

TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION



Quarterly Snapshot: The IRS's Inflation Reduction Act Spending Through June 30, 2024

September 30, 2024

Report Number: 2024-IE-R020

HIGHLIGHTS: Quarterly Snapshot: The IRS's Inflation Reduction Act Spending Through June 30, 2024

Final Evaluation Report issued on September 30, 2024

Report Number 2024-IE-R020

Why TIGTA Did This Evaluation

The IRS originally received approximately \$79.4 billion in supplemental funding when the President signed the Inflation Reduction Act of 2022 (IRA) into law in August 2022. Congress subsequently rescinded approximately \$21.6 billion in IRA funding reducing the available IRA funding to approximately \$57.8 billion. This supplemental funding is available through September 30, 2031.

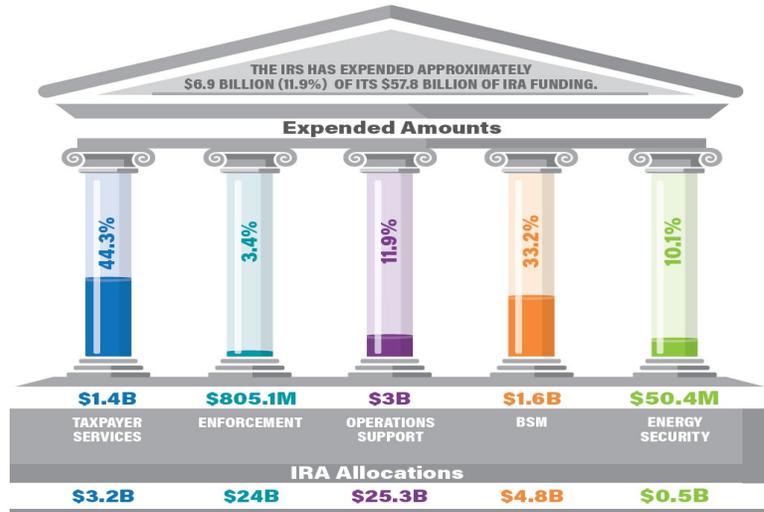
TIGTA initiated this review to provide periodic reporting on the IRS's use and accounting for expenditures using IRA funding. This report provides a quarterly and cumulative snapshot of how the funding has been expended through June 30, 2024.

Impact on Tax Administration

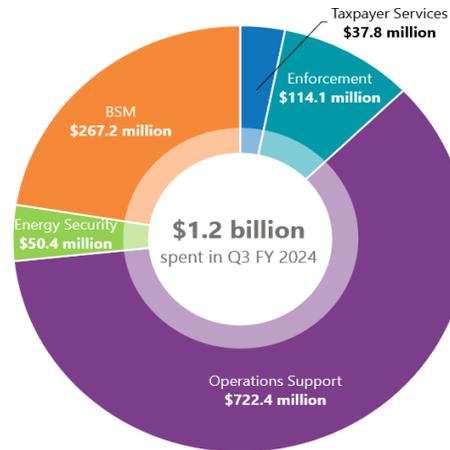
The IRS's transformation efforts that will be achieved through IRA supplemental funding will help improve taxpayer services, modernize technology, and increase compliance and enforcement actions against high-income taxpayers and large corporations.

What TIGTA Found

This report provides quarterly and cumulative reporting on the IRS's use of IRA funding to implement its Strategic Operating Plan and is inclusive of all IRA expenditures through June 30, 2024. As of June 30, 2024, the IRS expended approximately \$6.9 billion (11.9 percent) of its \$57.8 billion IRA funding. In addition to the expended amounts shown on the graphic, the IRS expended approximately \$11.6 million in Fiscal Year (FY) 2023 for the direct e-file tax return system, which is included in the total amount expended.



Of the \$6.9 billion of IRA funding expended as of June 30, 2024, approximately \$1.2 billion occurred in the third quarter of FY 2024 (April through June 2024).



IRS officials indicated that \$2 billion of the \$6.9 billion of expended IRA funding has been used to supplement its annual appropriation because the amount the IRS received was insufficient to cover normal operating expenses.

What TIGTA Recommended

This report was prepared to provide information only. Therefore, no recommendations were made in the report.



TREASURY INSPECTOR GENERAL

for Tax Administration

DATE: September 30, 2024

MEMORANDUM FOR: COMMISSIONER OF INTERNAL REVENUE

FROM: Russell P. Martin 
Deputy Inspector General for Inspections and Evaluations

SUBJECT: Final Evaluation Report – Quarterly Snapshot: The IRS’s Inflation Reduction Act Spending Through June 30, 2024
(Evaluation No.: IE-24-001-I.4)

This report presents the results of our review to provide periodic reporting on the Internal Revenue Service’s (IRS) use and accounting for expenditures using Inflation Reduction Act of 2022 (IRA) funding through June 30, 2024.¹ This review is part of our Fiscal Year 2024 Annual Program Plan and addresses the major management and performance challenge of *Managing IRA Transformation Efforts*.

The Treasury Inspector General for Tax Administration plans to provide quarterly and cumulative reporting on the IRS’s use of IRA funding to implement its Strategic Operating Plan. This report was prepared to provide information only. Therefore, no recommendations were made in the report.

