United States Government Accountability Office

Report to Secretary of the Treasury

November 2020

FINANCIAL AUDIT

IRS's FY 2020 and FY 2019 Financial Statements

Accessible Version

GAO-21-162

November 2020

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IRS's FY 2020 and FY 2019 Financial Statements

GAO Highlights

Highlights of GAO-21-162, a report to the Secretary of the Treasury

Why GAO Did This Study

In accordance with the authority conferred by the Chief Financial Officers Act of 1990, as amended, GAO annually audits IRS's financial statements to determine whether (1) the financial statements are fairly presented and (2) IRS management maintained effective internal control over financial reporting. GAO also tests IRS's compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements.

IRS's tax collection activities are significant to overall federal receipts, and the effectiveness of its financial management is of substantial interest to Congress and the nation's taxpayers.

What GAO Recommends

Based on prior financial statement audits, GAO made numerous recommendations to IRS to address internal control deficiencies. GAO will continue to monitor, and will report separately, on IRS's progress in implementing prior recommendations that remain open. Consistent with past practice, GAO will also be separately reporting on the new internal control deficiencies identified in this year's audit and providing IRS recommendations for corrective actions to address them.

In commenting on a draft of this report, IRS stated that it continues its efforts to improve its financial systems controls.

View GAO-21-162. For more information, contact Cheryl E. Clark at (202) 512-3406 or clarkce@gao.gov.

What GAO Found

In GAO's opinion, the Internal Revenue Service's (IRS) fiscal years 2020 and 2019 financial statements are fairly presented in all material respects, and although certain controls could be improved, IRS maintained, in all material respects, effective internal control over financial reporting as of September 30, 2020. GAO's tests of IRS's compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements detected no reportable instances of noncompliance in fiscal year 2020.

Limitations in the financial systems IRS uses to account for federal taxes receivable and other unpaid assessment balances, as well as other control deficiencies that led to errors in taxpayer accounts, continued to exist during fiscal year 2020.These control deficiencies affect IRS's ability to produce reliable financial statements without using significant compensating procedures. In addition, unresolved information system control deficiencies from prior audits, along with application and general control deficiencies that GAO identified in IRS's information systems in fiscal year 2020, placed IRS systems and financial and taxpayer data at risk of inappropriate and undetected use, modification, or disclosure.

IRS continues to take steps to improve internal controls in these areas. However, the remaining deficiencies are significant enough to merit the attention of those charged with governance of IRS and therefore represent continuing significant deficiencies in internal control over financial reporting related to (1) unpaid assessments and (2) financial reporting systems. Continued management attention is essential to fully addressing these significant deficiencies.

The CARES Act, enacted in March 2020, and other COVID-19 pandemic relief laws contained a number of tax relief provisions to address financial stress caused by the COVID-19 pandemic. For example, the Economic Impact Payments provisions in the CARES Act provided for direct payments for eligible individuals to be implemented through the tax code. Implementing the provisions related to these Economic Impact Payment required extensive IRS work, and resulted in it issuing approximately $275 billion in payments as of September 30, 2020. IRS faced difficulties in issuing these payments as rapidly as possible, such as in identifying eligible recipients, preventing improper payments, and combating fraud based on identity theft. IRS discusses the challenges in carrying out its responsibilities under the CARES Act in its unaudited Management's Discussion and Analysis, which is included with the financial statements. As part of monitoring and oversight of the federal government's efforts to prepare for, respond to, and recover from the COVID-19 pandemic, GAO has issued a number of reports on federal agencies' implementation of the CARES Act and other COVID-19 pandemic relief laws, including reports providing information on, and recommendations to strengthen, IRS's implementation of the tax-related provisions.

Contents

Abbreviations

CARES Act	Coronavirus Aid, Relief, and Economic Security Act
CFO	chief financial officer
COVID-19	Coronavirus Disease 2019
FASAB	Federal Accounting Standards Advisory Board
FFMIA	Federal Financial Management Improvement Act of 1996
FMFIA	Federal Managers' Financial Integrity Act
IRS	Internal Revenue Service
RSI	required supplementary information
Treasury	Department of the Treasury

U.S. GOVERNMENT ACCOUNTABILITY OFFICE

441 G St. N.W.
Washington, DC 20548

November 10, 2020

The Honorable Steven T. Mnuchin
Secretary of the Treasury

Dear Mr. Secretary:

The accompanying report presents the results of our audits of the fiscal years 2020 and 2019 financial statements of the Internal Revenue Service (IRS). Specifically, we found

- IRS's financial statements as of and for the fiscal years ended September 30, 2020, and 2019, are presented fairly, in all material respects, in accordance with U.S. generally accepted accounting principles;
- although certain internal controls could be improved, IRS maintained, in all material respects, effective internal control over financial reporting as of September 30, 2020; and
- no reportable noncompliance for fiscal year 2020 with provisions of applicable laws, regulations, contracts, and grant agreements we tested.

This report also provides a discussion of continuing significant deficiencies[1] in IRS's internal control over financial reporting related to (1) unpaid assessments[2] and (2) financial reporting systems that we believe merit attention by those charged with governance of IRS. Continued management attention is essential to improving the management and

[1]A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.

[2]An unpaid assessment is a legally enforceable claim against a taxpayer and consists of taxes, penalties, and interest that have not been collected or abated (i.e., the assessment reduced by IRS). See, e.g., implementing guidance in Internal Revenue Manual § 1.34.4.1.6(1.p), *Terms/Definitions* (Aug. 25, 2015).

reporting of unpaid assessments and addressing financial reporting system deficiencies. Further, as we have reported in past audits, IRS continues to face significant ongoing financial management challenges related to safeguarding taxpayer receipts and associated information, and preventing and detecting fraudulent refunds based on identity theft.[3] This includes the growing threat of business identity theft refund fraud. Although these challenges do not rise to the level of significant deficiencies in internal control, we believe they are sensitive matters requiring IRS management's attention. We have made several recommendations to IRS to enhance its internal controls to mitigate these challenges.[4] It is important that IRS continue its efforts to minimize the risks these challenges pose to taxpayers and any associated losses to the federal government.

The Coronavirus Aid, Relief, and Economic Security Act (CARES Act), enacted in March 2020, and other COVID-19 pandemic relief laws contained a number of tax relief provisions to address financial stress caused by the COVID-19 pandemic. For example, the Economic Impact Payments provisions in the CARES Act provided for direct payments for eligible individuals to be implemented through the tax code.[5] Implementing the provisions related to these Economic Impact Payments required extensive IRS work, and resulted in it issuing approximately $275 billion in payments as of September 30, 2020. IRS faced difficulties in issuing these payments as rapidly as possible, such as in identifying eligible recipients, preventing improper payments, and combating fraud based on identity theft. IRS discusses the challenges in carrying out its

[3]GAO, *Financial Audit: IRS's FY 2019 and FY 2018 Financial Statements*, GAO-20-159 (Washington, D.C.: Nov. 8, 2019).

[4]GAO, *Management Report: Improvements Are Needed to Enhance the Internal Revenue Service's Internal Control over Financial Reporting*, GAO-20-480R (Washington, D.C.: May 1, 2020), and *Identity Theft: IRS Needs to Better Assess the Risks of Refund Fraud on Business-Related Returns*, GAO-20-174 (Washington, D.C., Jan. 30, 2020).

