quarter in the prior year. CRRSAA extended through the first two quarters of 2021 with the credit increased to 70% of wages limited to $10,000 paid in any calendar quarter and a maximum to $7,000 paid per quarter to any employee. Under ARP, it was extended through the fourth quarter of 2021, and the credit continues to be capped at $7,000 per quarter for wages paid. However, the ARP adds a separate $50,000 maximum aggregate credit per quarter for Recovery Startup Business.

ARP, Section 9501, requires certain employers to offer free COBRA coverage to qualified individuals between April 1, 2021 and September 30, 2021. Also, ARP provides tax credits to employers to offset the cost of the COBRA coverage. The right to free COBRA coverage extends to some individuals whose right to COBRA coverage previously ended. The bill subsidizes 100% of COBRA premiums for six months for individuals who lost employment or had reduced hours.

Child and Dependent Care Tax Credit

CDCC was created by ARP. The credit, for 2021, expands the child and dependent care credit by making the credit refundable. Additionally, CDCC increases the limit on qualifying expenses from $3,000 for one child and $6,000 for two or more children to $8,000 and $16,000, respectively. CDCC allows a maximum credit amount for one qualifying dependent is increased from $3,000 to $8,000, solely for 2021; maximum credit amount for two or more qualifying dependents is increased from $6,000 to $16,000, solely for 2021. The refundable tax credit increases the amount for employer-provided dependent care assistance which can be excluded from gross income; tax years before and after 2021, $5,000 for all tax filing statuses other than married filing separately, $2,500 for married filing separately; Tax Year 2021, $10,500 for all tax filing statuses other than married filing separately, $5,250 for married filing separately.

Corporate Alternative Minimum Tax Credit

IRC Section 168(k)(4) allows a taxpayer to elect to claim a refundable credit for certain unused research credits in lieu of the special depreciation allowance for eligible property.

American Opportunity Tax Credit

The AOTC replaces the Hope Credit. The credit was made permanent by the Protecting Americans Against Tax Hikes Act of 2015. This tax credit makes the Hope Credit available to a broader range of taxpayers, including many with higher incomes and those who owe no tax. Additionally, it adds required course materials to the list of qualifying expenses and allows the credit to be claimed for four post-secondary education years instead of two. Many of those eligible will qualify for the maximum annual credit of $2,500 per student.

Build America and Recovery Zone Bonds

Build America Bonds (BABs) are a financing tool for state and local governments. The bonds, which allow a new direct federal payment subsidy, are taxable bonds issued by state and local governments to give them access to the conventional corporate debt markets. At the election of the state and local governments, Treasury will make a direct payment to the state or local governmental issuer in an amount equal to 35% of the interest payment on the BABs. This federal subsidy payment provides state and local governments lower net borrowing costs and allows them to reach more sources of borrowing than they can with more traditional tax-exempt or tax credit bonds.

Created by the ARRA, Recovery Zone Bonds are targeted to areas particularly affected by job losses and help local governments obtain financing for much needed economic development projects, such as public infrastructure development.

Qualified Zone Academy Bonds and Qualified School Construction Bonds

Congress created Qualified Zone Academy Bonds and Qualified School Construction Bonds to help schools raise funds to renovate and repair buildings, invest in equipment and current technology, develop more challenging curricula and train teachers. The tax credit portion of these bonds depends on the issuance date of the bonds, the number of bonds outstanding and the time remaining until their redemption.

Qualified Energy Conservation Bonds and New Clean Renewable Energy Bonds

Qualified Energy Conservation Bonds (QECB) may be issued by state, local and tribal governments to finance qualified energy conservation projects. A minimum of 70% of a state's allocation must be used for governmental purposes and the remainder may be used to finance private activity projects. QECBs were originally structured as tax credit bonds. However, the March 2010 Hiring Incentives to Restore Employment Act (HIRE Act) (H.R. 2847 (Section 301)) changed QECB from tax credit bonds to direct subsidy bonds similar to BABs. The QECB issuer pays the investor a taxable coupon and receives a rebate from Treasury.

New Clean Renewable Energy Bonds (CREBs) may be issued by public power utilities, electric cooperatives, government entities (states, cities, counties, territories, Indian tribal governments) and certain lenders to finance renewable energy projects. CREBs were originally structured as tax credit bonds. The HIRE Act changed CREBs from tax credit bonds to direct subsidy bonds similar to BABs. The issuer pays the investor a taxable coupon and receives a rebate from Treasury.

