



# Digital Transformation in U.S. Tax Administration

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## Today's Presenters



Eric Hylton held several prominent positions at the IRS, including serving as Deputy of the Criminal Investigation Division and as CI's head of International Operations. As National Director of Compliance, Eric employs his years of experience at the IRS to assist alliantgroup's clients as an ambassador for U.S. small and medium sized businesses (SMBs) and in helping others become tax compliant.



Donald Sniezek is a former IRS Senior Executive where he spent over 34 years in numerous leadership roles, culminating as Director of Examination Headquarters for the Small Business and Self-Employed Division. His responsibilities included executive oversight of division field and specialty examination policy, compliance strategies, quality and technical support.

## Goal and Objective

To understand, discuss and explore the digital transformation journey and strategies of the United States tax administration, including:

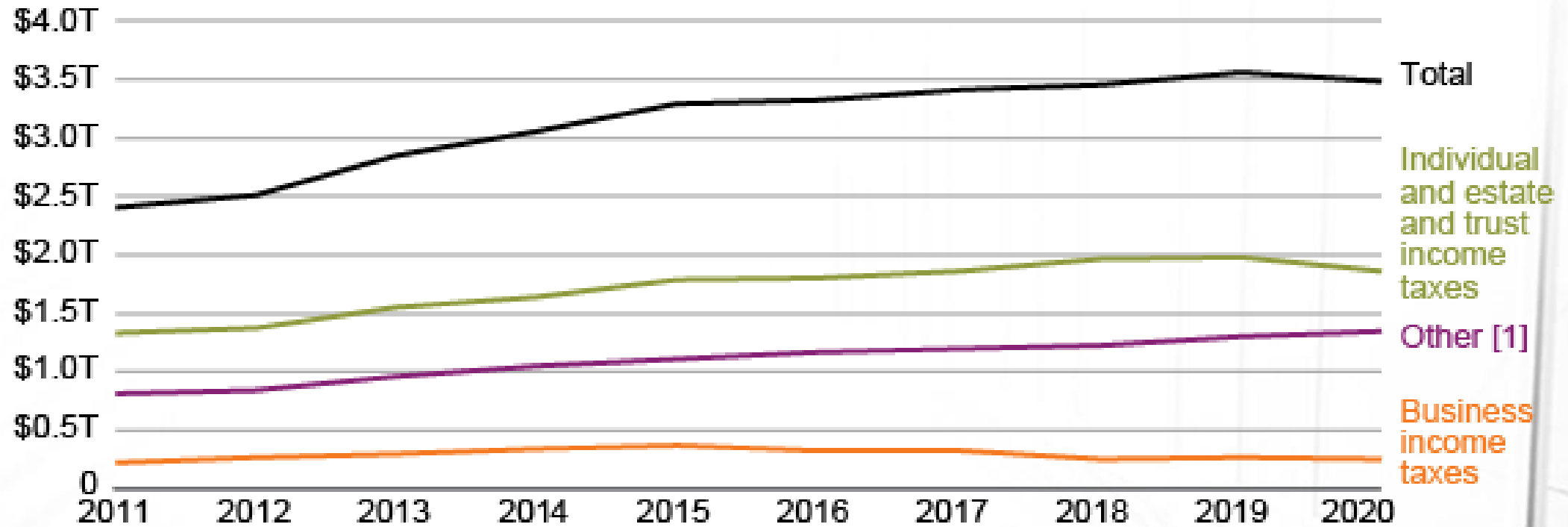
- Long term strategic goals
- Inputs and considerations in establishing the strategies, (including recent impacts of Covid-19)
- Key Transformative Efforts
- Results Achieved
- Lessons Learned

# Digital Transformation a US Tax Administration Case Study

- The Internal Revenue Service (IRS) is an agency of the US Department of Treasury responsible administering the tax system that funds the United States Government.
- **The IRS Mission**
  - 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 agency role and the public's expectation about how the agency should perform that role.
  - In the United States, the Congress passes tax laws and requires taxpayers to comply.
  - The taxpayer's role is to understand and meet his or her tax obligations.
  - The IRS role is to help the large majority of compliant taxpayers with the tax law, while ensuring that the minority who are unwilling to comply pay their fair share.