If you have any questions, please contact me or Nancy LaManna, Assistant Inspector General for Inspections and Evaluations.

¹ Pub. L. No. 117-169, 136 Stat. 1818.

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Background

The Internal Revenue Service's (IRS) operating budget is a mix of annual appropriations and miscellaneous resources, such as unobligated balances from previous years and reimbursable items. The IRS has considerable leeway in how it uses non-appropriated funds. The Further Consolidated Appropriation Act, 2024,¹ provided annual appropriated funding of approximately \$12.3 billion for three of the four IRS primary budget activities for Fiscal Year (FY) 2024. Congress provided no appropriated funding for the Business Systems Modernization (BSM) Program which normally funds upgrades to IRS information technology systems. Specifically, the Act included:

- *\$2.8 billion for Taxpayer Services.* Budget authorization language sets forth that these funds are to be used to support prefilling assistance and education, filing and account services, taxpayer advocacy services, as well as the Tax Counseling for the Elderly Program, low-income taxpayer clinic grants, and the Community Volunteer Income Tax Assistance Matching Grants Program.
- *\$5.4 billion for Enforcement.* Budget authorization language sets forth that these funds are to be used to support enforcement efforts, including such things as determining and collecting taxes owed, providing legal and litigation support, and conducting criminal investigations (including investigative technologies).
- *\$4.1 billion for Operations Support.* Budget authorization language sets forth that these funds are to be used to support the agency's normal operating expenses, including rent payments; facilities services; printing and postage; physical security; research and statistics of income; telecommunications; and information technology development, enhancement, operations, maintenance, and security.

The Act also provided special funding transfer authority that allows the IRS to transfer up to 5 percent of funds from one funding activity to another with approval from the House Committee on Appropriations. However, the Act specified that funds could not be transferred to the Enforcement funding activity. Additionally, the Act provided direct hire authority allowing the IRS to recruit and appoint qualified applicants directly to positions specifically to process the backlog of tax returns and correspondence.²

In addition to the above-mentioned annual appropriation, the IRS originally received approximately \$79.4 billion in supplemental funding when the President signed the Inflation Reduction Act of 2022 (IRA) into law in August 2022.³ However, the current IRA funding was reduced to approximately \$57.8 billion, which resulted from the following funding rescissions:

¹ Pub. L. No. 118-47, 138 Stat. 460.

² Backlogs of tax returns and other types of tax account work resulting from the Coronavirus Disease 2019 Pandemic has had a significant impact on the IRS and taxpayers. The Treasury Inspector General for Tax Administration (TIGTA) Office of Audit has performed a series of reviews on the issue. The latest review is TIGTA, Report No. 2024-406-020, *The IRS Continues to Reduce Backlog Inventories in the Tax Processing Centers* (Mar. 2024).

³ Pub. L. No. 117-169, 136 Stat. 1818.

Quarterly Snapshot: The IRS's Inflation Reduction Act Spending Through June 30, 2024

- In June 2023, the enactment of the Fiscal Responsibility Act of 2023,⁴ resulted in the rescission of approximately \$1.4 billion to the IRA Enforcement funding activity.
- In March 2024, the Further Consolidated Appropriations Act, 2024, resulted in a rescission of \$20.2 billion in the IRA Enforcement funding activity.

IRS officials noted that the rescissions will reduce revenues by more than \$100 billion through FY 2034. Figure 1 shows the impact of the rescissions on the IRA funding.



Source: *The IRA, Fiscal Responsibility Act of 2023, and Further Consolidated Appropriations Act, 2024.*

The IRA supplemental funding is available to the IRS through September 30, 2031, and is intended to help the IRS transform tax administration and improve the services provided to taxpayers. Like the funding the IRS receives as part of its annual appropriation, the IRA supplemental funding includes caps for the four primary budget activities, as follows:

- Enforcement -- \$24 billion.⁵
- Operations Support -- \$25.3 billion.
- BSM -- \$4.8 billion.
- Taxpayer Services -- \$3.2 billion.

In addition, the supplemental funding provided by the IRA also included \$500 million for the necessary expenses relating to the implementation of the Energy Security provisions and \$15 million to study the feasibility of implementing a direct e-file tax return system.⁶

⁴ Pub. L. No. 118-5, 137 Stat. 10.

⁵ The IRA originally provided \$45.6 billion for the Enforcement funding activity. The subsequent Acts reduced the amount to \$24 billion.

⁶ The \$15 million funding for the direct e-file tax return system was only available until September 30, 2023.

The Strategic Operating Plan outlines how the IRS plans to transform its operations

On April 6, 2023, the IRS issued its Strategic Operating Plan (SOP) that covers FYs 2023 through 2031. The SOP is structured to achieve five transformation objectives, which will be accomplished through a series of initiatives and projects aligned to each objective. Successful delivery of these objectives is interdependent on each other. Figure 2 outlines the objectives in the SOP.

Figure 2: IRS Transformation Objectives



Source: IRS Strategic Operation Plan (April 2023).

