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Jason Bramwell • Dec. 15, 2022



The IRS has about 80 billion reasons to be thankful this holiday season. That's because President Biden signed the Inflation Reduction Act into law on Aug. 16, which includes a provision to allocate roughly \$79.6 billion to the tax agency over the next 10 years—what some observers say is the largest amount of funding the IRS has received from Congress that they can remember.

In a [July 31 post on her blog](#), “Don’t Mess With Taxes,” tax expert Kay Bell broke down how that money is expected to be distributed to the IRS over the next nine fiscal years:

- \$4,750,700,000 for business systems modernization;

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“Treasury is going to be keeping a close eye on it because the agency has to succeed here, and we need to see something in this plan that instills confidence that the agency in fact has a plan, that it’s a reasonable one, and that it’s achievable. Here’s where we’re going, here’s how we’re getting there, and here are some intermediate milestones. This infusion of money is significant, and I think the stakes are so high that Treasury has to be involved,” Robert Kerr, principal at Kerr Consulting, said during an appearance on the [“This Week on Tax Notes Talk” podcast](#) on Sept. 13.

The problem is, we do not know who is going to be leading the IRS six months from now. Charles Rettig’s term as IRS commissioner expired on Nov. 12, and the new chief will have to jump right in and figure out a plan for the windfall the IRS will receive. [Biden nominated Daniel Werfel](#), a former acting commissioner of the IRS during the Obama administration and the current global leader of the Public Sector practice at Boston Consulting Group, as the next IRS commissioner but that is pending confirmation by the Senate. Until then, IRS Deputy Commissioner [Douglas O’Donnell](#) will serve as acting commissioner.

So, what is next for the IRS? It is a question some tax experts tried to answer on a variety of podcasts recently and what this increase in the IRS’s annual budget could mean for the upcoming tax season.

Hiring to fill many needs

According to an [August Bloomberg report](#), the IRS has lost more than 23,000 employees since 2010—to 80,000 at the height of tax season this year—and it is estimated that the tax agency is going to lose approximately 50,000 more in the next five years due to retirement.

“We all know they’re behind [on hiring], and that’s part of the cause [for this

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\$400,000 or more.

“Eighty-seven thousand agents aren’t going to show up on the IRS’s doorstep the day the Inflation Reduction Act is signed. I don’t think you’ll be able to find 87,000 people who have the base level of competency required [that quickly],” Ed Zollars, CPA, an instructor at Kaplan Financial Education, said on the [Current Federal Tax Developments podcast on Aug. 14](#). “It’s going to take quite a bit of time to ramp that up. I don’t think I’m currently worried about the IRS knocking down the door of my clients’ offices anytime soon.”

So where did that 87,000 number come from? According to a [September blog post](#), Jesse LaGrossa, manager of business valuation, forensic and litigation support services at Marcum, wrote that *The American Families Plan Tax Compliance Agenda* published by the Treasury Department in May 2021 included a proposed IRS funding plan for the next 10 years. Page 16 of that report includes a proposal for funds of approximately \$79.2 billion—very close to the \$79.6 billion allocated in the Inflation Reduction Act. Table 3 on page 16 indicates that such an allocation of funds would allow the IRS to hire an estimated 86,852 full-time equivalent (FTE) employees (approximately 87,000) over the next decade.

“Did Congress appropriate more federal funds to the IRS than in recent years? Yes. Those funds will presumably be used to hire additional staff at all levels, including revenue agents, revenue officers, special agents, and other professional staff—not just ‘agents,’” he wrote. “While some of the estimated 86,852 FTE employees budgeted for will replenish staffing attrition due to retirement, career changes, etc., the hiring of approximately 87,000 FTE employees over a 10-year period can be construed as a significant expansion of the IRS.”

The problem the IRS will face is the same problem anyone in business today who is hiring is facing right now: it is tough to find the right people, Mark Everson, former

IRS commissioner and current vice chairman at Alliantgroup, said during an

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Oct. 27, the IRS announced it has [hired 4,000 new customer service representatives](#) to answer phones and provide other services for the 2023 filing season. These new staffers were hired over the past several months and are being trained to provide assistance to taxpayers, including answering phone questions.