# IRS collects approximately 95% of revenue for the United States

## Gross Collections by Type of Tax, Fiscal Years 2011–2020

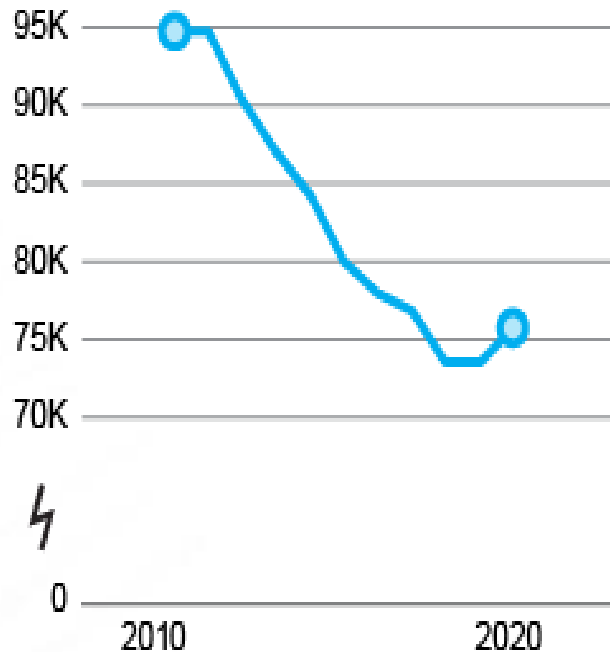


[1] Includes employment, estate and gift, and excise tax forms.

SOURCE: IRS Data Book Table 1

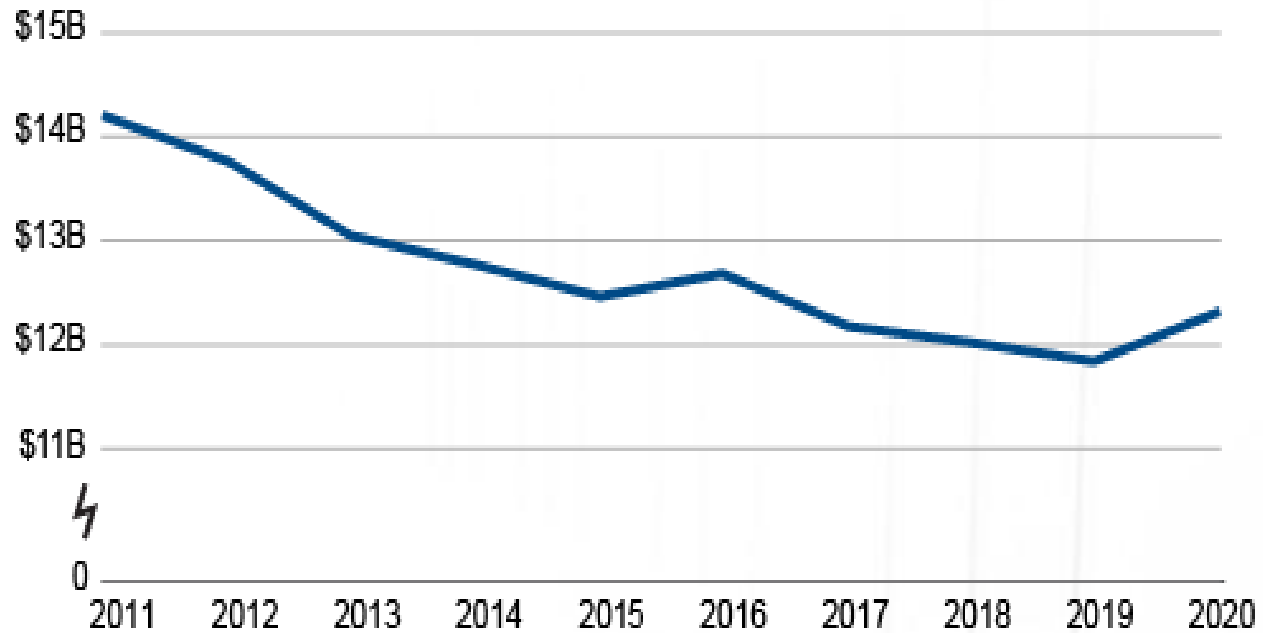
# IRS Operating Budget and Staffing

## Full-time Equivalent Positions Realized, Fiscal Years 2010–2020



SOURCE: Selected IRS Data Books Table 32

## Operating Costs (Constant 2020 Dollars), Fiscal Years 2011–2020



NOTE: Inflation-adjusted amounts were calculated using the U.S. Bureau of Economic Analysis, Nondefense Gross Domestic Product Chain-type Price Index with a 2020 base year.