In May 2024, the IRS issued a 2024 Annual Update to the IRA SOP and a 2024 IRA SOP Annual Update Supplement report that further refined the IRS's transformation and near-term priority efforts to achieve its vision. A key component of this work was the development of outcomes which are aligned to the five objectives in the SOP. These documents also outlined the IRS's priority efforts and key results planned to be delivered over FYs 2024 and 2025. We are currently performing an evaluation of the annual SOP update to determine whether the update continues to provide a clear framework of the IRS's plan to transform tax administration.⁷

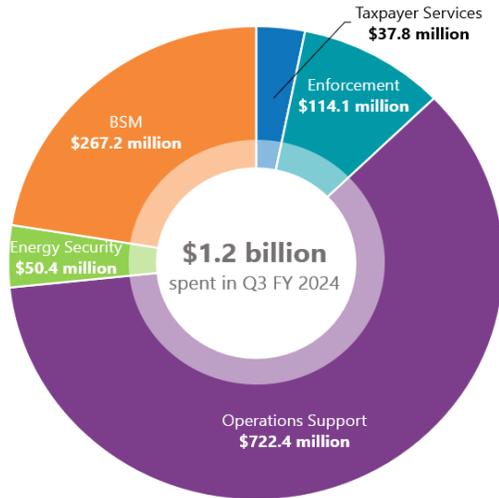
Results of Review

The IRS has spent approximately \$1.2 billion in IRA funding in the third quarter of FY 2024. Figure 3 shows IRA expenditures by the four primary budget activities for the third quarter of FY 2024 – these funds were expended during the period April 1, 2024, through June 30, 2024.

⁷ TIGTA, Office of Inspections and Evaluations Project No. IE-24-043-I, *Assessment of the IRS's 2024 Annual Update to the Strategic Operating Plan*.

**Quarterly Snapshot: The IRS's Inflation Reduction Act
Spending Through June 30, 2024**

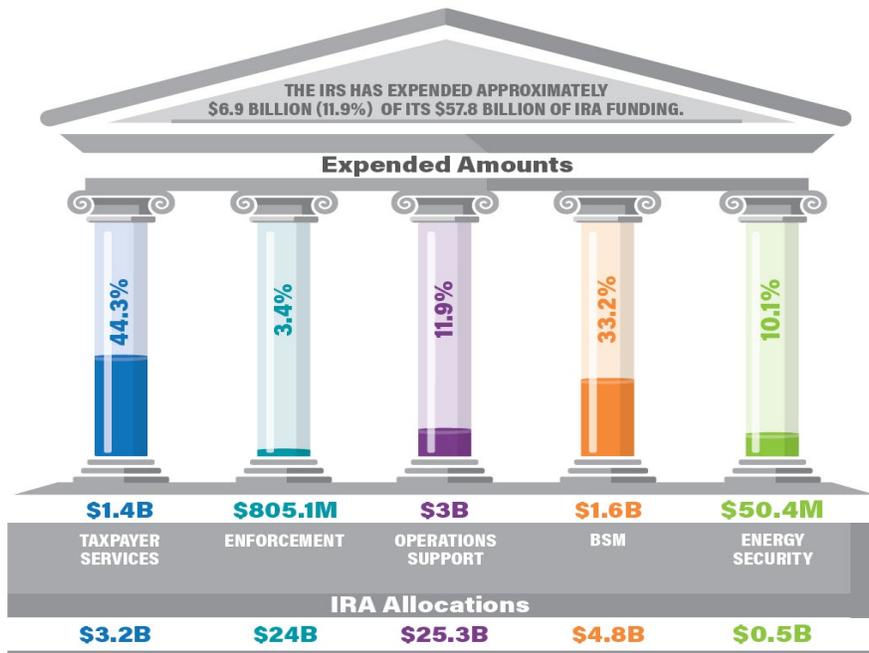
**Figure 3: IRA Expenditures by Funding Activity
for the Quarter Ending June 30, 2024**



Source: TIGTA-created graphic based on information provided by the Office of the Chief Financial Officer.

Overall, as of June 30, 2024, the IRS has used approximately \$6.9 billion (11.9 percent) of its \$57.8 billion in supplemental IRA funding. Figure 4 shows the IRA expenditures by funding activity since the passage of the legislation through June 30, 2024. In addition to the expended amounts shown on Figure 4, the IRS expended approximately \$11.6 million in FY 2023 for the direct e-file tax return system, which is included in the total amount expended.

Figure 4: Cumulative IRA Expenditures by Funding Activity Through June 30, 2024⁸



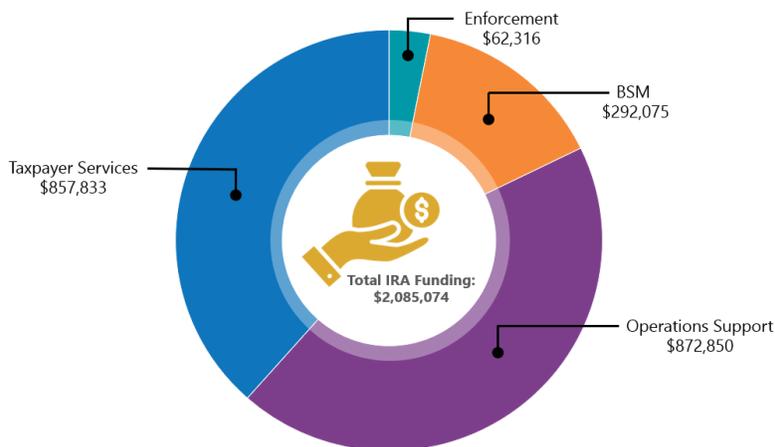
Source: TIGTA-created graphic based on information provided by the Office of the Chief Financial Officer.