[5]CARES Act, Pub. L. No. 116-136, div. A, tit. II, § 2201, 134 Stat. 281, 335–340 (Mar. 27, 2020), *codified at* 26 U.S.C. § 6428 and reprinted in 26 U.S.C. § 6428 note. This provision provided for the payment of advances of a refundable tax credit established against the income tax imposed for tax year 2020 for eligible individuals. These payments provide up to $1,200 per eligible individual or $2,400 for individuals filing a joint tax return, p lus up to $500 per qualifying child. The payment phases out gradually based on adjusted gross income. The payments can be offset by the federal government only to collect delinquent child support obligations. The CARES Act refers to the advance refunds as 2020 Recovery Rebates for Individuals. IRS refers to the advance refunds as Economic Impact Payments.

responsibilities under the CARES Act in its unaudited Management's Discussion and Analysis, which is included with the financial statements. As part of monitoring and oversight of the federal government's efforts to prepare for, respond to, and recover from the COVID-19 pandemic, GAO has issued a number of reports on federal agencies' implementation of the CARES Act and other COVID-19 pandemic relief laws, including reports providing information on, and recommendations to strengthen, IRS's implementation of the tax-related provisions.[6]

We performed our audit pursuant to authority conferred by the Chief Financial Officers Act of 1990, as amended by the Government Management Reform Act of 1994.

We are sending copies of this report to the Chairman and Vice Chairman of the Joint Committee on Taxation, the Chairmen and Ranking Members of the Senate Committee on Finance and the House Committee on Ways and Means, and other interested congressional committees and subcommittees. We are also sending copies of this report to the Commissioner of Internal Revenue, the Director of the Office of Management and Budget, and other interested parties. In addition, the report is available at no charge on the GAO website at https://www.gao.gov.

If you or your staff have any questions concerning this report, please contact me at (202) 512-3406 or clarkce@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report.

Sincerely yours,

Cheryl E. Clark

Cheryl E. Clark
Director
Financial Management and Assurance

[6]GAO, *COVID-19: Opportunities to improve federal response and recovery efforts*, GAO-20-625 (Washington, D.C.: June 25, 2020); *COVID-19: brief update on initial federal response to the pandemic*, GAO-20-708 (Washington, D.C.: Aug. 31, 2020); and *COVID-19: federal efforts could be strengthened by timely and concerted actions*, GAO-20-701 (Washington, D.C.: Sept. 21, 2020).

U.S. GOVERNMENT ACCOUNTABILITY OFFICE

441 G St. N.W.
Washington, DC 20548

Independent Auditor's Report

To the Commissioner of Internal Revenue

In our audits of the fiscal years 2020 and 2019 financial statements of the Internal Revenue Service (IRS), we found

- IRS's financial statements as of and for the fiscal years ended September 30, 2020, and 2019, are presented fairly, in all material respects, in accordance with U.S. generally accepted accounting principles;
- although internal controls could be improved, IRS maintained, in all material respects, effective internal control over financial reporting as of September 30, 2020; and
- no reportable noncompliance for fiscal year 2020 with provisions of applicable laws, regulations, contracts, and grant agreements we tested.

The following sections discuss in more detail (1) our report on the financial statements and on internal control over financial reporting, which includes required supplementary information (RSI)[1] and other information included with the financial statements;[2] (2) our report on compliance with laws, regulations, contracts, and grant agreements; and (3) agency comments.

[1]The RSI consists of Management's Discussion and Analysis and the Required Supplementary Information section, which are included with the financial statements.

[2]Other information consists of information included with the financial statements, other than the RSI and the auditor's report.

Report on the Financial Statements and on Internal Control over Financial Reporting

In accordance with our authority conferred by the Chief Financial Officers (CFO) Act of 1990, as amended by the Government Management Reform Act of 1994, we have audited IRS's financial statements.[3] IRS's financial statements comprise the balance sheets as of September 30, 2020, and 2019; the related statements of net cost, changes in net position, budgetary resources, and custodial activity for the fiscal years then ended; and the related notes to the financial statements. We also have audited IRS's internal control over financial reporting as of September 30, 2020, based on criteria established under 31 U.S.C. § 3512(c), (d), commonly known as the Federal Managers' Financial Integrity Act (FMFIA).

We conducted our audits in accordance with U.S. generally accepted government auditing standards. We believe that the audit evidence we obtained is sufficient and appropriate to provide a basis for our audit opinions.

Management's Responsibility

IRS management is responsible for (1) the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; (2) preparing, measuring, and presenting the RSI in accordance with U.S. generally accepted accounting principles; (3) preparing and presenting other information included in documents containing the audited financial statements and auditor's report, and ensuring the consistency of that information with the

[3]See the CFO Act of 1990, Pub. L. No. 101-576, 104 Stat. 2838 (Nov. 15, 1990), codified, in relevant part, as amended, at 31 U.S.C. § 3521(g); see also the Government Management Reform Act of 1994, Pub. L. No. 103-356, 108 Stat. 3410 (Oct. 13, 1994), codified, in relevant part, as amended, at 31 U.S.C. § 3515(c). Pursuant to the authority of 31 U.S.C. § 3515, the Office of Management and Budget requires IRS to issue annual audited financial statements that are separate from those of the Department of the Treasury or that are presented separately in the department's audited, consolidated financial statements. Although the CFO Act designates the agency's inspector general, or where applicable an independent external auditor, as the responsible auditor of an agency's financial statements, the act also gives GAO the authority to perform such audits at its discretion. Based on that authority, we audit IRS's financial statements because of the significance of IRS's tax collections to the consolidated financial statements of the U.S. government, which GAO is required to audit. See 31 U.S.C. § 331(e)(2).

audited financial statements and the RSI; (4) maintaining effective internal control over financial reporting, including the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; (5) evaluating the effectiveness of internal control over financial reporting based on the criteria established under FMFIA; and (6) its assessment about the effectiveness of internal control over financial reporting as of September 30, 2020, included in the accompanying Management's Report on Internal Control over Financial Reporting in appendix I.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements and an opinion on IRS's internal control over financial reporting based on our audits. U.S. generally accepted government auditing standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement, and whether effective internal control over financial reporting was maintained in all material respects. We are also responsible for applying certain limited procedures to RSI and other information included with the financial statements.

An audit of financial statements involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the auditor's assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit of financial statements also involves evaluating the appropriateness of the accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

An audit of internal control over financial reporting involves performing procedures to obtain evidence about whether a material weakness exists.[4] The procedures selected depend on the auditor's judgment, including the assessment of the risk that a material weakness exists. An audit of internal control over financial reporting also includes obtaining an understanding of internal control over financial reporting, and evaluating and testing the design and operating effectiveness of internal control over financial reporting based on the assessed risk. Our audit of internal control also considered IRS's process for evaluating and reporting on internal control over financial reporting based on criteria established under FMFIA. Our audits also included performing such other procedures as we considered necessary in the circumstances.

We did not evaluate all internal controls relevant to operating objectives as broadly established under FMFIA, such as those controls relevant to preparing performance information and ensuring efficient operations. We limited our internal control testing to testing controls over financial reporting. Our internal control testing was for the purpose of expressing an opinion on whether effective internal control over financial reporting was maintained, in all material respects. Consequently, our audit may not identify all deficiencies in internal control over financial reporting that are less severe than a material weakness.

Definition and Inherent Limitations of Internal Control over Financial Reporting

An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, the objectives of which are to provide reasonable assurance that (1) transactions are properly recorded, processed, and summarized to permit the preparation of financial statements in accordance with U.S. generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition, and (2) transactions are executed in accordance with provisions of applicable laws, including those governing the use of budget authority, regulations, contracts, and

[4] A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.

grant agreements, noncompliance with which could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements due to fraud or error. We also caution that projecting any evaluation of effectiveness to future periods is subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Opinion on Financial Statements

In our opinion, IRS's financial statements present fairly, in all material respects, IRS's financial position as of September 30, 2020, and 2019, and its net cost of operations, changes in net position, budgetary resources, and custodial activity for the fiscal years then ended in accordance with U.S. generally accepted accounting principles.

In accordance with federal accounting standards, IRS's financial statements do not include an estimate of the dollar amount of taxes that are owed to the federal government but that taxpayers have not reported or that IRS has not identified through its enforcement programs, often referred to as the tax gap,[5] nor do they include information on tax expenditures.[6] Further detail on the tax gap and tax expenditures, as well as the associated dollar amounts, is provided in the other information included with the financial statements.