SOURCE: Selected IRS Data Books Table 31

# Digital Transformation

## A US Tax Administration Case Study

- The IRS develops a five-year Strategic Plan built around Six Strategic Goals
  - Empower and enable all taxpayers to meet their tax obligations
  - Protect the integrity of the tax system by encouraging compliance through administering and enforcing the tax code
  - Collaborate with external partners proactively to improve tax administration
  - Cultivate a well-equipped, diverse, flexible and engaged workforce
  - Advance data access, usability and analytics to inform decision making and improve operational outcomes
  - Drive increased agility, efficiency, effectiveness and security in IRS operations

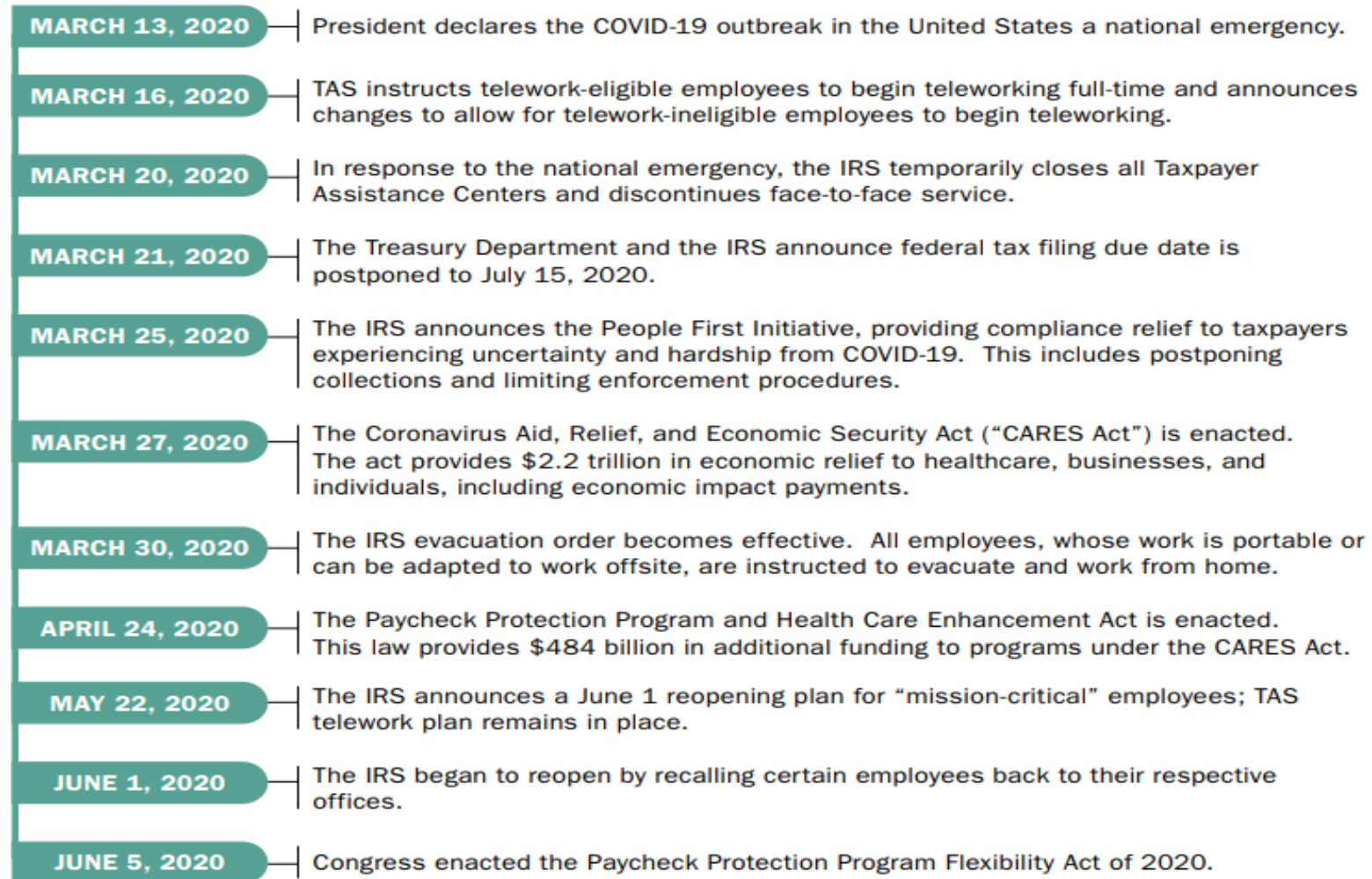
# Incumbent within this Strategic Plan is the Recognition of embedded Digital Transformation