⁸ Percentages of IRA funds expended may not calculate correctly due to rounding. Additionally, the Enforcement allocation amount is after the \$21.6 billion rescissions.

Shortfalls in the annual appropriation requires the IRS to use IRA funds to cover general operating expenses

IRS officials indicated that \$2 billion of the \$6.9 billion of expended IRA funding has been used to supplement its annual appropriation. IRS officials noted that the IRA funding was needed as the amount the IRS received in its annual appropriation was insufficient to cover normal operating expenses. Figure 5 shows the amount of funding activity where the IRS used the \$2 billion in IRA funds.

Figure 5: IRA Funding Used to Supplement Annual Appropriation by Funding Activity



Source: TIGTA-created graphic based on information provided by the Office of the Chief Financial Officer.

The IRS has used supplemental IRA funding to fund operations as its annual appropriations were not enough to cover its general operating expenses.

The IRS received the same annual appropriation amount for FY 2024 that it received in FY 2023 with no adjustments for inflation.⁹ For FY 2024, the IRS estimates that \$1.6 billion of IRA funding will be needed to cover its annual appropriation shortfalls for pay raises, inflationary increases already built into contracts, and other current services. IRS officials noted that the continued use of IRA funds to cover shortfalls in the annual appropriation will impact its ability to successfully deliver transformation objectives. Specifically, the successful delivery of its SOP transformation objectives assumes that IRA funds will be used solely to support transformation efforts, while day-to-day operations will continue to be adequately supported by the annual appropriation.

Additionally, like in FY 2023, the FY 2024 annual appropriation did not provide any funding for BSM. When provided in prior annual appropriations the IRS used these funds to upgrade its information technology systems. IRS officials indicated that IRA funding is being used to fund its modernization efforts. However, IRS officials noted that they believe IRA funds will cover only two-thirds of the IRS's planned modernization efforts without the restoration of the BSM funding.

⁹ Adjusting for inflation is a measure of return that considers the inflation rate. Inflation occurs when prices rise across the economy decreasing purchasing power.

**Quarterly Snapshot: The IRS's Inflation Reduction Act
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The IRS developed a Spend Plan detailing how IRA funds will be allocated in FY 2024¹⁰

IRS officials developed a Spend Plan which details how the IRA funds will be allocated in FY 2024. The Spend Plan also includes milestones the IRS anticipates completing in FY 2024 using IRA funds. Figure 6 summarizes how the IRS plans to use IRA funds in FY 2024 by funding activity and SOP transformation objectives.

**Figure 6: Estimated FY 2024 IRA Funds (in millions)
by SOP Transformation Objective and Funding Activity¹¹**

Description	Taxpayer Services	Enforcement	Operations Support	BSM	Energy Security	Total
Transformation Objective 01	\$620	\$23	\$569	\$585	\$0	\$1,797
Transformation Objective 02	\$2	\$161	\$103	\$0	\$0	\$266
Transformation Objective 03	\$34	\$336	\$146	\$80	\$0	\$596
Transformation Objective 04	\$0 ¹²	\$67	\$637	\$1,056	\$0	\$1,760
Transformation Objective 05	\$104	\$91	\$506	\$0	\$0	\$702
Energy Security	\$1	\$91	\$121	\$0	\$180	\$394
Information Technology Reserve	\$0	\$0	\$25	\$50	\$0	\$75
Transformation and Strategy Office	\$11	\$15	\$15	\$0	\$0	\$42
SOP Total Costs	\$772	\$784	\$2,123	\$1,771	\$180	\$5,631
IRA funding to cover FY 2024 appropriation shortfall	\$197	\$264	\$1,135	\$18	\$0	\$1,614
Total IRA Funding - FY 2024	\$969	\$1,048	\$3,258	\$1,789	\$180	\$7,245

Source: IRS IRA FY 2024 Spend Plan.

IRS management indicated that after the FY 2024 Spend Plan was developed, an additional apportionment of \$300 million was included for the Enforcement funding activity for FY 2024. This additional apportionment is not reflected in Figure 6. IRS management indicated that no other updates have been made to the Spend Plan for FY 2024.

The IRS requested a transfer between funding activity for the FY 2024 annual appropriation as follows:

- Decrease of \$271,881,000 in Enforcement.
- Decrease of \$205,041,000 in Operations Support.
- Increase of \$476,922,000 in Taxpayer Services.

¹⁰ In the FY 2024 Spend Plan, the IRS notes that priorities may shift throughout the year based on the operating environment.

¹¹ Totals may not calculate correctly due to rounding.

¹² The Taxpayer Services amount for Transformation Objective 04 is \$95,000.

