

Why GAO Did This Study

The IRA included funding for IRS to bolster taxpayer services and enforcement of the tax code, among other purposes. Enforcement of tax laws has remained on [GAO's High-Risk List](#) since 1990.

The IRA also includes a provision for GAO to oversee the distribution and use of IRA funds. In this report GAO (1) analyzes IRS's resource levels over the past 10 years; (2) describes IRS's plans for using IRA appropriations; (3) determines whether IRS had developed plans to apply agency reform practices; and (4) assesses the extent to which IRS policies for estimating the costs of IRA-funded projects and initiatives align with best practices in GAO's Cost Guide.

GAO reviewed IRS budget data from FYs 2012 through 2023 and staffing data through FY2022. GAO also reviewed IRS's SOP and GAO's prior work on practices for agency reforms. GAO compared IRS cost estimation policies with the 12 steps in GAO's Cost Guide. GAO also interviewed IRS officials about budget data, the SOP and other plans, and cost estimation.

What GAO Recommends

GAO is making five recommendations. Specifically, IRS should demonstrate that it is following leading agency reform practices and that its policies for estimating both non-IT and IT costs should reflect GAO's cost estimating steps and be included in the Internal Revenue Manual. IRS agreed with the recommendations.

View [GAO-24-106091](#). For more information, contact James R. McTigue Jr. at (202) 512-6806 or mctiguej@gao.gov.

IRS REFORM

Following Leading Practices and Improving Cost Estimation Policies Could Benefit Agency Efforts

What GAO Found

After years of significant declines in Internal Revenue Service (IRS) funding, COVID-19 relief funding in fiscal years (FY) 2020 and 2021 and the Inflation Reduction Act (IRA) of 2022 reversed this trend. Specifically, annual appropriations, adjusted for inflation, declined about 15 percent from \$15.6 billion in FY 2012 to \$13.2 billion in 2019. Supplemental funding for COVID-19 relief—appropriated in FYs 2020 and 2021, with portions available through FY 2023—was about \$3.1 billion. IRS also experienced a 12 percent decline in staff between FY 2012 and 2022 with attrition outpacing new hires. IRS's hiring of enforcement staff has been a particular challenge during this period.

IRA provided tens of billions in funding for IRS through FY 2031. In April 2023, IRS released its IRA Strategic Operating Plan (SOP), which describes a high-level vision and leadership structure for IRA implementation. It also articulates five transformation objectives with specific initiatives and projects.

Figure: Internal Revenue Service's Inflation Reduction Act Transformation Objectives



Source: GAO analysis of Internal Revenue Service information. GAO illustrations. | GAO-24-106091

In prior work, GAO identified leading practices for agency reforms, such as those that IRS is undertaking. IRS officials indicated they have, or plan to, implement the practices but did not provide supporting evidence. These practices can help IRS operationalize the vision outlined in the SOP and achieve its stated objectives. For example, one of the practices focuses on establishing outcomes and performance measures.

To estimate costs in its SOP and spend plans, IRS used different processes for non-IT projects, which consist primarily of labor, and IT projects. IRS does not have a comprehensive policy for non-IT cost estimation. Instead, for the SOP and spend plans, it relied on processes and tools used for annual budget estimates and an estimation template for projects. IRS used existing policies for estimating IT initiatives in the SOP. These policies met or substantially met, four of the 12 steps outlined in GAO's cost estimation best practices. For example, these policies met Step 1 by requiring that estimates define a purpose. However, these IT cost estimation policies partially or minimally met the other eight steps, for example the policies did not require sensitivity analysis. The policies are also not included in the Internal Revenue Manual, IRS's official guidance compendium. Aligning these policies with best practices can help ensure that cost estimates are reliable. Given the size of the IRA investment in IRS and the importance of an effective and efficient tax system, reliable estimates are important to the success of IRS's reform efforts.