- IRS recognizes that the agency must keep pace with rapid technological change.
- The IRS must take full advantage of technology to improve decision-making.
- New technologies continue to change the way organizations in the private and public sectors deliver their mission, products and services.
- Government executives believe digital technologies are critical to improving financial services, such as revenue collection, audits, cash management and claims management



# COVID Timeline

FIGURE 1.2.1, COVID-19 Timeline<sup>5</sup>

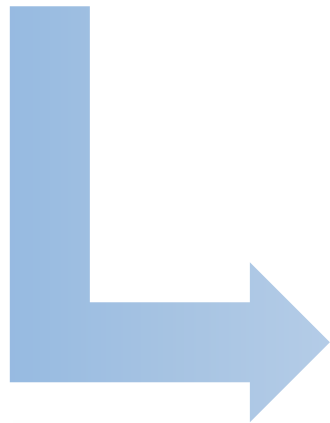


# Impacts of Covid-19 and Leveraging Digital Solutions to address the challenges

- During the COVID-19 crisis, the US had to close offices and processing centers and move to almost full or partial remote working.
- This had impacted normal operations, business could not be conducted as usual, including difficulties in dealing with paper-based communications and forms, physical audits, taxpayer contacts and processing site closings.
- In addition, the US Government enacted several pieces of Covid-19 relief legislation, i.e. Families First Act, People First Initiative, CARES Act and American Rescue Act as a tax administered response to deliver financial relief to the America public.
- From the outset it became clear that the digital solutions could significantly help in dealing with the crisis. The crisis of Covid resulted in the acceleration of digital transformation at the IRS.

# Case Study Scenario's

- Taxpayer Service
- Compliance Risk Management
- Remote Working



## Impact Analysis

Strategic Considerations

Results Driven

Transformational Activities

Lessons Learned

# Scenario One: Taxpayer Service

In Fiscal Year (FY) 2019, the IRS assisted more than 67.3 million taxpayers through correspondence, its enterprise-wide telephone helplines, or at Taxpayer Assistance Centers

In FY 2019, the IRS provided taxpayer assistance through almost 651 million visits to IRS.gov, including more than 368.8 million inquiries to the “Where’s Taxpayer Assistance, by Type of Assistance, and almost 10.0 million active IRS2GO mobile app users

Taxpayers downloaded more than 362.8 million files (such as tax forms and instruction documents) from IRS.gov during FY 2019.

During the start of COVID-19, the IRS was impacted in many ways. IRS sites closed for months, thus postponing everyday operations such as mailing notices and receiving and processing correspondence from taxpayers. During this time, the IRS had to act and make decisions as to how to proceed, and some of the decisions potentially caused confusion and undue burden to numerous taxpayers.

# Scenario One: Taxpayer Service

## Questions

- Based on the statistical information and the COVID crisis, how do you respond to your external stakeholders, i.e. taxpayers, Congress, media, and accounting industry?
- With the uncertainty surrounding the cause, transmission rate, or mortality rate what is your communication strategy to your employees?
- What is your strategy to assess, prioritize and respond to the COVID crisis impacts to tax administration?

# Taxpayer Service: Strategic Considerations

- Accelerating the move to e-administration: During the crisis, many administrations encouraged or required taxpayers, where possible, to deal with their tax affairs using existing or newly created electronic services.
- Maintaining the decision-making processes of the crisis stage into the recovery phase.
- Safety of Employees and the Public
- Following the scientific recommendations of government health officials
- Engaging with Labor Relations
- Planning and prioritization of the steps towards normalization of administration functions.

# Taxpayer Service: Results Driven

- After the presidential declaration of a national emergency on March 13, 2020, the IRS took steps to maximize social distancing to protect the personal health and safety of taxpayers, employees, contractors, and stakeholders.
- Closed Taxpayer Assistance Centers (TACs) & Taxpayer Advocate Service by ending walk-in and in-person appointments;
- For mission-critical operations that required employees to work in a campus or IRS office setting, reduced staffing by approximately 50 percent to enhance social distancing; and
- Subsequently directed all employees to telework if their work duties are portable or could be adapted to work offsite, even if such employees were not telework-eligible.