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IRS management indicated they plan to use this transfer authority in the fourth quarter to realign some IRA Taxpayer Services obligations to the FY 2024 annual appropriations to preserve additional IRA Taxpayer Services funding to use in FY 2025.

IRS estimates when IRA funding will be used by funding activity

In April 2024, the IRS Commissioner testified before Congress and noted that as the IRS implements its plan for transformation using the significant resources provided by the IRA, its annual appropriation needs to provide sufficient recurring resources to cover normal operating expenses. The Commissioner indicated that with no anticipated increase in the annual appropriations for FY 2025 for inflationary requirements, the IRS will once again be required to use IRA resources to fund normal operating expenses. As a result, the IRS will likely use all the supplemental IRA funds before the funding expires in FY 2031.

In the 2024 Annual Update to the SOP Supplement Report, the IRS provided estimates of IRA spending through FY 2031. As shown in Figure 7, the IRS anticipates that the IRA funding for Taxpayer Services will run out in FY 2025, BSM and Energy Security in FY 2026, Enforcement in FY 2029, and Operations Support in FY 2030.

Figure 7: Estimated IRA Spending Through FY 2031 (\$ in millions)¹³

Funding Activity	FY 2022 Actual	FY 2023 Actual	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	Total
Taxpayer Services	\$1	\$889	\$969	\$1,323							\$3,182
Enforcement		\$299	\$1,048	\$2,317	\$3,339	\$4,582	\$6,045	\$6,418			\$24,048
Operations Support	\$61	\$1,474	\$3,258	\$3,565	\$3,564	\$3,543	\$3,883	\$4,293	\$1,686		\$25,326
BSM	\$44	\$723	\$1,789	\$1,929	\$265						\$4,751
Energy Security			\$180	\$180	\$140						\$500
Direct e-File		\$12									\$12
Total	\$106	\$3,396	\$7,245	\$9,313	\$7,308	\$8,125	\$9,928	\$10,711	\$1,686		\$57,818

Source: IRS 2024 Annual Update to the SOP Supplement Report

IRS FY 2025 Budget in Brief

In its FY 2025 Budget in Brief,¹⁴ the IRS requested Congress to expand its transfer authority. The IRA legislation does not provide the IRS the flexibility to realign IRA funds across the funding activities (*e.g.*, transfer funds from Enforcement to Taxpayer Services). This flexibility would allow the IRS to allocate its existing funding more optimally, as well as make the IRS quicker in responding as issues arise in the future. The IRS indicated that without additional funding or the additional flexibility to realign funds between the funding activities, the telephone level of service is expected to see a drastic decline in FY 2026 and fall even further in FY 2027. The IRS

¹³ Totals may not calculate correctly due to rounding.

¹⁴ Publication 5530 (Rev. 2-2024).

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further indicated that in addition to taxpayers not being able to reach an IRS representative for assistance, there would be delays in return processing and answering correspondence.

Additionally, in the FY 2025 Budget in Brief, the IRS requested a change in the name of the "Operations Support" budget activity to "Technology and Operations Support" indicating that Information Technology is the biggest component of Operations Support. The name change will also reflect that technology work will now be funded in this new budget activity. When the discretionary BSM appropriation was eliminated in FY 2023, the IRA became the primary source of funding for BSM. The IRS indicates that while the BSM IRA funding was substantial, that the funding alone is not sufficient to fulfill the planned requirements for IRS technology transformation through FY 2031.

Lastly, in its FY 2025 budget request, the IRS included a mandatory funding proposal that will avert the IRA funding "cliffs" after the IRA funds have been expended to extend IRA funding through FY 2034. This proposal requests \$104 billion over 10 years and the IRS estimates it will generate an additional \$341 billion in revenue. The IRS indicates that this funding will ensure that its transformation efforts to improve services, modernize technology, and ensure high-income taxpayers, large corporations, and complex partnerships pay the taxes they owe will continue. Figure 8 shows how this additional funding if received will be spent.

**Figure 8: Mandatory Funding Proposal From the
IRS's FY 2025 Congressional Justification (\$ in millions)¹⁵**

Funding Activity	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	FY 2032	FY 2033	FY 2034	Total
Taxpayer Services	\$1,704	\$1,878	\$1,913	\$1,948	\$1,985	\$2,022	\$2,060	\$2,098	\$2,138	\$17,744
Enforcement				\$1,268	\$9,611	\$11,671	\$11,896	\$12,126	\$12,360	\$58,932
Tech & Op Support				\$209	\$2,848	\$4,831	\$5,244	\$5,289	\$5,335	\$23,757
BSM	\$969	\$944	\$264	\$269	\$274	\$279	\$285	\$290	\$295	\$3,869
Total	\$2,672	\$2,822	\$2,177	\$3,694	\$14,718	\$18,803	\$19,484	\$19,803	\$20,128	\$104,302
Additional Revenue Generated (\$ in millions)										
				\$3,046	\$42,692	\$60,911	\$70,717	\$80,000	\$83,647	\$341,013

Source: Information provided by the IRS's Office of the Chief Financial Officer. Tech = Technology and Op = Operations

Object class funding activity categories used to track IRA spending

To monitor the use of IRA funds, the IRS uses the same established procedures it uses to track its annual appropriation and spending. For example, the IRS uses a series of object class categories to track IRS funding and spending.¹⁶ These categories are how the IRS tracks its

¹⁵ Totals may not calculate correctly due to rounding.