Opinion on Internal Control over Financial Reporting

In our opinion, although certain internal controls could be improved, IRS maintained, in all material respects, effective internal control over financial

[5]The tax gap arises when taxpayers, whether intentionally or inadvertently, fail to (1) accurately report tax liabilities on tax returns (underreporting), (2) pay taxes due from filed returns (underpayment), or (3) file required tax returns altogether or on time (nonfiling). Based on its most recent study, which relied on 2011–2013 data, IRS estimated the average annual tax gap to be about $441 billion.

[6]Tax expenditures are provisions of the tax code that reduce taxpayers' tax liability and therefore the amount of tax revenue paid to the government. Examples include tax credits, deductions, exclusions, exemptions, deferrals, and preferential tax rates.

reporting as of September 30, 2020, based on criteria established under FMFIA.

Our fiscal year 2020 audit identified continuing deficiencies concerning IRS's internal control over unpaid assessments and continuing and new deficiencies concerning IRS's internal control over financial reporting systems.[7] While not considered material weaknesses, these deficiencies are collectively important enough to merit attention by those charged with governance of IRS. Therefore, we considered these issues affecting IRS's internal controls over unpaid assessments and financial reporting systems to be significant deficiencies in internal control as of September 30, 2020.[8] These two significant deficiencies are discussed in more detail below.

We considered these significant deficiencies in determining the nature, timing, and extent of our audit procedures on IRS's fiscal year 2020 financial statements. Although the significant deficiencies in internal control did not affect our opinion on IRS's fiscal year 2020 financial statements, misstatements may occur in unaudited financial information reported internally and externally by IRS because of these significant deficiencies.

In addition, because of the significant deficiencies in internal controls over unpaid assessments and financial reporting systems that existed during fiscal year 2020, IRS's financial management systems did not comply substantially with federal financial management systems requirements as

[7]An unpaid assessment is a legally enforceable claim against a taxpayer and consists of taxes, penalties, and interest that have not been collected or abated. See, e.g., implementing guidance in Internal Revenue Manual § 1.34.4.1.6(1.p), *Terms/Definitions* (Aug. 25, 2015).

[8]A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

required by the Federal Financial Management Improvement Act of 1996.[9]

We will be reporting additional details concerning any new issues relating to these significant deficiencies separately to IRS management, along with recommendations for corrective actions. We also identified other deficiencies in IRS's internal control over financial reporting that we do not consider to be material weaknesses or significant deficiencies. Nonetheless, these deficiencies warrant IRS management's attention. We have communicated these matters to IRS management and, where appropriate, will report on them separately along with related recommendations for corrective actions.

Further, as we have reported in past audits, IRS continues to face significant ongoing financial management challenges relating to safeguarding taxpayer receipts and associated information, and preventing and detecting fraudulent refunds based on identity theft.[10] This includes the growing threat of business identity theft refund fraud. Although these challenges do not rise to the level of significant deficiencies in internal control, we believe they are sensitive matters requiring IRS management's attention. We have made several recommendations to IRS to enhance its internal controls to mitigate these

[9]Section 803(a) of the Federal Financial Management Improvement Act of 1996 (FFMIA), which is reprinted in 31 U.S.C. § 3512 note, requires that CFO Act agencies implement and maintain financial management systems that comply substantially with federal financial management systems requirements, applicable federal accounting standards, and the *U.S. Government Standard General Ledger* at the transaction level. IRS's financial management systems did not comply substantially with federal financial management systems requirements because of the financial management system–related internal control deficiencies discussed in this report. However, IRS's financial management systems did comply substantially with federal accounting standards and the *U.S. Government Standard General Ledger* at the transaction level. FFMIA applies directly to the U.S. Department of the Treasury (Treasury), which is a CFO Act agency. As a Treasury component, IRS is not required to be assessed separately; however, it is included in Treasury's agency-wide FFMIA assessment. Since IRS is a significant component of Treasury, we conducted this assessment to support the audit of the Treasury agency-wide financial statements. *See* app. D of Office Management and Budget, *Compliance with the Federal Financial Management Improvement Act of 1996*, OMB Circular No. A-123, § 4.A (Sept. 20, 2013).

[10]GAO, *Financial Audit: IRS's FY 2019 and FY 2018 Financial Statements*, GAO-20-159 (Washington, D.C.: Nov. 8, 2019).

challenges.[11] It is important that IRS continue its efforts to minimize the risks these challenges pose to taxpayers and any associated losses to the federal government.

Significant Deficiency in Internal Control over Unpaid Assessments

During fiscal year 2020, the systems IRS uses to account for federal taxes receivable and other unpaid assessment balances continued to have limitations, as well as other control deficiencies that led to errors in taxpayer accounts. Because of these deficiencies, IRS's systems were unable to provide the timely, reliable, and complete transaction-level financial information necessary to enable IRS to appropriately classify and report unpaid assessment balances.[12]

As in prior years,[13] IRS used a manually driven statistical estimation process to compensate for the effects of its system limitations and other deficiencies on a material portion of its federal taxes receivable balance

[11]GAO, *Management Report: Improvements Are Needed to Enhance the Internal Revenue Service's Internal Control over Financial Reporting*, GAO-20-480R (Washington, D.C.: May 1, 2020), and *Identity Theft: IRS Needs to Better Assess the Risks of Refund Fraud on Business-Related Returns*, GAO-20-174 (Washington, D.C., Jan. 30, 2020).

[12]Federal accounting standards classify unpaid assessments into one of the following three categories for reporting purposes: federal taxes receivable, compliance assessments, and write-offs. Federal taxes receivable are taxes due from taxpayers for which IRS can support through the existence of a taxpayer agreement such as filing of a tax return without sufficient payment, or a court ruling in favor of IRS. Compliance assessments are proposed tax assessments where neither the taxpayer (when the right to disagree or object exists) nor a court has affirmed that the amounts are owed. Write-offs represent unpaid assessments for which IRS does not expect further collections because of factors such as the taxpayer's death, bankruptcy, or insolvency. Federal accounting standards require only federal taxes receivable, net of an allowance for uncollectible taxes receivable, to be reported on the financial statements. See Statement of Federal Financial Accounting Standards No. 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting* (May 10, 1996). See also implementing guidance in Internal Revenue Manual, § 1.34.4, *Unpaid Assessments* (Oct. 3, 2019).

[13]See GAO-20-159.

to help ensure that this balance was free of material misstatement.[14] During fiscal year 2020, IRS recorded adjustments totaling about $13 billion to correct the effects of continued errors in its underlying data that IRS identified during its estimation process. While using this process to determine a material portion of taxes receivable has enabled IRS to produce reliable related balances for year-end reporting, it does not provide IRS management with readily available, reliable unpaid assessment information on a daily basis throughout the year for effectively managing unpaid assessment balances. Further, errors in taxpayer accounts create a burden for those taxpayers whose accounts were affected.

While not collectively considered a material weakness, IRS's ongoing control deficiencies related to unpaid assessments are important enough to merit attention by those charged with governance of IRS. Therefore, these issues represent a significant deficiency in IRS's internal control over financial reporting as of September 30, 2020. Continued management commitment and sustained efforts are necessary to build on the progress made to date and to fully address IRS's remaining unresolved issues concerning the management and reporting of unpaid assessments.

Significant Deficiency in Internal Control over Financial Reporting Systems

During our fiscal year 2020 audit, we determined that unresolved information system control deficiencies from prior audits along with new control deficiencies pertaining to business process application controls[15]

[14]In fiscal year 2020, IRS's reported federal taxes receivable consisted of a combination of three distinct types of taxes receivable with different internal control and accounting processes in place: amounts derived from (1) IRS's unpaid assessments estimation process; (2) the Section 965(h) repatriation of foreign earnings provision of the Tax Cuts and Jobs Act of 2017, Pub. L. No. 115-97, § 14103, 131 Stat. 2054, 2195 (Dec. 22, 2017), which is codified at 26 U.S.C § 965; and (3) taxpayer deferral of the employer's share of Social Security taxes and certain self-employment taxes permitted by the CARES Act, Pub. L. No. 116-136, div. A, tit. II, § 2302, 134 Stat. 281, 351-52 (Mar. 27, 2020), which is reprinted in 26 U.S.C. § 3111 note.