That's good—for both taxpayers and tax professionals—as hold times to get a question answered by an IRS representative [have averaged 23 minutes](#). And that is *if* your calls to the IRS get answered—of the 282 million telephone calls the agency received in 2021, approximately 32 million, or 11%, were answered.

With the addition of these 4,000 customer service representatives, the IRS anticipates phones will be answered at a much higher pace during the 2023 filing season.

“It absolutely should be a goal that whether it's through phones or other forms of communication that, if people need to communicate with the IRS, they can do that efficiently, they can do that quickly, and they can get the right answer,” former IRS Commissioner Charles Rossotti said during the recent AICPA National Tax Conference in Washington, DC, according to the [Journal of Accountancy](#). “That is going to be a step-by-step process ... and within a few years, it should be massively better than it is today.”

Clearing the paper return backlog

Last May, National Taxpayer Advocate Erin Collins revealed in her midyear report to Congress that [the IRS had a backlog of 21.3 million unprocessed paper tax returns](#), an increase of 1.3 million over the same time last year, which she said is “creating unprecedented financial difficulties for millions of taxpayers and outright hardships for many” who were counting on refunds to supplement their incomes.

She also said there were eight-month backlogs in processing taxpayer

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happening. You have to get that all corrected and fast,” he continued. “They’ve done a good job of getting extra people to work who’ve done submissions processing in the past. But I would assign tag teams or teams of regular auditors and collections people, ship them out to the service processing centers, and have them work on two-to three-week rotating duties, if you will. Let go some of the other things that they’re doing, which are discretionary. They have to get this backlog cleared.”

The good news is some progress has been made, Collins said in a [Nov. 10 blog post](#). She wrote, “As of Oct. 21, the IRS had about 3 million individual returns and north of 4 million business returns awaiting initial processing, as well as about 2 million amended individual and business returns.”

She added that the IRS deployed additional resources to address the processing backlog and has been processing between 900,000 to 1.1 million total individual and business returns a week. However, the IRS only has about a month or so left before it shuts down its systems to prepare them for the upcoming filing season.

The IRS also has about 4.5 million pieces of correspondence awaiting processing, Collins said, adding “many of these documents are scheduled to be worked by the customer service representatives who split their time during the filing season between answering phones and processing amended returns and correspondence.”

Reinforcing (and modernizing) the agency's infrastructure

During a [recent Yahoo Finance segment](#) on the funding the IRS will receive from the Inflation Reduction Act, senior columnist Rick Newman described the current state of the IRS's computer systems as, “The IRS has computers from the 1960s. They have equipment that is made by companies that are out of business. So, there's nobody to

service this stuff. They have computers running on Windows XP. No one has that in

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Congress and taxpayers that “we can’t do anything because we don’t have enough money.” The agency can’t use that excuse anymore.

“One of the things they really need to do here is communicate openly and regularly with the stakeholders about what they’re doing and why certain things will take time before you’ll see certain improvements. That’s what they have to do because the expectations are higher,” he added.

The former IRS commissioner also said the tax agency has a problem with data security, most recently when it said last September that it [mistakenly published confidential data for 120,000 taxpayers on its website](#) before realizing the error and taking down the data. He also pointed to the [ProPublica report](#) last year in which tax information of well-known billionaires like Jeff Bezos, Elon Musk, and Warren Buffett was leaked to the news outlet. The source(s) of the leak have not been revealed.

“Data security is a terrible problem, and it’s a great concern to everybody,” Everson said. “Before they spend these billions of dollars on new systems, I think the American people and Congress are entitled to an explanation of what happened with the ProPublica leak. Was it inside? Was it contractors? They’re going to go out and have a lot more contractors doing many, many things. We better understand that they’re doing it right.”

He also stressed that the new IRS commissioner must make overseeing the development of this six-month implementation plan and building up the agency’s infrastructure while maintaining the operations an important part of his to-do list.

“If you build up the infrastructure side, this plan will unfold with a lot fewer problems,” Everson said.

Robert Kerr said there is a lot riding on this “once-in-a-generation opportunity for

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