Health Coverage Tax Credit

The federal Health Coverage Tax Credit (HCTC) was created by the Trade Act of 2002 to help certain displaced workers and certain retirees pay for health insurance. Those eligible to claim the credit fall into one of two categories: 1) trade-impacted workers who have lost their jobs because of increased imports or a shift in production to another country and are classified as Trade Adjustment Assistance or Alternative Trade Adjustment Assistance and, 2) individuals whose pensions are being paid by the Pension Benefit Guaranty Corporation (PBGC), are at least 55 years of age and not entitled to Medicare.

The HCTC, authorized in the Trade Adjustment Assistance Reform Act of 2002, first became effective for coverage months beginning after August 6, 2002. The tax credit later expired for coverage months after 2013. The Trade Adjustment Assistance Reauthorization Act of 2015 restored the HCTC retroactively for 2014 coverage, erasing the hiatus in its duration and extended it for coverage through the end of 2019. On December 20, 2019, Congress passed H.R. 1865, Further Consolidated Appropriations Act of 2020, which included an extension of the HCTC program through December 31, 2020. HCTC legislation was extended again, through December 31, 2021, under the Taxpayer Certainty and Disaster Tax Relief Act of 2020, Section 134.

Eligible participants are responsible for paying 27.5% of their insurance premium while the IRS is responsible for paying the remaining 72.5%.

The HCTC Monthly Program is only available to individuals who are determined eligible by the DOL or PBGC, enrolled in qualified health coverage and have an approved HCTC monthly vendor. These vendors are Health Plan Administrators or Third-Party Administrators who are willing to provide direct deposit information in order to accept health insurance premiums on their member's behalf.

Payments for Disaster Related Tax Relief

On September 29, 2017, the President of the United States of America signed into law H.R. 3823, known as the Disaster Tax Relief and Airport and Airway Extension Act of 2017 (DTRAAE), which provides a series of relief measures for zones and areas affected by hurricanes Harvey, Irma and Maria, among other matters. Pursuant to Section 504(d)(1) of the Act, the Secretary of the Treasury shall pay to Virgin Islands and Puerto Rico amounts estimated by the Secretary of the Treasury as being equal to the aggregate benefits that would have been provided to residents of Virgin Islands and Puerto Rico by reason of the provisions of Title V of the Act if a mirror code tax system had been in effect in Virgin Islands and Puerto Rico.

Other Outlays

Economic Impact Payments and Recovery Rebate Credit

CARES Act, CRRSAA and ARP included provisions to help stimulate the economy through EIPs and/or RRCs. The CARES Act created an EIP that allowed for individuals with adjusted gross income (AGI) up to $75,000 ($150,000 joint return), who are not a dependent of another taxpayer and have a work eligible social security number, are eligible for a $1,200 ($2,400 joint return) rebate. In addition, they are eligible for up to an additional $500 per eligible child.

For filers with income above those amounts, the payment amount is reduced by 5% of the amount that their AGI exceeds the $75,000/$150,000 thresholds. CRRSAA created a second EIP of up to $600 for individuals and $1,200 for individuals filing a joint tax return, with up to an additional $600 for each eligible child. The payment amount is reduced by 5% of the amount their AGI exceeds the $75,000 (single file)/$150,000 (joint return) thresholds. Additionally, ARP created a third EIP of up to $1,400 for individuals and $2,800 for individuals filing a joint tax return, with up to an additional $1,400 for each qualifying dependent. The payment amount is phased out where their AGI exceeds the $75,000 (single filer)/$150,000 (joint return) thresholds. Taxpayers will not receive a third payment if their AGI exceeds $80,000 (single filer)/$160,000 (joint return). Social Security recipients and railroad retirees who are otherwise not required to file a tax return are also eligible and will not be required to file a return.

Pursuant to CARES Act and CRRSAA, the IRS used its permanent and indefinite authority to pay recovery rebates for individuals, referred to as EIPs. These Acts authorized the IRS to allow for a tax credit (or rebate) to individuals against their 2020 income taxes.

Basic Health Program

Section 1331 of the PPACA gives states the option of creating a health benefits coverage program for low-income residents who would otherwise be eligible to purchase coverage through the Health Insurance Marketplace. The BHP gives states the ability to provide more affordable coverage for these low-income residents and improve continuity of care for people whose income fluctuates above and below Medicaid and Children's Health Insurance Program levels. These subsidies, which are federal government outlays, are not tax credits and are not reported on the recipient's income tax return. In addition, the Cost Sharing Reduction portion of the BHP was terminated and no further quarterly payments were disbursed in FY 2018.