[15]Business process application controls (input, processing, output, interface, and data management system controls) help to provide reasonable assurance about the completeness, accuracy, validity, confidentiality, and availability of transactions and data during application processing.

and general controls[16] in IRS's information systems collectively represent a significant deficiency in IRS's internal control over financial reporting systems.

While IRS made progress addressing previously reported control deficiencies, we found continuing and newly identified deficiencies that contributed to the significant deficiency we are reporting as of September 30, 2020. Specifically, deficiencies continue to exist concerning (1) unnecessary access rights granted to accounts, (2) inconsistent monitoring of systems and accounts, (3) inadequately enforced encryption to protect systems and data, (4) out-of-date and unsupported hardware and software, and (5) insufficient implementation and enforcement of effective policies and procedures as part of IRS's security management program.[17]

IRS mitigated the potential effect of these continuing and newly identified deficiencies primarily through compensating controls that management has designed to detect potential misstatements on the financial statements. Nevertheless, these application and general control deficiencies increase the risk of unauthorized access to, modification of, or disclosure of sensitive financial and taxpayer data and disruption of critical operations and are therefore important enough to merit the attention of those charged with governance of IRS. Continued and consistent management commitment and attention will be essential to addressing existing system deficiencies and continually improving IRS's financial reporting system controls.

[16]General controls help to provide reasonable assurance that access to data is appropriately restricted, physical access to sensitive computing resources and facilities is restricted, systems are securely configured to avoid exposure to known vulnerabilities, and incompatible duties are segregated among individuals. In addition, controls should ensure that backup and recovery plans are adequate and tested to ensure the continuity of essential operations and that security is managed entity-wide under a framework that provides a continuing cycle of activity for managing risk, developing security policies, assigning responsibilities, and monitoring the adequacy of the entity's computer-related controls.

[17]We have previously reported deficiencies in certain information system controls, made recommendations to address them, and reported on IRS's corrective actions in various reports on IRS's information security program. See, for example, GAO, *Management Report: Improvements Are Needed to Enhance the Internal Revenue Service's Information System Security Controls*, GAO-20-411R (Washington, D.C.: May 13, 2020).

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles issued by the Federal Accounting Standards Advisory Board (FASAB) require that the RSI be presented to supplement the financial statements. Although the RSI is not a part of the financial statements, FASAB considers this information to be an essential part of financial reporting for placing the financial statements in appropriate operational, economic, or historical context. We have applied certain limited procedures to the RSI in accordance with U.S. generally accepted government auditing standards, which consisted of inquiries of management about the methods of preparing the RSI and comparing the information for consistency with management's responses to the auditor's inquiries, the financial statements, and other knowledge we obtained during the audit of the financial statements, in order to report omissions or material departures from FASAB guidelines, if any, identified by these limited procedures. We did not audit and we do not express an opinion or provide any assurance on the RSI because the limited procedures we applied do not provide sufficient evidence to express an opinion or provide any assurance.

Other Information

IRS's other information contains a wide range of information, some of which is not directly related to the financial statements. This information is presented for purposes of additional analysis and is not a required part of the financial statements or the RSI. We read the other information included with the financial statements in order to identify material inconsistencies, if any, with the audited financial statements. Our audit was conducted for the purpose of forming an opinion on IRS's financial statements. We did not audit and do not express an opinion or provide any assurance on the other information.

Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements

In connection with our audits of IRS's financial statements, we tested compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements consistent with our auditor's responsibility discussed below. We caution that noncompliance may occur and not be detected by these tests. We performed our tests of compliance in accordance with U.S. generally accepted government auditing standards.

Management's Responsibility

IRS management is responsible for complying with laws, regulations, contracts, and grant agreements applicable to IRS.

Auditor's Responsibility

Our responsibility is to test compliance with selected provisions of laws, regulations, contracts, and grant agreements applicable to IRS that have a direct effect on the determination of material amounts and disclosures in IRS's financial statements, and perform certain other limited procedures. Accordingly, we did not test compliance with all laws, regulations, contracts, and grant agreements applicable to IRS.

Results of Our Tests for Compliance with Laws, Regulations, Contracts, and Grant Agreements

Our tests for compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements disclosed no instances of noncompliance for fiscal year 2020 that would be reportable under U.S. generally accepted government auditing standards. However, the objective of our tests was not to provide an opinion on compliance with laws, regulations, contracts, and grant agreements applicable to IRS. Accordingly, we do not express such an opinion.

Intended Purpose of Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements

The purpose of this report is solely to describe the scope of our testing of compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements and the results of that testing, and not to provide an opinion on compliance. This report is an integral part of an audit performed in accordance with U.S. generally accepted government auditing standards in considering compliance. Accordingly, this report on compliance with laws, regulations, contracts, and grant agreements is not suitable for any other purpose.