¹⁶ Object classes are categories that present obligations by the items or services purchased by the Federal government.

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spending in the Integrated Financial System.¹⁷ The IRS reports on IRA spending based on these categories and use the same funding activity structure to report on its annual appropriation spending. The IRA intended that the increase in funding supplement, not replace, the IRS's annual appropriation. Figure 9 highlights the cumulative IRA expenditures by object class category for the various funding activities.

Figure 9: IRA Funding Activity Expenditures by Object Class¹⁸

	TAXPAYER SERVICES	ENFORCEMENT	OPERATIONS SUPPORT	BSM	ENERGY SECURITY	DIRECT E-FILE	GRAND TOTAL
Labor Total IRS Employee Pay & Benefits	\$1,278,327,803	\$497,174,563	\$771,781,214	\$164,840,256	\$50,422,074	\$814,200	\$2,763,360,109
Non-Labor Contractor Support - Advisory and Assistance	\$132,183,208	\$135,149,555	\$1,049,127,497	\$1,313,659,720	\$0	\$8,624,814	\$2,638,744,794
Communications, Utilities, and Miscellaneous Charges	\$0	\$0	\$90,740,717	\$0	\$0	\$0	\$90,740,717
Equipment	\$0	\$12,582,420	\$851,028,362	\$108,373,376	\$0	\$254,897	\$972,239,055
Purchase/Improvement of Land and Facilities	\$0	\$84,000	\$74,075,910	\$0	\$0	\$0	\$74,159,910
Operation and Maintenance of Equipment	\$0	\$378,383	\$14,152,885	\$8,460,703	\$0	\$0	\$22,991,972
Operation and Maintenance of Facilities	\$0	\$0	\$42,673,148	\$136,872	\$0	\$0	\$42,810,020
Services From Federal Sources	\$8,259,181	\$122,618,435	\$62,755,833	\$0	\$0	\$1,909,578	\$195,543,027
Other Goods and Services From Non-Federal Sources	\$0	\$16,484,111	\$36,917,641	\$0	\$0	\$0	\$53,401,753
Printing and Reproduction	\$0	\$181,287	\$12,526,220	\$0	\$0	\$0	\$12,707,507
Supplies and Materials	\$42,434	\$9,857,885	\$1,853,258	\$3,527	\$0	\$0	\$11,757,104
Employee Travel	\$227,670	\$9,064,277	\$4,436,272	\$505,671	\$0	\$0	\$14,233,889
Unvouchered	\$0	\$77,193	\$0	\$0	\$0	\$0	\$77,193
Rental Payments to GSA	\$0	\$0	\$1,503,495	\$0	\$0	\$0	\$1,503,495
Transportation of Things	\$0	\$1,400,000	\$0	\$0	\$0	\$0	\$1,400,000
Non-Labor Total	\$140,712,492	\$307,877,546	\$2,241,791,239	\$1,431,139,869	\$0	\$10,789,288	\$4,132,310,435
Grand Total	\$1,419,040,295	\$805,052,109	\$3,013,572,453	\$1,595,980,125	\$50,422,074	\$11,603,488	\$6,895,670,545

Source: IRS Integrated Financial System Report as of June 30, 2024.

¹⁷ The Integrated Financial System is a packaged system software solution. It enables the IRS to integrate most of its internal financial management processes, share common financial data and practices across the entire organization, and produce and access financial data online in a real-time environment.

¹⁸ Totals may not calculate correctly due to rounding.

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As shown in Figure 9, as of June 30, 2024, the IRS reported that the largest portion of IRA expenditures was for employee compensation (*i.e.*, pay/benefits), totaling approximately \$2.8 billion and contractor advisory and assistance services totaling approximately \$2.6 billion.¹⁹

Spending on IRS Staffing

Of the total \$2.8 billion the IRS expended on labor costs as of June 30, 2024, 9.7 percent (approximately \$268.1 million) was expended in the third quarter of FY 2024. Most of the labor costs (approximately 1.3 billion) were in the Taxpayer Services funding activity to hire more customer service representatives to answer telephone calls, as well as employees to staff the Taxpayer Assistance Centers.

The IRS expects its labor costs to continue to grow. In April 2023, the IRS indicated it planned to increase its staffing level to 105,188 employees by FY 2025. The planned increase in staffing will be funded from discretionary spending from the IRS's annual appropriation and the IRA supplemental funding. However, the IRS's anticipated growth in staffing has changed. The 2024 Annual Update to the SOP Supplement Report provides the number of full-time equivalents (FTE) that will be funded using IRA funds through FY 2031.²⁰ As Figure 10 shows the IRS anticipates having an FTE of 89,727 in FY 2025, with the most FTEs anticipated in FY 2029 of 102,500.