Interest on Tax Refunds

The IRS pays interest on refunds sent later than 45 days from the original filing deadline (April 15, 2021) of the return. Additionally, interest is generally paid on amended returns that result in a refund. Returns that have been examined and show an overpayment also result in the payment of interest. The interest rate on overpayments is adjusted quarterly.

State Innovation Waiver Program

Starting January 1, 2017, the states can apply for a waiver under Section 1332 of the PPACA. The waivers will enable the states to implement innovative ways for providing access to quality health care to their residents. The coverage must be at least as comprehensive and affordable as would be provided absent the waiver. In addition, the states must extend coverage to a comparable number of residents as would be provided coverage absent a waiver and must not increase the federal deficit. Pass through funding is the foundation of the waivers, which will grant the states the equivalent of the forgone financial assistance they otherwise would receive absent the waiver, such as the PTC (IRC Section 36B) and the Small Business Health Tax Credit (IRC Section 45R).

Cost Sharing Reduction

In addition to the premium tax credit, individuals who purchased a qualified health care plan through the Marketplace could qualify for Cost Sharing Reduction based on their family income. This lowered the amount they had to pay for out-of-pocket costs such as deductibles, coinsurance and copayments. In FY 2018, based upon an attorney general legal opinion, HHS discontinued the Cost Sharing Reduction program. The IRS activity only reflects the recovery amounts from insurance companies CMS has collected.

Payments of refundable tax credits in excess of tax liabilities and other outlays in FY 2022 and FY 2021 are shown below.

(In Millions)	2022	2021
Additional Child Tax Credit	$ 131,435	$ 78,959
Premium Tax Credit*	67,777	56,428
Earned Income Tax Credit	64,282	60,757
Sick & Paid Family Leave, Employee Retention Tax Credit and Consolidated Omnibus Budget Reconciliation Act	29,470	10,143
Economic Impact Payments and Recovery Rebate	13,109	569,508
Basic Health Program	10,154	6,929
Child Dependent Care Tax Credit	7,430	–
American Opportunity Tax Credit	3,797	3,967
Interest On Tax Refunds	3,540	3,033
Corporate Alternative Minimum Tax Credit	2,727	9,160
Build America and Recovery Zone Bonds	2,251	3,012
State Innovation Waiver Program	1,582	1,296
Qualified School Construction Bonds	600	797
New Clean Renewable Energy Bonds	40	57
Qualified Zone Academy Bonds	38	54
Qualified Energy Conservation Bonds	34	43
Health Care Tax Credit	22	23
Cost Sharing Reduction**	(48)	(19)
Refundable Tax Credits and Other Outlays	**$ 338,240**	**$ 804,147**

*Includes advanced amounts for the PTC. Beginning in FY 2015, preliminary outlay amounts are adjusted upward or downward based on information from tax returns. In FY 2022 and FY 2021, total PTC advances disbursed by the Center for Medicare and Medicaid Services totaled $75,562 and $58,160, respectively. The FY 2022 and FY 2021 advanced amounts were adjusted downward based on tax return information.

**Negative amount represents funds CMS recovered from insurance companies.

Social Security and Medicare Taxes

The FICA provides for a federal system of old-age, survivors, disability and hospital insurance benefits. Payments to trust funds established for these programs are financed by payroll taxes on employee wages and tips, employers' matching payments and a tax on self-employment income.

A portion of FICA benefits involves old-age, survivors and disability payments. These benefits are funded by the social security tax, which is 12.4% for calendar year 2022. Employees currently pay 6.2% on wages and tips up to $147,000 and an employer matching amount of 6.2%. In calendar year 2021, the rate was 12.4%, but on wages and tips up to $142,800. These benefits are also funded by a self-employment tax of 12.4% on self-employment income up to $147,000 and $142,800, for calendar years 2022 and 2021, respectively. Remaining benefits under FICA pertain to hospital benefits (referred to as Medicare) and are funded by a separate 1.45% tax on all wages and tips (there is no wage limit) and the employer matching contribution of 1.45%, for a total of 2.9%. Self-employed individuals pay a Medicare tax of 2.9% on all self-employment income. Beginning in 2013, an additional Medicare tax of 0.9% was collected on earned individual income of more than $200,000 and earned income of more than $250,000 for married couples filing jointly. Social security taxes collected by the IRS were approximately $1,076 billion and $964 billion in FY 2022 and FY 2021, respectively. Medicare taxes collected by the IRS were approximately $341 billion and $296 billion in FY 2022 and FY 2021, respectively. Social security taxes and Medicare taxes are included in the Individual income, FICA/SECA and other financial statement line on the SCA. Additionally, the CARES Act deferred the employer's share of the Social Security portion of FICA. (Refer to **Note 1.E. Federal Taxes Receivable, Net** and **Note 5. Federal Taxes Receivable, Net**.)