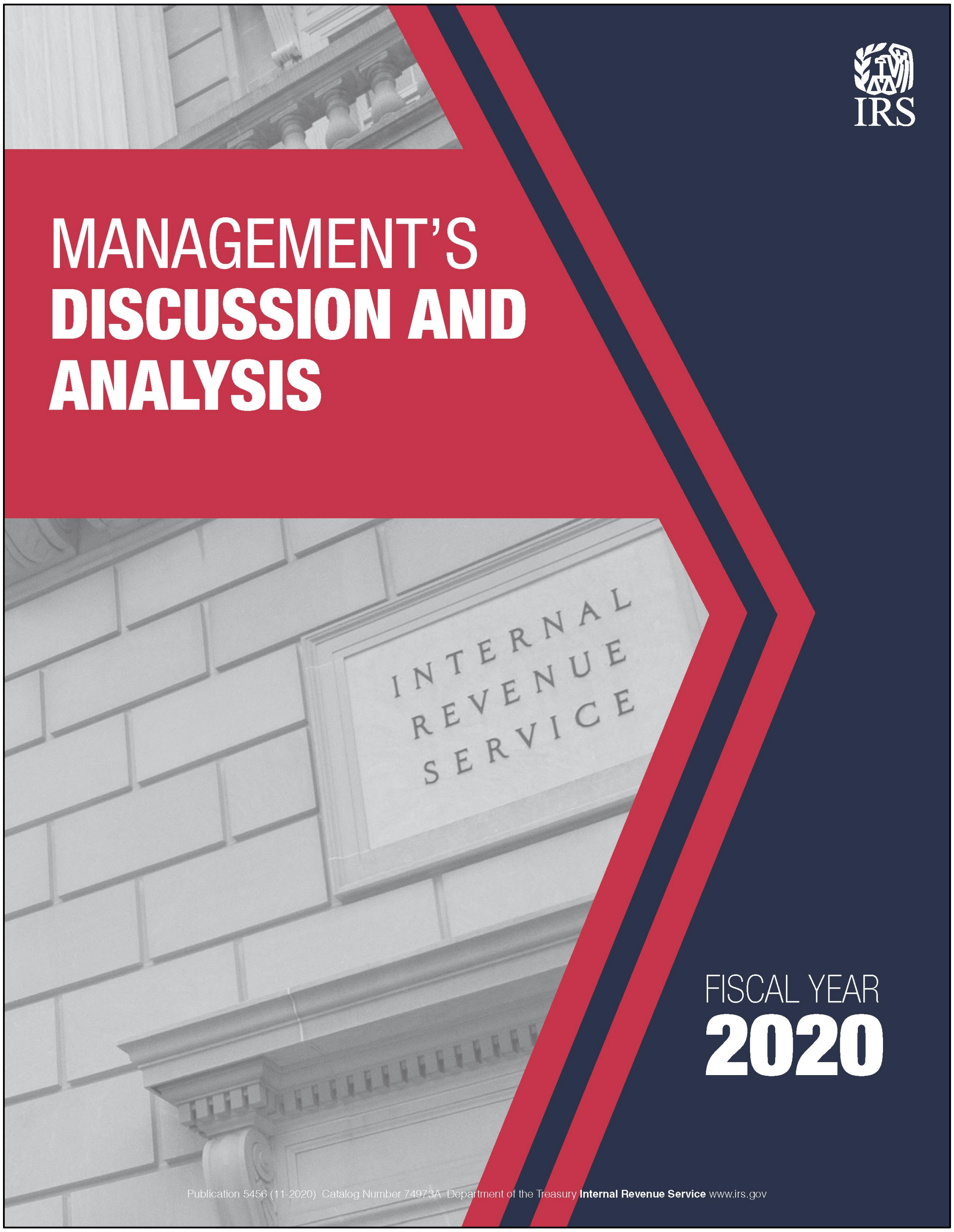
Agency Comments

In commenting on a draft of this report, IRS stated that it was pleased to receive an unmodified opinion on its financial statements. IRS also commented on its continued efforts to improve internal controls and modernize information security technology by implementing initiatives intended to address the root causes of the deficiencies and prevent recurrences. The complete text of IRS's response is reproduced in appendix II.

Cheryl E. Clark
Director
Financial Management and Assurance

November 9, 2020

Management's Discussion and Analysis


IRS
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2020
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IRS

A Message from Chuck Rettig

IRS Commissioner

The IRS remains dedicated to improving service to taxpayers, enforcing the tax laws, modernizing its systems, and maintaining the integrity of the tax system. Each year, the IRS collects more than $3 trillion in taxes and the vast majority of the funding that supports the Federal Government's operations. The IRS serves and interacts with more Americans than any other public or private organization.

In Fiscal Year (FY) 2020, the IRS found itself in uncharted waters, as did the entire nation. The COVID-19 pandemic presented some of the greatest challenges to the IRS in its history, both in terms of being able to carry out the mission and in protecting the health and safety of taxpayers and the IRS workforce. IRS employees responded admirably by quickly facilitating financial assistance to Americans, beginning in March when the IRS was charged with implementing the *Coronavirus Aid, Relief, and Economic Security (CARES) Act* and other important tax-relief legislation. This included delivery of Economic Impact Payments to help approximately 160 million Americans receive about $275 billion. To achieve this, IRS employees worked around the clock to deliver payments in record time. The IRS's top priority during the COVID-19 outbreak has been protecting the health and safety of taxpayers and the IRS workforce. For that reason, the IRS temporarily scaled back operations during the spring and summer, taking such steps as closing Taxpayer Assistance Centers, discontinuing face-to-face, and suspending telephone help lines.

Even with those changes, the IRS remained committed to delivering the filing season. As events unfolded in the spring of 2020, the IRS continued to process electronic tax returns, issue direct deposit refunds, and accept electronic payments. This all occurred while successfully moving the nation's tax deadline to July 15, the latest on record.

Along with delivering the filing season, the IRS maintained its focus on its core mission by striving to serve taxpayers in a manner that supports voluntary compliance. Alongside efforts to improve service to all taxpayers and assist during COVID-19, the IRS is also committed to having a strong, visible, robust tax enforcement presence. During FY 2020, the IRS continued working toward the goal of having a presence on each type of tax issue and at every level of income, to ensure fairness for all taxpayers.

In addition to day-to-day operations, the IRS has been working to deliver on the promise of a new IRS. A critical piece of this involves our efforts to implement the *Taxpayer First Act of 2019*, which gives us an incredible opportunity to make significant improvements across our operations by developing innovative approaches to the future of tax administration. This will be a focal point for the IRS in FY 2021.

In FY 2020, the IRS continued to deliver for the nation during a very challenging time. Even with all that we accomplished, the entire IRS workforce wants to do more, in every area. I remain confident that we will continue improving as we move the agency into the future. In FY 2020, the IRS continued to deliver for the nation during a very challenging time.

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"The IRS plays a unique role in the nation. The people of our agency are committed to helping taxpayers, enforcing the laws fairly and serving our great nation. Tax collection plays a critical role funding the country, supporting everything from schools and roads to our military. IRS employees are proud of their public service in support of the nation, and they are committed to making continued improvements to assist taxpayers."

– IRS Commissioner Charles Rettig

ABOUT THE IRS

History

The IRS is one of the oldest bureaus in the United States Government. Article 1, Section 8 of the Constitution gave the federal government the power to "lay and collect Taxes, Duties, Imposts and Excises, to pay the Debts and provide for the common Defence and general Welfare of the United States…" In 1862, President Lincoln and the Congress established the Bureau of Internal Revenue and the nation's first income tax. In 1953, the Bureau of Internal Revenue's name changed to the Internal Revenue Service (IRS). Visit the IRS History Timeline at www.irs.gov/irs-history-timeline.

Internal Revenue Service Building, Washington D.C.

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.

Vision

The IRS will uphold the integrity of the nation's tax system and preserve the public trust through the IRS's talented workforce, innovative technology, and collaborative partnerships.

Values

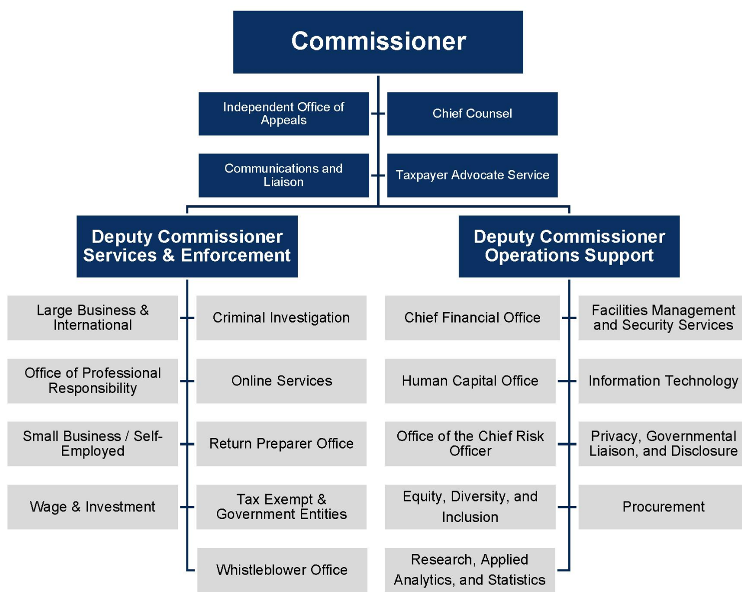
- Honesty and Integrity
- Respect
- Continuous Improvement
- Inclusion
- Openness and Collaboration
- Personal Accountability

Organization

The IRS's core operations include the collection of individual and corporate taxes, processing tax returns, taxpayer assistance, enforcement of the tax laws through examination and collection, as well as criminal investigation of tax crimes. The wide IRS portfolio also includes tax-exempt organizations, tax-exempt bonds, multiple refundable tax credits, and other specialized programs. Four business units, focused on unique groups of taxpayers, support IRS operations.

Business Unit Summary

- Wage and Investment (W&I) administers tax laws governing individual wage earners. W&I annually processes more than 155 million individual tax returns and 50 million business returns, including nearly 138 million electronically filed returns. W&I processes 112 million individual refunds totaling more than $320.8 billion annually and answers more than 50 million phone calls.
- Small Business and Self-Employed (SB/SE) serves small businesses and self-employed individuals operating as sole proprietorships, small corporations, or flow-through entities. The division is also responsible for estate, gift, fiduciary, excise, most employment tax returns, as well as the collection of all unpaid federal tax accounts. SB/SE processes about 27.6 million employment tax returns, 874,000 excise tax return filers, 250,000 gift tax filers, and 36,000 estate return filers.
- Large Business and International (LB&I) serves corporations, subchapter S corporations, and partnerships with assets greater than $10 million. LB&I also serves U.S. citizens and residents with offshore activities and nonresidents with U.S. activities.
- Tax Exempt and Government Entities (TE/GE) serves customers across three distinct taxpayer segments - Employee Plans, Exempt Organizations, and Government Entities.