Figure 10: Estimated FTEs Funded with IRA through FY 2031²¹

Funding Activity	FY 2022 Actual	FY 2023 Actual	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
Taxpayer Services		10,518	7,279	12,562						
Enforcement		495	4,088	7,239	17,300	24,100	31,900	33,000		
Operations Support		2,317	2,944	3,808	5,000	4,900	5,300	5,500	3,600	
BSM		327	193	300						
Energy Security			1,800	1,810	1,400					
Direct e-File		4								
IRA Funded FTE	0	13,661	16,314	25,719	23,700	29,000	37,200	38,500	3,600	
Discretionary/Other FTE	79,070	69,329	72,097	64,008	64,000	64,000	64,000	64,000	64,000	64,000
Total FTE	79,070	82,990	88,411	89,727	87,700	93,000	101,200	102,500	67,600	64,000

Source: IRS 2024 Annual Update to the SOP Supplement Report.

IRS management has also indicated that in addition to hiring staff to improve taxpayer services, they are focused on expanding enforcement efforts to address taxpayers with complex tax

¹⁹ Advisory and assistance services is based on the IRS's classification and not as defined by the Federal Acquisition Regulations.

²⁰ An FTE is a measure of labor hours in which one full-time equivalent is equal to eight hours multiplied by the number of compensable days in a particular fiscal year.

²¹ Totals may not calculate correctly due to rounding.

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filings and high-dollar noncompliance to address the Tax Gap.²² Therefore, the IRS plans to hire additional enforcement personnel, which include:

- Revenue Officers – Employees in the Collection function who collect delinquent taxes and secure delinquent returns.
- Revenue Agents – Employees in the Examination function who conduct face-to-face audits of more complex returns.
- Special Agents – Law enforcement employees in the Criminal Investigation who investigate criminal activities.

Figure 11 shows the number of enforcement personnel the IRS has onboard as of June 16, 2024, and the IRS's hiring goal for FY 2024.

Figure 11: Staffing of Enforcement Personnel

	POSITION TITLE	STAFFING 6/16/2024	FY 2024 HIRING TARGET	FY 2024 ANTICIPATED ATTRITION	STAFFING GOAL END OF FY 2024	NET STAFFING INCREASE FY 2024	
	REVENUE OFFICER	3,306	165	251	3,471	165	
	REVENUE AGENT	9,933	2,718	712	12,651	2,718	
	SPECIAL AGENT	2,243	257	103	2,500	257	
	TOTALS	15,482	3,140	1,066	18,622	3,140	

Source: Information provided by the IRS.

As Figure 11 shows, the IRS's goal is to increase enforcement personnel by 3,140 in FY 2024 with most of the hiring in the revenue agent position. TIGTA's Office of Audit is currently assessing the IRS's recruiting, hiring, and onboarding process including the IRS's efforts to fill critical program vacancies in support of IRA and other hiring efforts. It is also reviewing the IRS's strategy to recruit and train newly hired enforcement personnel.

Spending on Contractor Support

Since the passage of the IRA legislation, the IRS has expended approximately \$2.6 billion of its IRA funding as of June 30, 2024, to pay contractors for what the IRS classifies as advisory and assistance services. These services are for:

- Management and professional support services. This includes services that assist, advise, or train staff to achieve efficient and effective management and operations, activities, or systems; services that normally are closely related to the responsibilities and mission of the agency; and services that support or contribute to improved program management, logistics, project monitoring and reporting, data collection, budgeting, account

²² The Tax Gap is the estimated difference between the amount of tax that taxpayers should pay and the amount that is paid voluntarily and on time.

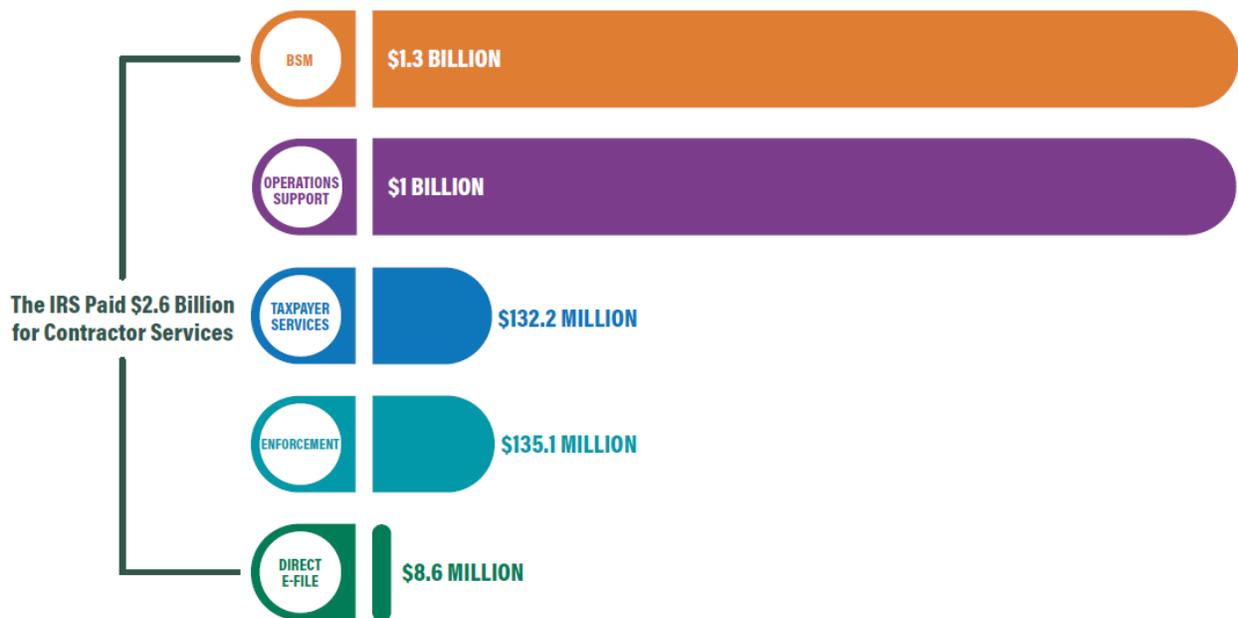
Quarterly Snapshot: The IRS's Inflation Reduction Act
Spending Through June 30, 2024