# Taxpayer Service: Key Transformational Activities

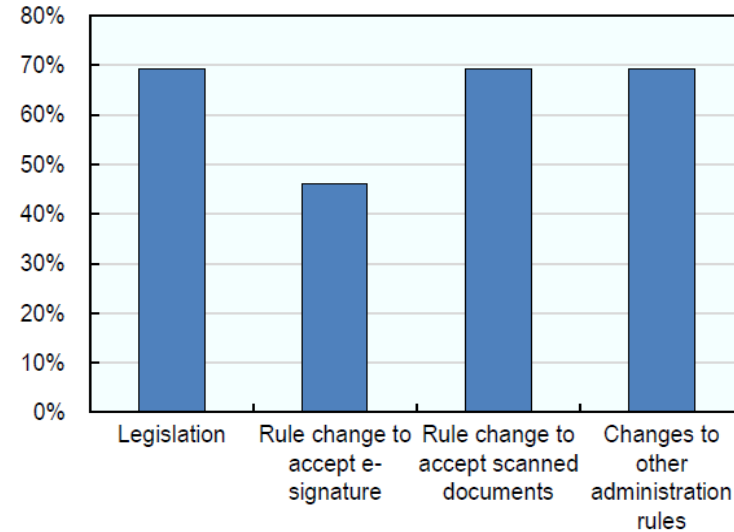
## Expand Individual Online Accounts

- **Secure Two-Way Messaging:** Give taxpayers the ability to communicate with IRS employees through their online accounts.
- **Taxpayer View History:** Allow taxpayers to see information about their tax histories (such as refunds, payments received, amounts owed, returns fled, etc.) through their online accounts to ensure transparency and accessibility of records.
- **Change Account Information (“Self-Correct Entity”):** Allow taxpayers to update contact information and other key details.
- **Digital Notifications:** Generate customized taxpayer notices and letters accessible through online accounts.
- **Expand Payment Options:** Provide taxpayers, businesses and tax professionals the ability to make payments through all channels including telephone, online accounts, mobile apps and walk-in assistance.
- **Secure Document Exchange:** Allow taxpayers, businesses, tax professionals and IRS employees to securely upload and access documents in a centralized repository.
- **Digital Signatures:** Allow authenticated individual taxpayers and representatives to submit electronic signatures via online accounts.



**Figure 2.4. Type of policy changes made**

As a percent of administrations that made policy changes



## Taxpayer Service: Key Transformational Activities and Lessons Learned

- Accelerating work on a digital mailroom project, allowing paper records to be converted into digital images, the extraction of data from the images, information storage and the notification of the relevant tax officials.
- Prioritizing projects on automation, digitalization and electronic services, covering all functional areas of tax administration, such as moving data into the cloud and creating digital service offices.
- Putting more emphasis on the possibilities for remote working.

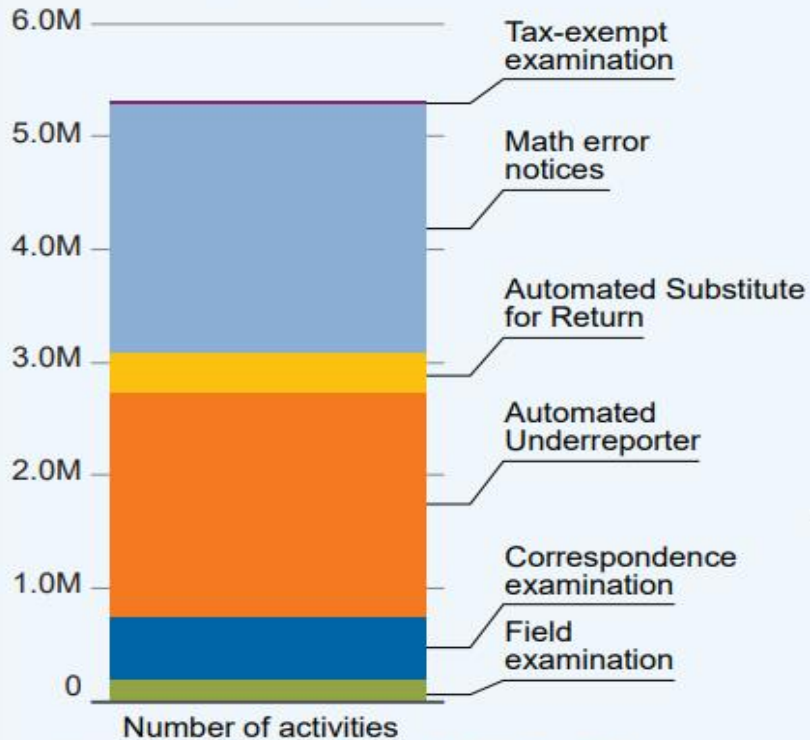
Changes to other administration rules included, for example, the acceptance of faxed tax returns, allowing the use of mobile phones when discussing taxpayer information, and changes to administrative processes, such as which channels could be used for incoming and outgoing communication.