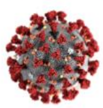


HOW THE IRS SERVES THE COUNTRY

The IRS and its employees take pride in collecting more than 96% of the revenue that funds key operations in the United States. The IRS is one of the world's most efficient tax administrators. Some key performance achievements in FY 2020:

242M	$3.5T	$2,034	$51.1B
Federal Tax Returns and Forms Processed	Collected in Gross Taxes	Average Individual Refund	Enforcement Revenue Collected

COVID-19 PANDEMIC RESPONSE



On March 13, 2020, the United States declared the COVID-19 pandemic a national emergency. The pandemic presented our nation with unprecedented challenges, and the IRS responded admirably by quickly facilitating financial assistance to millions of deserving and needy Americans.

Implementing the CARES Act

Beginning in mid-March, IRS employees worked around the clock to implement major provisions of the *Coronavirus Aid, Relief, and Economic Security (CARES) Act*. Within 10 days of enactment, the IRS in coordination with the Bureau of the Fiscal Service (BFS) issued about 81 million Economic Impact Payments (EIP) totaling almost $147 billion. This response was unprecedented compared to the almost two months needed for the first stimulus payments issued in 2008. By late September, more than 160 million Americans received EIPs totaling almost $275 billion, of which 121 million of these payments were sent by direct deposit, 35 million by check, and 4 million via a pre-paid debit card.

The IRS calculated EIPs and coordinated with BFS to swiftly send them to those eligible. This included many people who may not normally file a tax return, such as senior citizens and others receiving Social Security retirement, survivor or disability benefits, and railroad retirees. It also included those whose only income is from Supplemental Security Income payments and people receiving certain Department of Veterans Affairs (VA) benefits. The IRS worked cooperatively with the Social Security Administration (SSA), VA, and other government agencies to retrieve information needed to send EIP payments to these groups of people without requiring them to file a return or take any other action.

The IRS balanced the statutory requirement to provide the payments as "rapidly as possible" with the need for accuracy and concern about potential fraud. The Treasury Inspector General for Tax Administration noted in a June report that the IRS correctly computed the payment amount for nearly 98% of the EIPs issued as of May 21, 2020.

To deliver EIPs quickly, the IRS designed and built two special online tools (available in both English and Spanish) on IRS.gov:

- **Non-Filer Tool -** launched on April 10 to allow people who normally do not have a filing obligation to enter basic information so that they could receive their payment.
- **Get My Payment (GMP) Tool** - launched on April 15 to allow most taxpayers to check the status of their payment, and in some instances, enter their bank account information to receive their payment electronically.

In addition, the IRS developed and launched several websites and pages to assist and inform taxpayers and small businesses about issues related to the COVID-19 pandemic and the CARES Act, including:

- IRS Operations during COVID-19 keeps taxpayers and other stakeholders informed about the status of mission-critical programs and services.
- Coronavirus Tax Relief consolidates news releases, statements, FAQs, guidance, partner materials, tax help, social media, and other resources.
- Economic Impact Payment Information Center provides information on status of payments and other information.
- New Employer Tax Credits provides a breakdown of which employers qualify for the new credits.

IRS Conducts Sweeping Public Awareness Campaign to Help Taxpayers

The IRS responded to the CARES Act with unprecedented outreach and education efforts starting in March and continuing through the fall. This work led to sharing information in new and different ways not achieved during previous stimulus efforts.

The IRS worked extensively with external stakeholders to communicate COVID-19 pandemic issues, EIP, and CARES Act information. It coordinated with dozens of federal agencies, state and local governments, and more than 2,000 partners across the nation to share EIP messaging with their constituents and customers. The IRS also delivered hundreds of printed products on the COVID-19 pandemic, more than 1,300 social media postings, and more than 500 informational postings on IRS.gov. Working with partners in the tax professional community, the IRS translated key EIP information into 35 different languages.

IRS social media channels saw an increase of nearly a half-million new followers during the height of the pandemic. Social media quickly became a major source for delivering messages, with innovative graphics and materials shared and used by groups across the nation. The IRS also worked to share information with Facebook on its COVID-19 Information Center and with Google to prioritize top searches to direct users to IRS.gov. After completing the principal delivery of EIPs, the IRS continued its efforts to ensure every eligible American received their payment.

Implementing Business Tax Relief

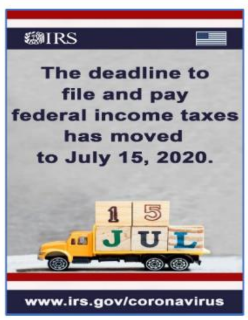
Along with EIPs for individuals, the IRS informed businesses about available tax relief. The relief measures included both the Credit for Sick and Family Leave, the Employee Retention Credit, and the Carryback for Net Operating Losses.

Implementing these and other business relief provisions required extensive work. For example, the IRS created new Form 7200, *Advance Payment of Employer Credits due to COVID-19*, within two weeks of the CARES Act enactment. The IRS redeployed employees to review and approve payments and revised and reprogrammed Form 941, *Employer's Quarterly Federal Tax Return*. The IRS developed and published Publication 5419, *New Employer Tax Credits,* to help employers understand the new employer tax credits.

Taxpayers with tip agreements sought a modification to their agreements to reflect the lower sales and corresponding tips due to the COVID-19 pandemic, and the IRS swiftly evaluated the economic effect to businesses and their employees in tipped positions. The IRS moved quickly to prepare tip agreement addendums that include an economic rate reduction providing immediate relief to affected employers and their workers through an adjustment equal to 60% for participating employees, for eight months. The IRS will continue to monitor and revisit tip rates to determine the need for additional actions.

Providing Administrative Relief to Help Taxpayers

The IRS eased the burden on people facing tax issues during the COVID-19 pandemic. That relief included an automatic extension of the deadline for individuals to file and pay federal income tax from April 15, 2020 to July 15, 2020. To ease burden, the IRS did not require taxpayers to file any additional forms or contact the IRS to qualify for this automatic federal tax filing extension and payment relief.



The IRS also launched the *People First Initiative* on March 25, 2020. This initiative called for a sweeping series of immediate changes to ease the burden on people with tax uncertainties as much as possible allowing them to focus on the well-being of themselves and others. The IRS quickly implemented system programming changes to provide relief on numerous issues ranging from easing payment guidelines to postponing compliance actions. The IRS also suspended most collection enforcement activities, such as new notices of lien or levy from April 15 to July 15, in most cases. The IRS also discontinued field visits and in-person meetings to protect the safety and health of its employees and taxpayers.

Modifying IRS Operations to Ensure Safety

Unlike any other filing season, the IRS had to modify key operations in response to the COVID-19 pandemic, such as closing taxpayer assistance centers, tax processing centers, and offices nationwide. Nonetheless, core IRS functions continued, and the IRS continued to deliver the filing season.

Throughout the COVID-19 pandemic, technology was the cornerstone of the IRS's ability to continue mission-critical work to support the American taxpayer. The IRS ensured continuity of services and support to taxpayers utilizing technology by:

- Accelerating an initiative to enable customer service representatives (CSRs) and tax examiners (TE) to telework. By June 2020, the IRS had supplied telework equipment for more than 11,300 CSRs and TEs, representing about 81% of this workforce.
- Establishing the Crisis Relief Hotline, a voice mailbox for the IRS Chief Counsel to address taxpayer concerns related to COVID-19 relief.
- Standing up a new phone line to answer the most common questions about EIPs.
- Supplying about 20,000 laptops to newly teleworking employees, enabling continuity of critical services.
- Delivering an IRS-wide solution to enable secure email with attachments. This enables taxpayers and the IRS to communicate electronically and exchange information securely.
- Expanding enterprise electronic fax capabilities to support existing programs, such as income verification express service and setting up new fax numbers to support advanced refundable credits, Small Business Administration disaster claims, and other tax forms as part of the CARES Act. These actions positioned the IRS to support up to 90,000 faxes a day.