Tax Expenditures

The *Congressional Budget and Impoundment Control Act of 1974* (P.L. 93-344) defines tax expenditures as "revenue losses attributable to provisions of the federal tax laws which allow a special exclusion, exemption or deduction from gross income or which provide a special credit, a preferential rate of tax or a deferral of tax liability." Tax expenditures are the foregone federal revenue resulting from deductions and credits provided in the IRC. Since tax expenditures directly affect funds available for government operations, decisions to forego federal revenue are as important as decisions to spend federal revenue.

While the term "revenue losses" is used in the statutory definition, tax expenditures have traditionally been measured as reductions in federal tax revenues relative to normal baseline provisions of an individual and corporate income tax system, which were properly approved and authorized by Congress to accomplish identified policy objectives, recognizing that federal tax revenues would be reduced.

In accordance with SFFAS 52, Tax Expenditures, narrative disclosures and information regarding tax expenditures are reported in the Consolidated Financial Report of the U.S. Government. Such disclosures do not apply to the financial statements of component reporting entities such as the IRS. Tax expenditures also do not affect the reporting in the Budget of the U.S. Government or any other special purpose report.

Tax Gap

The gross tax gap is the amount of true tax liability for a given tax year not paid voluntarily and/or timely. The IRS develops tax gap estimates on a periodic basis. In September 2022, the IRS issued tax gap estimates for the Tax Year 2014–2016 timeframe. Like the Tax Year 2011–2013 tax gap estimates, these estimates reflect an average compliance rate and average annual tax gap for a timeframe of three years. This approach was selected as it provides more reliable tax gap estimates by category and source of noncompliance. The estimated average annual gross tax gap for the Tax Year 2014–2016 timeframe is $496 billion.

There are three primary sources of noncompliance:

1. Nonfiling tax gap (the tax not paid on time by those who do not file required returns on time).

2. Underreporting tax gap (the net understatement of tax on timely filed returns).

3. Underpayment tax gap (the amount of tax reported on timely filed returns not paid on time).

The estimated gross tax gap of each of these components is $39 billion for nonfiling, $398 billion for underreporting, and $59 billion for underpayments. Additionally, the gross tax gap can be grouped by type of tax, as follows:

- $357 billion for individual income tax.
- $41 billion for corporation income tax.
- $93 billion for employment tax.
- $5 billion for combined estate and excise tax.