# Scenario Two: Compliance Risk Management

INTERNAL REVENUE SERVICE DATA BOOK, 2019

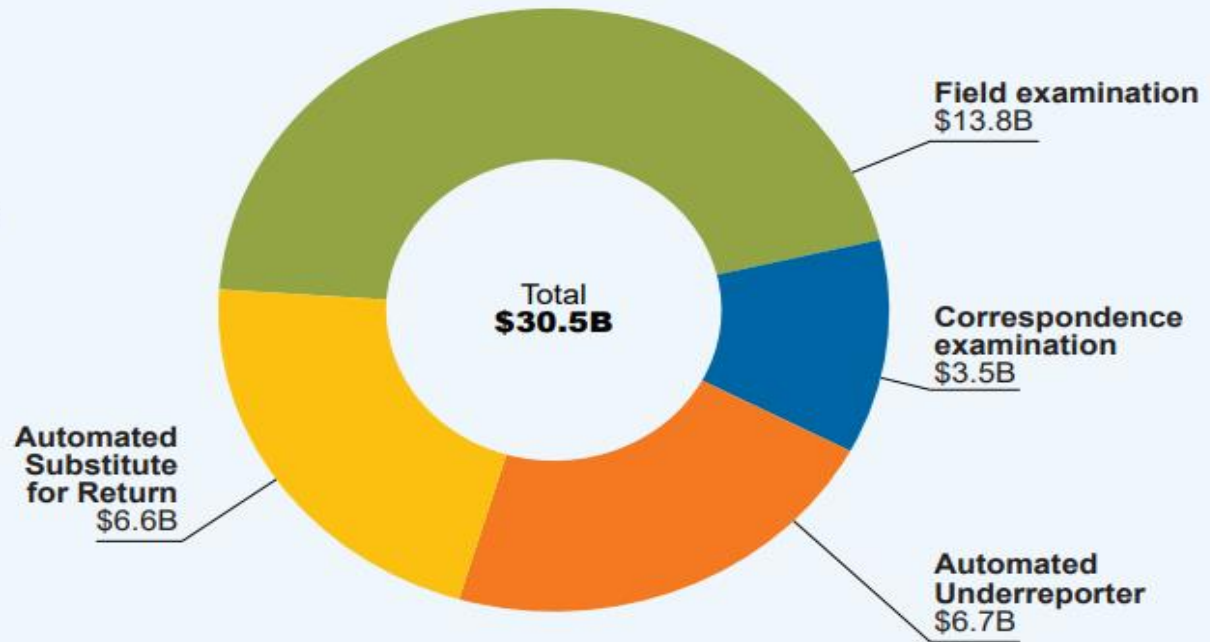
## Compliance Activities, Fiscal Year 2019

Number of activities



SOURCE: 2019 IRS Data Book Tables 17b, 21, 22, and 23

Recommended additional tax and assessments



NOTE: Detail does not add to total due to rounding.

# Scenario Two: Compliance Risk Management

## Questions

What compliance options would consider pausing, suspending or terminating during the COVID crisis?

If you pause certain compliance options, how would it impact your overall operations, i.e. inventory?

How would you communicate these changes to key external stakeholders?

Do you suspect that you will have an increased risk of tax avoidance or possibly tax evasion due to COVID?

How would you adapt your operations to mitigate COVID impacts to compliance?

# Compliance Risk Management: Strategic Considerations



## “People First Initiative”

The goal of the People First Initiative was to temporarily adjust and suspend key compliance programs in order to help people facing the challenges of COVID-19.