The IRS ramped up operations significantly to accommodate a remote workforce environment as operations shifted online by doubling its network capacity within one week and increasing network bandwidth to support maximum telework. By early June, the IRS hit a new peak of more than 56,000 remote employees working online simultaneously, which more than doubled the previous peak of about 25,000.

STRATEGIC PLAN OVERVIEW

The IRS FY 2018-2022 Strategic Plan articulates the IRS's vision of becoming a more taxpayer-centric and modern agency. It serves as a roadmap to guide resource decisions, programs, and operations to meet the changing needs and expectations of taxpayers and other stakeholders.

The core of the IRS vision for the future is to enhance the taxpayer experience through each taxpayer's preferred service channel. The IRS also aims to reduce taxpayer burden and preempt noncompliance issues, focusing enforcement efforts on more complex cases and intentional abuses of tax law.

The IRS's ability to supply high-quality taxpayer service and support the integrity of the tax system requires modern, secure, and nimble operations, as well as a sustained and talented workforce. The IRS embraces and integrates data to implement changes in tax laws. Using analytics, the IRS continuously improves all facets of its operations — taxpayer service, enforcement efforts, and a range of internal operations. Greater collaboration with a variety of partners, such as government agencies, international tax administrations, software providers, and industry groups, will enable the IRS to deliver on its mission more effectively and efficiently.

The following six strategic goals reflect the IRS's priorities:

Empower and enable all taxpayers to meet their tax obligations

We will empower taxpayers by making it easier for them to understand and meet their filing, reporting, and payment obligations. We continue to add and enhance tools and support to improve taxpayers' and tax professionals' interactions with the IRS on whichever channel they prefer.

Protect the integrity of the tax system by encouraging compliance through administering and enforcing the tax code

The American tax system is based on voluntary compliance and supported by proper enforcement. As part of the IRS's efforts to close the tax gap, we will pursue innovative approaches to understand, detect, and resolve potential noncompliance. We will use behavioral insights on how people process and react to information. This will inform how we design programs to encourage voluntary compliance.

Collaborate with external partners proactively to improve tax administration

Partnerships with IRS stakeholders enrich service to taxpayers. Collaboration will yield innovative solutions to pressing problems, improving the taxpayer experience. We will engage partners to improve service and outreach to taxpayers, enhance global collaboration and share leading practices.

Cultivate a well-equipped, diverse, flexible and engaged workforce

IRS employees are committed to serving the American taxpayer. We strive for a culture that values innovation, welcomes multiple perspectives and celebrates diversity. The IRS's approach to development will be complemented by a forward-looking talent management strategy that considers future business and stakeholder needs.

Advance data access, usability and analytics to inform decision-making and improve operational outcomes

We will continue to use data to drive decisions and make the most effective use of resources. Advancements across the full data lifecycle — from collection to storage to access to analysis — will allow the IRS to better deploy data and implement insights. Improving data and analytics provides repeatable processes for selecting and assigning work.

Drive increased agility, efficiency, effectiveness and security in IRS operations

We will focus on streamlining and simplifying IRS business processes to serve taxpayers better and improve IRS stewardship of taxpayer resources. Efficient operations and modern infrastructure are the foundation of a stable, reliable organization and are essential elements of sustaining excellent service and enforcement capabilities. Strong data systems are critical to safeguarding taxpayer and employee data from threats.

Measuring Progress – The Strategic Plan Annual Review

In FY 2020, the IRS began a new Strategic Plan Annual Review process to measure progress towards its FY 2018-2022 Strategic Plan goals and objectives. IRS leadership identified three focus areas (Putting Taxpayers First, Improving Compliance, and Modernizing the IRS) and 27 projects for the IRS to report on throughout FY 2020. The FY 2020 focus areas align with the IRS strategic goals, Treasury's Strategic Plan goals, and government-wide priorities from the President's Management Agenda (PMA) in areas of customer experience, data analytics, and modernization of both information technology and the federal workforce as shown below.

Strategic Goals / Focus Area	Empower and enable all taxpayers	Protect the integrity of the tax system	Collaborate with external partners	Cultivate a well-equipped, diverse flexible and engaged	Advance data access, usability and analytics	Drive increased agility, efficiency, effectiveness and security
Putting Taxpayers First	x	x	x	x		x
Improving Compliance		x			x	x
Modernizing the IRS	x	x		x	x	x

Putting Taxpayers First

The *Putting Taxpayers First* focus area includes 12 projects for FY 2020 and supports the IRS's Service, Enforcement, Partnerships, Workforce, and Operations strategic goals. Several of the projects focused on implementing key provisions of the TFA and enhancing IRS communications and outreach efforts. Another project involved closing the Cincinnati Submission Processing Service Center in February 2020, which released 410,000 square feet of space to save an estimated $46.3 million over five years. The effects of COVID-19 delayed another project to expand outreach to underserved taxpayers by developing temporary Taxpayer Assistance Centers in areas where one does not exist. The IRS will continue this project when it is safe to do so.

Improving Compliance

The *Improving Compliance* focus area includes seven projects that support the Enforcement, Data Analytics, and Operations strategic goals. These projects focused on boosting compliance through innovation, partnerships, service, and enforcement efforts. In FY 2020, the IRS created an Innovation Lab that uses data analytics and other techniques to identify and address compliance risks and improve case selection and assignment processes. In April 2020, the IRS developed its inaugural Learning Agenda and data science position description to further the integration of data analysis into daily operations. Activities to improve identity proofing and protecting taxpayer data ensured compliance with National Institute of Standards and Technology (NIST) guidance. In addition, the IRS developed strategies for large partnership and flow-through entity examinations, expanded partnership campaigns, produced a fraud awareness video, and developed a communication plan to publicize the IRS's successful criminal prosecutions.

Modernizing the IRS

The *Modernizing the IRS* focus area includes eight projects that support the Service, Workforce, Data Analytics, and Operations strategic goals. Three of these projects support phase one efforts outlined in the IRS Integrated Modernization Business Plan to replace inefficient manual processes with digital streamlined systems and technologies. One key area is for the IRS to continue its efforts to develop an Enterprise Case Management (ECM) System to connect taxpayer information across the agency and improve taxpayer services. The IRS also is developing and piloting new automation tools using artificial intelligence and robotics technologies that will save significant staff time and reduce the risk of human error. Two projects focus on advancing data analytics and rely on collaboration across the IRS to review and update current methodologies and models for efficient and effective use of IRS data sources. Finally, three projects focus on optimizing the IRS workforce to support the implementation of TFA provisions and the PMA cross-agency priority goals. These projects made progress in bolstering internal support systems for current employees and updating marketing techniques to attract a diverse workforce. Overall, the eight projects updated practices to support a modern IRS.

PERFORMANCE HIGHLIGHTS

Empower and enable all taxpayers to meet their tax obligations

Strategic Plan Goal Level Measure	FY 2020 Target	FY 2020 Results
Enterprise Self-Assistance Participation Rate	82.0%	90.6% ●

● Target Met ○ Target Not Met

Progress toward goal: In FY 2020, the IRS added five new self-assistance tools for taxpayers, which were added to the Enterprise Self-Assistance Participation Rate methodology. These were: ID-Verify, IP PIN, Online Account Sessions, Tax Withholding Estimator, and Employee Services Taxpayer Protection Program Calls. Overall, web services were 35.5% higher than the prior year.

