

NEW IRS
FUNDING AND
MORE

Inflation Reduction Act

Your Presenter Today: Charles P. Rettig, Commissioner of Internal Revenue



- 49th Commissioner of the IRS
- Previously in private practice
 - 36 with the L.A. tax law firm Hochman, Salkin, Rettig, Toscher & Perez, P.C.
- Has held leadership roles in several professional organizations, including:
 - ABA Tax Section, Vice Chair-Administration
 - American College of Tax Counsel, President
 - IRS Advisory Council, Chair
- Founded the UCLA Extension VETS COUNT Scholarship Fund
 - provides scholarships for active duty and retired military personnel who are working to realize their career goals in tax, account, wealth management, and other areas of financial services.

New Funding for IRS Generally

- The Inflation Reduction Act of 2022, signed into law on Aug. 16th, includes approximately \$79 billion of *additional* funding for the IRS through Sep. 30, 2031.
- Funds are divided into four general categories:
 - Taxpayer Services: ~\$3 billion
 - Enforcement: ~\$46 billion
 - Operations Support: ~\$25 billion
 - Business Systems Modernization: ~\$5 billion

See Pub. L. No. 117-169, § 10301(1).

Taxpayer Services

- This funding is for the necessary expenses of the IRS in providing taxpayer services.
- Includes funding for pre-filing assistance, education, filing and account services, taxpayer advocacy services, and other services as authorized by 5 USC § 3109.

See Pub. L. No. 117-169, § 10301(1)(A)(i).

Enforcement

- Funding for tax enforcement activities.
- Includes collections, legal and litigation support, criminal investigations, provide digital asset monitoring, purchasing new motor vehicles, and other services as authorized by 5 USC § 3109.

See Pub. L. No. 117-169, § 10301(1)(A)(ii).

Operations Support

- Funding for necessary expenses to support taxpayer services and enforcement programs.
- Includes rent payments, facilities services, printing, postage, physical security, telecommunications, etc.

See Pub. L. No. 117-169, § 10301(1)(A)(iii).

Business Systems Modernization

- Allocated funding is for the IRS's business systems modernization program expenses, including development of callback technology and other improvements to personalize customer service.
- The funding does not include operation and maintenance of legacy systems.

See Pub. L. No. 117-169, § 10301(1)(A)(iv).

Funding for e-File Taskforce

- The Inflation Reduction Act includes \$15 million in specific funding for a task force to design an IRS-run free e-filing tax return system.

See Pub. L. No. 117-169, § 10301(1)(B).

Funding for e-File Taskforce, *Cont.*

- Taskforce funding is for the development of a report to Congress within 9 months of enactment detailing:
 - The cost of developing and administering a public e-File system;
 - Taxpayer opinions, expectations, and trust for a public e-File system;
 - 3rd party analysis on overall feasibility on IRS capacity to deliver a public e-File system.
- Funding is available until Sep. 30, 2023.

See Pub. L. No. 117-169, § 10301(1)(B).

Modernization Funding Adds to Previous Allocations

- The Inflation Reduction Act funding is in addition to funding previously allocated to IRS modernization efforts.
 - Existing funding from the IRS's Business Systems Modernization (BSM) program which began in 2001.
 - American Rescue Plan Act (ARPA) of 2021 provided \$1 billion of funding to the IRS's Information Technology organization for modernization efforts.

See TIGTA, Report Number: 2022-27-045, September 2, 2022, <https://www.treasury.gov/tigta/auditreports/2022reports/202227045fr.pdf>.

Figure 1: ARPA Funded Programs in the Information Technology Modernization Portfolio
(Dollars in Thousands)

Program	3-Year ARPA Modernization Plan Funding	OED	Percentage OED 3-Year Plan
Live Assistance	\$ 25,000	\$ 7,321	29%
Taxpayer Accessibility	\$ 5,000	\$ 969	19%
Web Applications	\$ 85,000	\$ 13,529	16%
Customer Account Data Engine 2 Target State	\$ 140,000	\$ 17,446	12%
Enterprise Case Management Acceleration	\$ 87,000	\$ 26,760	31%
Enterprise Tax Calculator Service	\$ 15,000	\$ 88	1%
Individual Master File Modernization (Retirement Acceleration)	\$ 125,000	\$ 7,742	6%
Information Returns Modernization	\$ 60,000	\$ 37,043	62%
Return Review Program/Enterprise Anomaly Detection	\$ 8,000	\$ 1,598	20%
Cloud Execution	\$ 70,000	\$ 9,431	13%
Digitalization	\$ 20,000	\$ 231	1%
Enterprise Data Platform	\$ 30,000	\$ 14,434	48%
Information Technology Service Management	\$ 30,000	\$ 27,434	91%
Robotics Process Automation/Intelligent Automation	\$ 25,000	\$ 1,349	5%
Workforce Infrastructure	\$ 15,000	\$ 3,162	21%
Identity and Access Management	\$ 53,169	\$ 28,218	53%
Secure Access Digital Identity	\$ 25,000	\$ 17,862	71%
Security Operations and Management	\$ 85,945	\$ 32,164	37%
Vulnerability and Threat Management	\$ 35,886	\$ 3,988	11%
Support Projects	\$ 60,000	\$ 9,239	15%
ARPA Modernization Portfolio Totals	\$ 1,000,000	\$ 260,008	26%