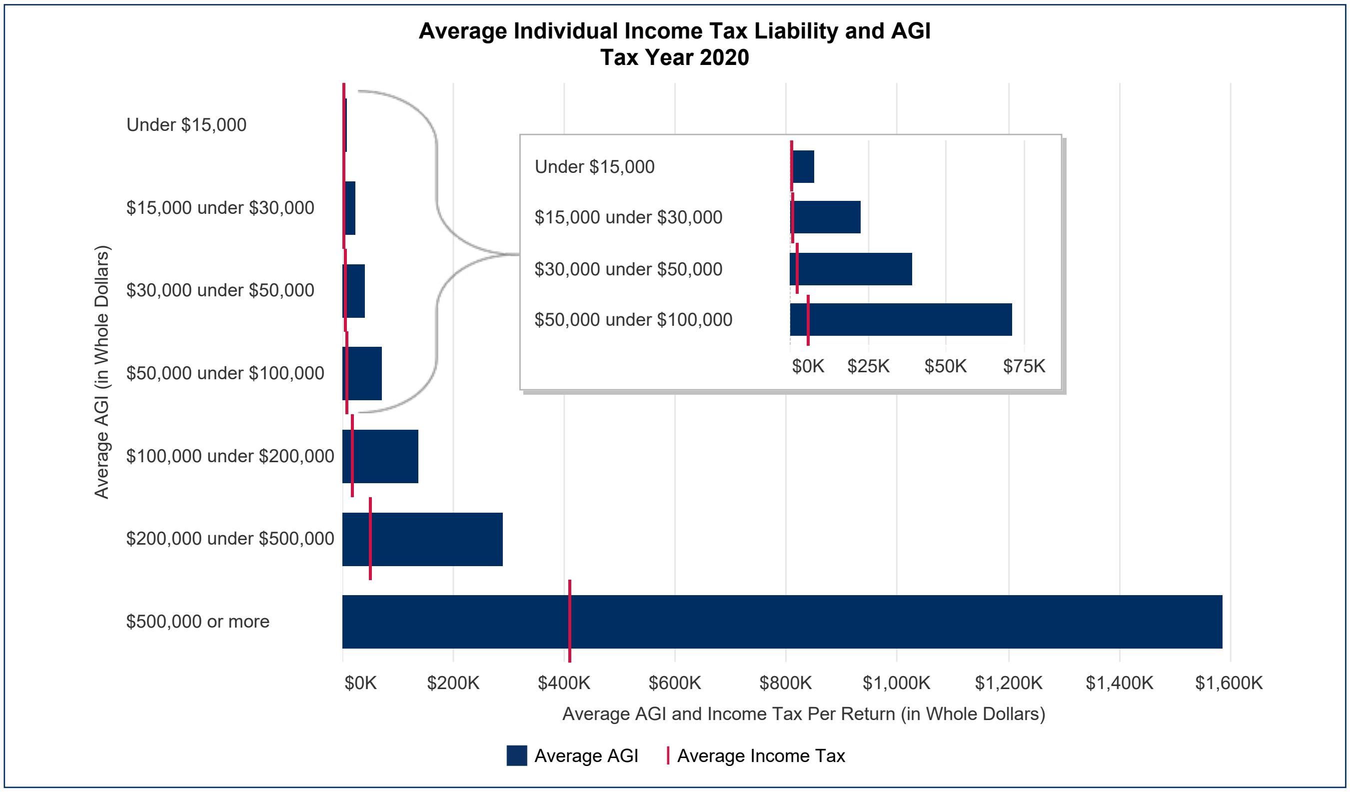
The net tax gap is the gross tax gap less tax subsequently paid either voluntarily paid late or collected through IRS administrative and enforcement activities. As a result, the net tax gap is the portion of the gross tax gap that will not be paid. The portion of gross tax gap that is estimated to be eventually collected is $68 billion, resulting in a net tax gap of $428 billion. The estimated net tax gap by type of tax is (detail may not add to the total due to rounding):

- $306 billion for individual income tax.
- $34 billion for corporation income tax.
- $87 billion for employment tax.
- $2 billion for combined estate and excise tax.