The series of steps taken to assist taxpayers was effective for the period starting April 1, 2020, through July 15, 2020, and addressed taxpayer relief from compliance actions pertaining to the following:

- Installment Agreements.
- Offers in Compromise.
- Liens, Levies & Seizures.
- Passport Certifications to the State Department.
- Private Debt Collection.
- Field, Office, and Correspondence Audits

# Compliance Risk Management: Results Driven

- While IRS locations were closed, the pause also caused a backlog of over 12 million pieces of incoming taxpayer correspondence to accumulate. IRS compliance case processing ceased, resulting in large work in process backlogs.
- IRS temporarily paused most audits and contact with taxpayers causing inventory backlogs.
- Premature Notices and Demand were sent to 87,542 taxpayers who filed Tax Year 2019 returns prior to the revised July 15, 2020, due date.
- Thousands of erroneous Collection Due Process (CDP) notices sent to taxpayers did not include a letter of explanation.
- Balance due reminder notices were paused due to mail backlogs, but some were not restarted as planned
- Although the IRS purged 6.2 million notices, the remaining approximately 4.8 million notices, some statutorily required, were sent to taxpayers by January 2021. Due to the delay in sending these notices, they had incorrect notice dates and payment due dates.

# Compliance Risk Management: Key Transformational Activities and Lessons Learned

## Development of Digital Solutions including:

- New Policies on Exchanging Digital Information
- Adoption of Zoom for Government and Expansion of WebEx
- Development and Delivery of Workforce Training for Remote Operations
- Development of Virtual Audits
- Development of Electronic Casefiles
- Accelerating Scanning, OCR and Digitization

# Compliance Risk Management: Key Transformational Activities and Lessons Learned

- Development of Digital Solutions including:
  - Development of Taxpayer Digital Communications Services
  - Conversion of manual “in person” processing to electronic platforms
  - Adoption and Expansion of Chat Bot Services
  - Continued leveraging Data Analytics to improve compliance and resource allocations
  - Expansion into Mobile Apps and Social Media
  - Expansion of Online Account Services
  - New Policies on Digital Signatures

# Scenario Three: Remote Working

COVID-19 pandemic began to have a significant impact on IRS operations in mid-March 2020 when the IRS began to close facilities and employees were diagnosed with COVID-19. Between March 14 and March 28, 2020, the number of employees who worked any amount of time at IRS facilities declined from about 70,700 to 19,400.

Effective March 30, 2020, the IRS directed all employees, except for those individuals performing mission-critical functions that could not be performed remotely, to vacate the work site and work from home or an alternate location.

Leading up to the issuance of the evacuation order, the IRS placed tens of thousands of employees on Weather and Safety Leave (WSL) because their work was either nonportable or they did not have the necessary information technology equipment to work remotely.