Source: The IRS's Status of Funds report as of April 30, 2022. OED = obligations, expenditures, and disbursements.

Business Systems Modernization and American Rescue Plan Act Funding for the Information Technology Modernization Portfolio
(as of April 30, 2022)

Program Name	BSM Funded Only	ARPA Funded Only	ARPA Funded and BSM Funded
Live Assistance			X
Taxpayer Accessibility		X	
Web Applications			X
Customer Account Data Engine 2 Target State		X	
Customer Account Data Engine 2 Transition State 2	X		
Enterprise Case Management Acceleration			X
Enterprise Tax Calculator Service		X	
Individual Master File Modernization (Retirement Acceleration)		X	
Information Returns Modernization		X	
Return Review Program/Enterprise Anomaly Detection		X	
Application Program Interface Implementation	X		
Cloud Execution		X	
Digitalization		X	
Enterprise Data Platform		X	
Information Technology Service Management		X	
Robotics Process Automation /Intelligent Automation		X	
Workforce Infrastructure		X	
Identity and Access Management			X
Secure Access Digital Identity		X	
Security Operations and Management			X
Vulnerability and Threat Management			X
Support Projects			
Architecture, Integration and Management	X		
Technology Planning and Program Oversight		X	
Management Reserve			
Management Reserve	X		

Source: IRS's Status of Funds report as of April 30, 2022. Note: support projects and management reserve do not have scheduled deliverables or capabilities. BSM = Business Systems Modernization

Information Technology Modernization Portfolio & ARPA Funding

- IRS Information Technology Modernization Portfolio consists of 21 programs.
 - 19 programs received ARPA funding.

See TIGTA, Report Number: 2022-27-045, September 2, 2022, <https://www.treasury.gov/tigta/auditreports/2022reports/202227045fr.pdf>.

TIGTA Report No. 2022-27-045

- Why more funding?
 - In its Sep. 2022 report, TIGTA found the IRS effectively planned to use and oversee ARPA funds.
 - However, ~\$400 million of the provided \$1 billion ARPA funds for modernization were reallocated to address taxpayer service backlog and a significant deficit within the operations support appropriation.
 - ARPA funding is also only usable through Fiscal Year 2023.

See TIGTA, Report Number: 2022-27-045, September 2, 2022, <https://www.treasury.gov/tigta/auditreports/2022reports/202227045fr.pdf>.

Additional Tax Provisions

- The Inflation Reduction Act includes tax provisions not related to new funding.

Corporate Tax Reform

- The Inflation Reduction Act introduces an alternative minimum tax of 15% of average annual adjusted income for applicable corporations.
- Applicable corporations are those whose average annual adjusted financial statement income for the 3-year period ending with the relevant taxable year exceed \$1 billion. This is subject to exceptions.
- The new AMT takes effect after Dec. 31, 2022. It does not appear that regulations will be issued prior to that date.

See Pub. L. No. 117-169, § 10101.

Excise Tax on Repurchase of Corporate Stock

- The Inflation Reduction Act enacts a 1% excise tax on the FMV of stock repurchased by a domestic corporation after 2022. This is subject to exceptions.
- The excise tax provision also takes effect after December 31, 2022.

See Pub. L. No. 117-169, § 10201.

Other Implications for Taxpayers

- ARPA temporary exception allowing taxpayers with incomes above 400% of the Federal Poverty Level to qualify for the premium tax credit extended through 2025.
- Nonbusiness Energy Property Credit extended and modified through 2032, renamed Energy Efficient Home Improvement Credit.
- Residential Energy Efficient Property Credit, renamed Residential Clean Energy Credit and extended through 2034 with increased credit amount.
- Clean Vehicle Credit expanded and extended through 2032.

Next steps for new funding?

- On August 17, 2022, Secretary Yellen of the Treasury directed the Commissioner to develop an operational plan within six months detailing how the Inflation Reduction Act funding will be spent.
- Secretary Yellen directed that the additional enforcement funding NOT be used to increase audits on small businesses or households earning less than \$400,000/year, but to focus on larger businesses and wealthier individuals.