Tax Burden

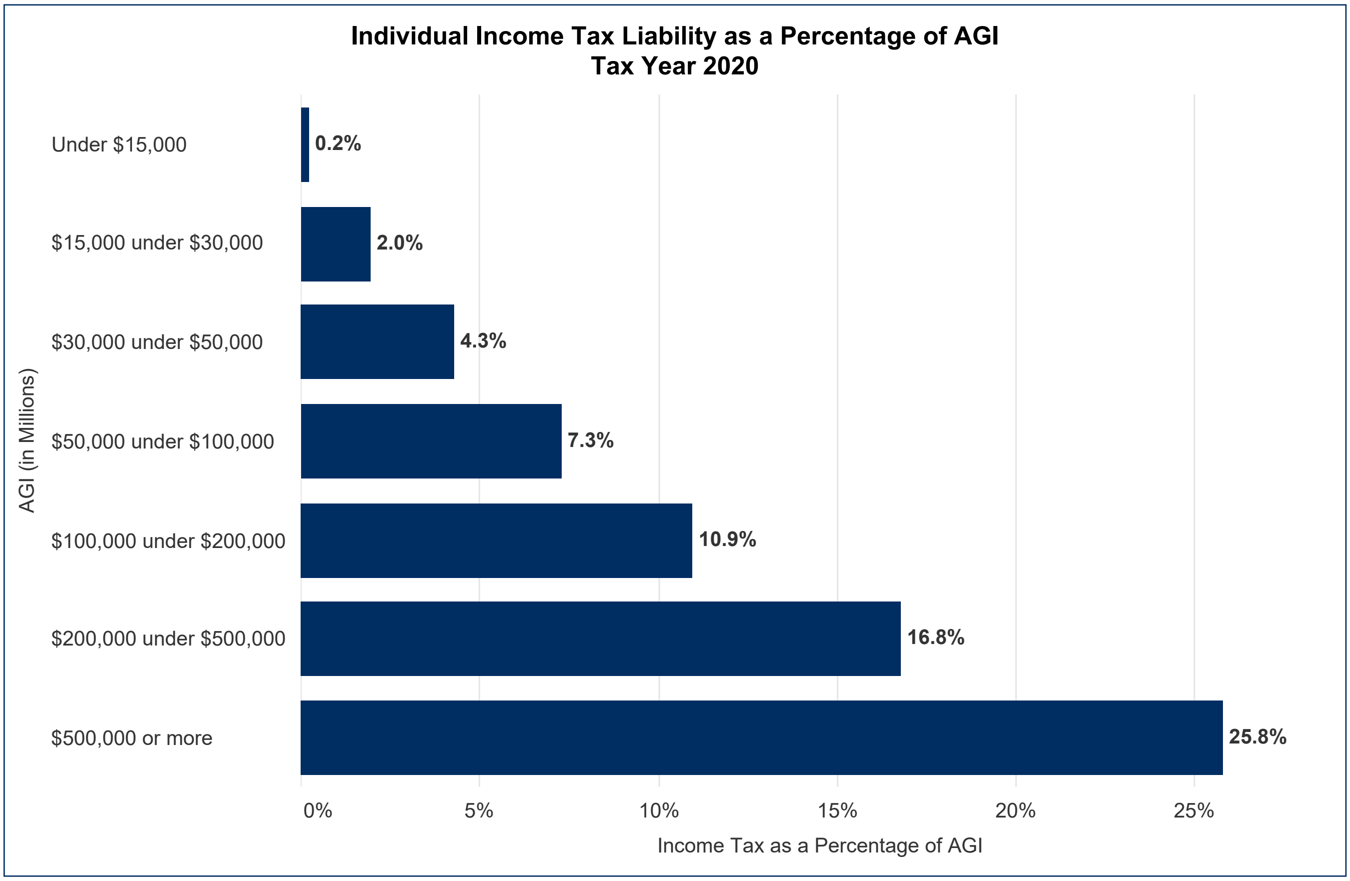
The IRC provides for progressive rates of tax, whereby higher incomes are generally subject to higher rates of tax. The following pages present in both graph and table format various income levels and tax liability levels reported by individuals and corporations (that is, these amounts do not account for tax burdens that taxpayers do not report on their returns). This information is the most recent available for individuals (Tax Year 2020) and corporations (Tax Year 2019). The graphs and charts are representative of more detailed data and analyses available from the IRS Statistics of Income Office.