performance auditing, and administrative technical support for conferences and training programs.

- Studies, analyses, and evaluations. This includes studies in support of information technology and research and development activities, and models, methodologies, and related software support.
- Engineering and technical services. This includes services that support the program office during the acquisition cycle by providing information technology architecture development, systems engineering, and technical direction; information technology consulting services such as information technology architecture design, capital programming, and investment, control support services; and software services such as implementing a web-based commercial, off-the-shelf product.

Most of the \$2.6 billion expended for contractor support were for the BSM (approximately \$1.3 billion). In FY 2025, we will be performing an evaluation focusing on how the IRS has expended IRA funds on information technology modernization and the milestones delivered. The next largest expenditure was associated with the IRS's Operations Support (approximately \$1 billion). Figure 12 reflects the expenditures for contractor advisory and assistance support services expended through June 30, 2024, using IRA funding.

Figure 12: Expenditures for Contractor Support by Funding Activity²³



Source: IRS Integrated Financial System Reports, as of June 30, 2024.

IRS internal guidelines state that the receipt and acceptance of goods and services as it relates to contractor support is the responsibility of the business unit who contracted for the goods and services. Specifically, an IRS official in the business unit is responsible for ensuring that goods and services are in fact received and meet contractual requirements before receipt and acceptance is entered into the IRS's Integrated Financial System. The business unit's recordation of the receipt and acceptance of goods and services in the Integrated Financial System

²³ No funds were expended on contractor services for the Energy Security funding activity.

acknowledges that the Government has received delivery in accordance with the contract. While acceptance is confirming the received goods and services, the quality assurance inspection is the most critical internal control of the receipt and acceptance process. This is where the IRS official with knowledge of the goods and services and the contract terms conducts a review to ensure that the goods and services received are acceptable.

Our review of IRS contracting records indicate that functional areas accepted goods and services (*i.e.*, deliverables) from various contractors hired using IRA funds. These deliverables included status reports, checklists, briefings, presentations, meeting minutes, communication, and knowledge transfer plans. For the purposes of this report, we relied solely on the function areas'

Appendix I

Detailed Objective, Scope, and Methodology

The overall objective was to provide periodic reporting on the IRS's use and accounting for expenditures using IRA funding through June 30, 2024. To accomplish our objective, we:

- Obtained IRA expenditures as of June 30, 2024, from the Integrated Financial System to identify overall expenditures by funding activities (*e.g.*, Taxpayer Services, Operations Support) and object class code and determined cumulative expenditures and expenditures which occurred in the third quarter of FY 2024.
- Determined the impact of IRS appropriations from the rescissions of funding.
- Analyzed the expenditures and highlighted any trends and concerns regarding the expenditures.

Performance of This Review

This review was performed with information obtained from the Office of the Chief Financial Officer during the period June through September 2024. We conducted this review in accordance with the Council of the Inspectors General on Integrity and Efficiency *Quality Standards for Federal Offices of Inspector General*. Those standards require that the work adheres to the professional standards of independence, due professional care, and quality assurance and followed procedures to ensure accuracy of the information presented. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions.

Major contributors to the report were Nancy LaManna, Assistant Inspector General for Inspections and Evaluations; Debra Kisler, Director; and Christopher Messier, Evaluator.

Data Validation Methodology

We used data from the IRS's Integrated Financial System for our analysis. We evaluated the data by reviewing existing data produced from the system and interviewing personnel in the Office of the Chief Financial Officer to ensure that the information was accurate. Data regarding funding allocations were based on testimonial evidence obtained from the Office of the Chief Financial Officer.

Appendix II

Abbreviations

BSM	Business Systems Modernization
FTE	Full-Time Equivalent
FY	Fiscal Year
IRA	Inflation Reduction Act
IRS	Internal Revenue Service
SOP	Strategic Operating Plan
TIGTA	Treasury Inspector General for Tax Administration



**To report fraud, waste, or abuse,
contact our hotline on the web at
<https://www.tigta.gov/reportcrime-misconduct>.**

**To make suggestions to improve IRS policies, processes, or systems
affecting taxpayers, contact us at www.tigta.gov/form/suggestions.**

Information you provide is confidential, and you may remain anonymous.