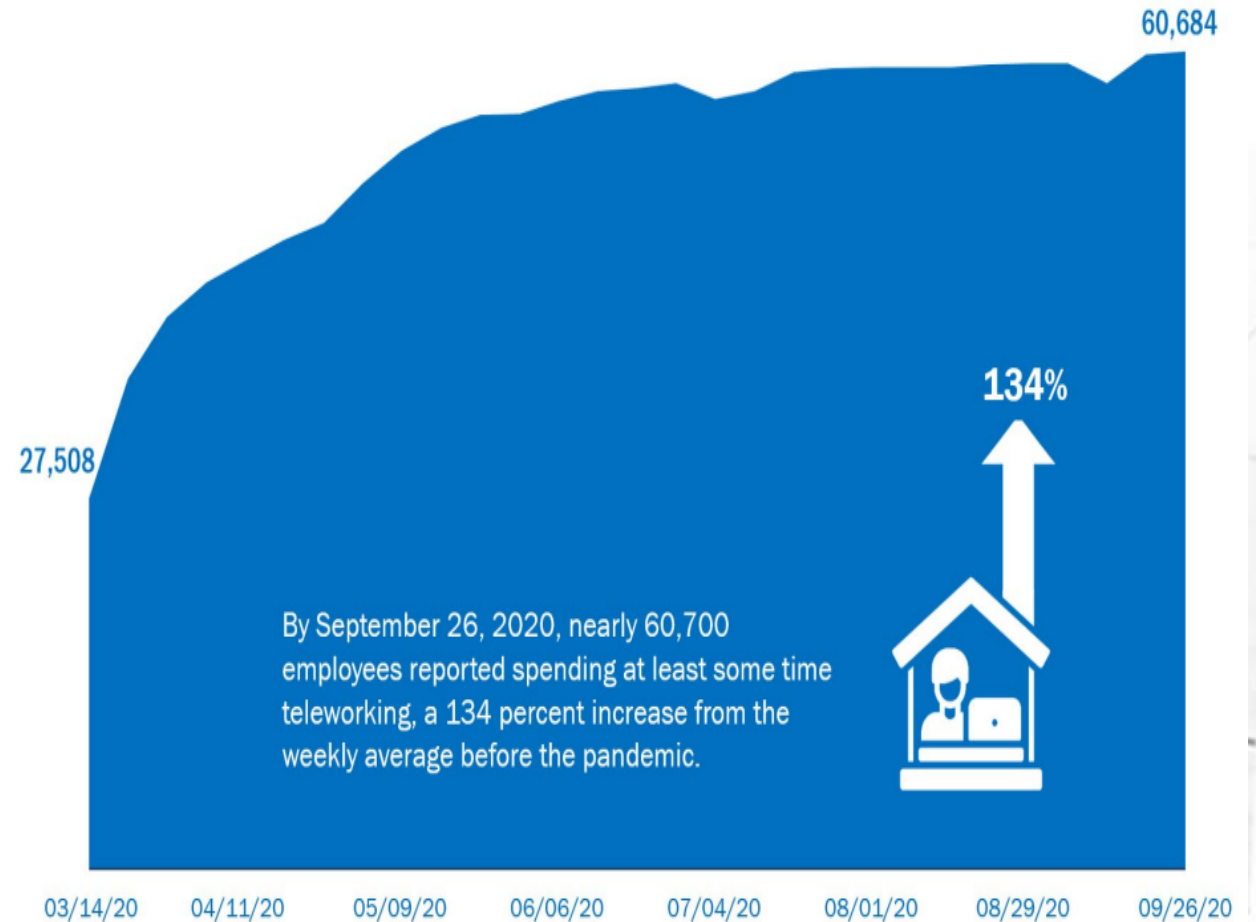
# Remote Work: Strategic Considerations

- The IRS must have a program in place to ensure the continuity of its essential functions during an emergency, such as a pandemic.
- A robust telework program and ensuring as many employees as possible are prepared to telework are critical components of a plan to allow employees to work effectively from alternative sites and continue tax administration and mission-critical operations.
- A key indicator when moving to remote working is the percentage of staff that is ready to work remotely if required, i.e. the overall readiness of the administration.
- It is highly likely that low percentages as regards the overall readiness will cause significant problems when having to move rapidly to a remote working environment.
- Budgetary considerations for new IT equipment.
- Engagement with Labor Relations and Unionized Workforce – Partner for Solutions
- Virtual Face-to-Face: Provide the ability for taxpayers to have a scheduled video chat with an IRS employee, using computer, tablet or mobile phone.

# Remote Work: Results Driven

- Prior to the pandemic, between October 2019 and early March 2020, an average of 26,000 employees (1/3 of the IRS workforce) teleworked for approximately 22 hours each week.
- By March 21, 2020, more than 36,500 employees teleworked an average of nearly 33 hours per week.
- By September 26, 2020, nearly 60,700 employees teleworked at least some time during the week, a 134% increase from the weekly average before the pandemic.
- These 60,700 employees teleworked an average of 36 hours a week, a 64% increase in the weekly average before the pandemic.

Figure 4: Number of Telework Employees Grows After the COVID-19 Outbreak Is Declared a National Emergency



# Remote Work: Results Driven

A limiting factor to the growth of employee telework participation was the IRS's ability to identify, prioritize, and issue laptop computers and other information technology equipment to employees who previously had not participated in the telework program.

**Figure 5: Laptops Issued During the COVID-19 Pandemic to Support Telework**

Month	Laptops Issued
March 2020	997
April 2020	6,787
May 2020	4,839
June 2020	1,871
July 2020	911
August 2020	781
September 2020	1,829
October 2020	562
<b>Total</b>	<b>18,577</b>

# Remote Work: Key Transformational Activities and Lessons Learned

- Equipping a traditional “in office, paper processing” employee with technology to convert their work to a remote format. This permitted continuation of paper processing until digital solutions could be developed.
- Establishing new procedures such as “stop and drops” where employees would pick up and drop off “paper” to process it remotely. New scheduling was required to plan work deliveries and ensure employee safety.
- Establishing new leave and human resource policies for employees not able to transition to remote work, (noting a small percentage of employees could not be transitioned into full remote work).
- Leveraging remote workforce in new ways, i.e. training employees to do other work not normally associated with their pre-covid positions. Suspending certain workforce union rules to accomplish this.

- **Criminal Enterprises**
- **Cybersecurity**
- **Identity Theft**
- **Virtual Currencies**