For individuals, the information illustrates, in both percentage and dollar terms, the tax burden that taxpayers bear by varying levels of AGI. The corporate information illustrates, for varying corporate asset categories, the tax burden borne by these entities as a percentage of taxable income.

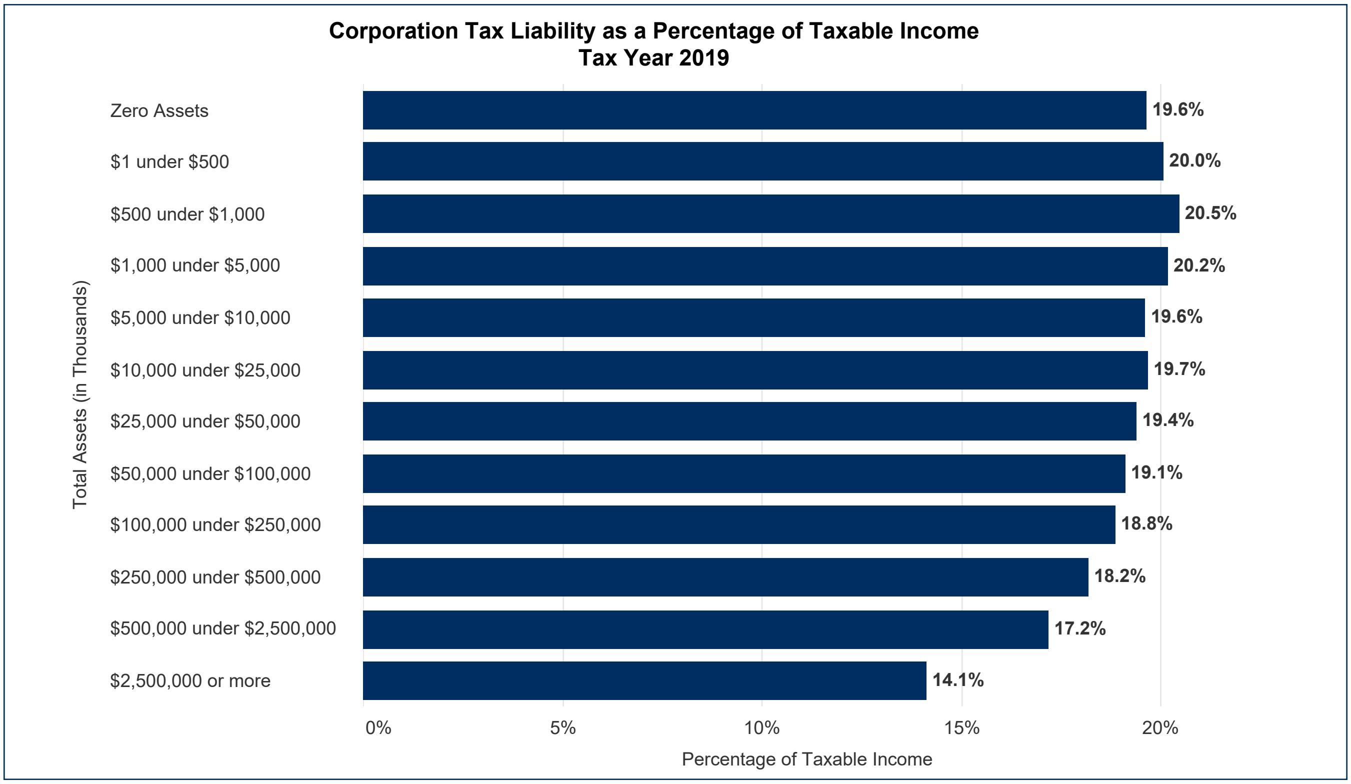


AGI	Number of Taxable Returns (In Thousands)	AGI (In Millions)	Total Income Tax (In Millions)	Average AGI Per Return (In Whole Dollars)	Average Income Tax Per Return (In Whole Dollars)	Income Tax as a Percentage of AGI
Under $15,000	31,045	$ 232,112	$ 491	$ 7,477	$ 16	0.2%
$15,000 under $30,000	29,265	655,347	12,849	$ 22,394	$ 439	2.0%
$30,000 under $50,000	29,930	1,173,046	50,346	$ 39,193	$ 1,682	4.3%
$50,000 under $100,000	36,983	2,635,417	192,163	$ 71,260	$ 5,196	7.3%
$100,000 under $200,000	22,415	3,060,066	334,648	$ 136,519	$ 14,930	10.9%
$200,000 under $500,000	7,615	2,187,229	366,794	$ 287,226	$ 48,167	16.8%
$500,000 or more	1,845	2,923,397	753,251	$ 1,584,497	$ 408,266	25.8%
Totals	**159,098**	**$12,866,614**	**$ 1,710,542**			

(All figures are estimates and based on sampling provided by the IRS Statistics of Income Office. All negative AGI under $15,000 are treated as zero-dollar amounts.)



(All figures are estimates and based on sampling provided by the IRS Statistics of Income Office. All negative AGI under $15,000 are treated as zero-dollar amount.)



Total Assets (In Thousands)	Income Subject To Tax (In Millions)	Total Income Tax After Credits (In Millions)	Percentage of Income Tax After Credits To Taxable Income
Zero Assets	$ 26,676	$ 5,240	19.6%
$1 under $500	8,235	1,669	20.0%
$500 under $1,000	5,279	1,080	20.5%
$1,000 under $5,000	18,004	3,629	20.2%
$5,000 under $10,000	11,642	2,281	19.6%
$10,000 under $25,000	15,884	3,122	19.7%
$25,000 under $50,000	14,549	2,821	19.4%
$50,000 under $100,000	16,588	3,166	19.1%
$100,000 under $250,000	25,381	4,781	18.8%
$250,000 under $500,000	25,573	4,652	18.2%
$500,000 under $2,500,000	111,437	19,156	17.2%
$2,500,000 or more	1,453,939	205,533	14.1%
Totals	**$ 1,733,277**	**$ 257,130**	

(All figures are estimates and based on sampling provided by the IRS Statistics of Income Office.)

SECTION D: GRANTS PROGRAMS

The summary table below shows the total number and balances of federal grants and cooperative agreement awards for which closeout has not yet occurred and the period of performance has elapsed by more than two years.

CATEGORY	2–3 Years	4–5 Years	More than 5 Years
Number of Grants/ Cooperative Agreements with Zero Dollar Balances	195	3	–
Number of Grants/ Cooperative Agreements with Undisbursed Balances	43	2	–
Total Amount of Undisbursed Balances	**$ 745,929**	**$ 34,713**	**$ –**

The IRS continues to make the closeout of awards a priority every fiscal year. Due to the two-year cycle of our VITA grants, the IRS did see an increase in the number of grant and cooperative agreements with a period of performance over two years from 81 in FY 2021 to 243 in FY 2022. Grant recipients have not correctly completed and submitted all progress reporting forms and financial forms in the Payment Management System which continues to be a challenge preventing closeout of awards. Other factors include competing priorities, employee turnover and challenges associated with integrating a new grants management system. The program offices are reviewing closeout procedures and are dedicated to closing out the remaining accounts in FY 2023.

SECTION E: ACRONYM LIST

ACSI	American Customer Satisfaction Index
ACTC	Additional Child Tax Credit
AFR	Agency Financial Report
AGI	Adjusted Gross Income
AOTC	American Opportunity Tax Credit
ARPA/ARP	American Rescue Plan Act of 2021
APR&P	Annual Performance Report and Plan
BABs	Build America Bonds
BHP	Basic Health Program
BW	Business Warehouse
C&L	Communication and Liaison
CAA	Consolidated Appropriations Act 2021
CADE 2	Customer Account Data Engine 2
CARES Act	Coronavirus Aid, Relief, and Economic Security Act
CDCC	Child and Dependent Care Tax Credit
CI	Criminal Investigation
CFO	Chief Financial Officer
CMS	Centers for Medicare and Medicaid Services
COBRA	Consolidated Omnibus Budget Reconciliation Act
Compliance Framework	FFMIA Compliance Determination Framework
COVID-19	Coronavirus 2019

CREBs	New Clean Renewable Energy Bonds
CRRSAA	Coronavirus Response and Relief Supplemental Appropriations Act 2021
CSR	Customer Service Representative
CSRS	Civil Service Retirement System
CTC	Child Tax Credit
CTS	Comprehensive Training Strategy
DOJ	Department of Justice
DOL	Department of Labor
DTRAAE	Disaster Tax Relief and Airport and Airway Extension Act of 2017
EIP	Economic Impact Payment
EITC	Earned Income Tax Credit
ERC	Employee Retention Credit
FATCA	Foreign Account Tax Compliance Act
FBWT	Fund Balance with Treasury
FCTCS	Federal Contractor Tax Check System
FECA	Federal Employees' Compensation Act
FEGLI	Federal Employees' Group Life Insurance Program
FEHB	Federal Employees Health Benefit Program
FERS	Federal Employees Retirement System
FFCRA	Families First Coronavirus Response Act
FFMIA	Federal Financial Management Improvement Act of 1996
FICA	Federal Insurance Contributions Act
Fiscal Service	Bureau of the Fiscal Service

FMFIA	Federal Managers' Financial Integrity Act
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principles
GAO	Government Accountability Office
GSA	General Services Administration
HCTC	Health Coverage Tax Credit
HHS	Department of Health and Human Services
HIRE Act	Hiring Incentives to Restore Employment Act
IFS	Integrated Financial System
IP PINs	Identity Protection Personal Identification Numbers
IRA	Inflation Reduction Act of 2022
IRC	Internal Revenue Code
IRM	Internal Revenue Manual
IRS	Internal Revenue Service
IT	Information Technology
ITIN	Individual Taxpayer Identification Numbers
IUS	Internal Use Software
KPIs	Key Performance Indicators
KPMs	Key Performance Measures
LB&I	Large Business and International
LEP	Limited English Proficiency
LHI	Leasehold Improvements
LOS	Level of Service

NCFB	New Carrollton Federal Building
NFC	National Finance Center
OMB	Office of Management and Budget
OPM	Office of Personnel and Management
P.L.	Public Law
PBGC	Pension Benefit Guaranty Corporation
PTC	Premium Tax Credit
QECB	Qualified Energy Conservation Bonds
RBA	Restitution-Based Assessments
RRACS	Redesigned Revenue Accounting Control System
SAM	System for Award Management
SB/SE	Small Business/Self-Employed
SBR	Statement of Budgetary Resources
SCA	Statement of Custodial Activity
SCNP	Statement of Changes in Net Position
SECA	Self-Employment Contributions Act
SFFAS	Statement of Federal Financial Accounting Standards
SIWP	State Innovation Waiver Program
SNC	Statement of Net Cost
SPO	Strategic Planning Office
TCE	Tax Counseling for the Elderly
TE/GE	Tax Exempt and Government Entities
TIGTA	Treasury Inspector General for Tax Administration

Treasury	Department of the Treasury
TSP	Thrift Savings Plan
UCFE	Unemployment Compensation for Federal Employees
U.S.	United States
U.S.C.	United States Code
USPS	United States Postal Service
USSGL	U.S. Standard General Ledger
VITA	Volunteer Income Tax Assistance
W&I	Wage and Investment
z/OS	z/Series Operating System

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