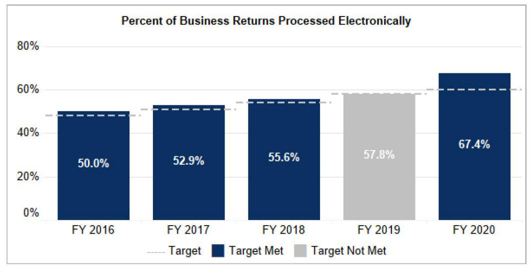
The IRS dedicates itself to improving the taxpayer experience so that taxpayers and their representatives can understand and meet their tax obligations with minimal burden. The IRS's aim is to increase voluntary compliance through simplifying the tax filing, correction, and payment processes. To help achieve this, the IRS focuses on improving education and outreach on taxpayer rights and obligations and enhancing service channels to meet taxpayer needs.

FY 2020 Tax Filing Season – Implementing New Tax Legislation

In preparation for the 2020 filing season, the IRS updated its processes and procedures to address new legislative requirements, such as the *Taxpayer Certainty and Disaster Tax Relief Act of 2019* (Tax Extenders Act), signed into law on December 20, 2019, as part of Public Law 116-94*, Further Consolidated Appropriations Act, 2020*. This legislation extends many previously existing tax provisions through tax year (TY) 2020 or 2021. The 2019 Act retroactively applied some provisions to TY 2018, a year for which most taxpayers already had filed their tax returns. The Act required the IRS to make extensive revisions to Form 1040, U.S. Individual Income Tax Return, and its related schedules and rendered obsolete three of the six Form 1040 schedules that were new for TY 2018. In addition, the IRS developed the Form 1040-SR, *U.S. Tax Return for Seniors*, and updated related tax forms. Public Law 116-94 included more than 70 tax provisions, including extenders, disaster relief, and the *Setting Every Community Up for Retirement Enhancement (SECURE) Act*. The IRS analyzed the law and updated about 160 tax products and information technology systems affected by the legislation.

Delivering the 2020 Tax Filing Season

Ensuring a positive taxpayer experience during the filing process continued to be one of the IRS's primary focus areas during FY 2020. When filing season opened on Monday, January 27, 2020, the IRS handled record volumes of submissions with more than 630 tax return receipts per second at peak volume.



During the extended 2020 tax filing season, the IRS processed more than 145 million individual tax returns and issued more than 100 million refunds totaling more than $276 billion. The average refund amount was $2,034. Direct deposit refunds accounted for 83.0% of all refunds. Electronically filed (e-file) returns accounted for 141 million (96.9%) of all returns processed, and paper returns accounted for 4.5 million (3.1%). The IRS processed 45.6 million business returns. Electronically filed business returns trended upward with 30.7 million filed electronically and 14.9 million filed on paper.

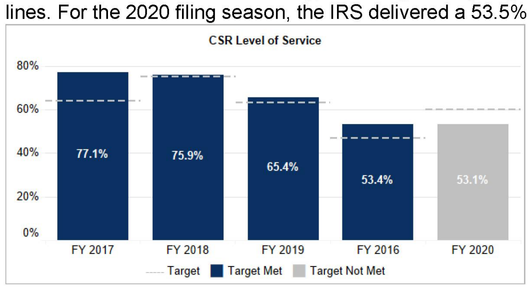
Improving the Taxpayer Experience

The IRS reinstated Form 1099-NEC, *Non-Employee Compensation*, for TY 2020 to separate non-employee compensation from Form 1099-MISC, *Miscellaneous Income*. This eased the filing burden on some taxpayers because the due date for reporting non-employee compensation is January 31, and the due date for other Form 1099-MISC reporting is March 31.

Meetings with external partners also yielded opportunities to improve the Free File program, which provides eligible taxpayers a dozen options for brand-name software products. The IRS worked to make the Free File program more taxpayer friendly and to protect taxpayers. Following the changes made to Free File for the 2020 filing season, IRS Free File online products saw a 50% increase, with more than 4.1 million taxpayers using one of the free online partner products, compared to 2.7 million in FY 2019.

Toll-Free Help Line

The IRS's toll-free telephone line is one of the world's largest customer service phone operations. In March 2020, the IRS suspended customer service phone operations in response to the COVID-19 pandemic. In May, the IRS gradually began resuming CSR-assisted phone lines. For the 2020 filing season, the IRS delivered a 53.5% Telephone CSR Level of Service (LOS), which measures the relative success rate of taxpayers who call the toll-free number and connect with an assistor. The average wait time during the filing season was 16 minutes, and the average handle time was 14 minutes. Accuracy for the toll-free tax law and accounts lines remains above 90%, and toll-free customer satisfaction is 80%.

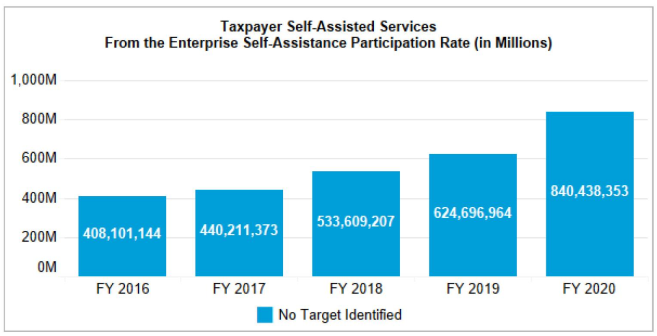


Detecting Potentially Fraudulent Tax Returns

For the 2020 filing season, the IRS used 153 filters to find potential identity theft tax returns and prevent the issuance of fraudulent tax refunds. The IRS holds tax returns identified by these filters during processing until the IRS can verify and confirm the taxpayer's identity to prevent the issuance of a fraudulent refund.

The *Protecting Americans from Tax Hikes Act of 2015* (PATH Act), which requires the IRS to hold refunds on all returns claiming the Earned Income Tax Credit (EITC) and/or the Additional Child Tax Credit (ACTC) until February 15 of each year, dramatically increased the amount of wage and withholding data available to the IRS earlier in the filing season. After a review of the 2018 performance, the IRS adjusted the Return Review Program's systemic verification process to improve the accuracy of the selections, increase the frequency of W-2 data updates, and streamline the selection process. As a result, non-identity theft selections decreased by 53.8% compared to 2018.

Online Services: Supplying More Digital Options



The IRS continues to make significant strides to develop, implement, and improve digital tools to supply more customer service options and allow the IRS to maximize the effectiveness of its resources.

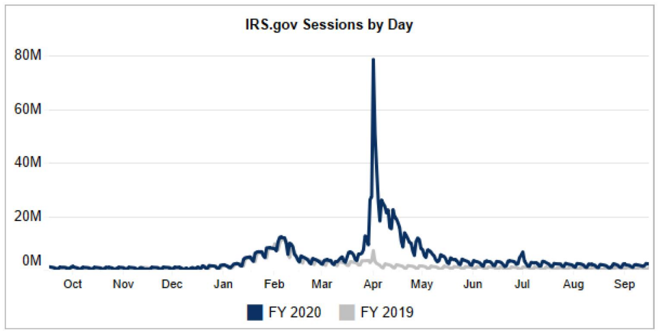
Get My Payment (GMP) Tool – COVID-19 Economic Impact Payments

As noted above, the IRS launched the GMP tool to support the efficient delivery of EIPs to taxpayers. The GMP allows taxpayers to check on the status of their EIP and, if necessary, supply direct deposit information for faster payment. This debut drove a record number of visits to the IRS website. Individuals used this tool more than 223 million times, and more than 14.6 million people successfully supplied their banking information.

FY 2020 was a record traffic year for IRS.gov, driven primarily by response to the COVID-19 pandemic EIPs. IRS.gov had the 22 highest traffic days in history, all in the window of April 13 through May 5. There were 78.8 million sessions on April 15, with 47 million sessions visiting the GMP application. Putting that volume into perspective, traffic to the site on April 15 was more than six times higher than the site's previous single-day traffic record. Usage on the GMP portal continue, with information provided for more than 287 million inquiries.

On-line Usage

In FY 2020 there were 1.60 billion IRS.gov sessions, a 146% increase from FY 2019. As discussed above, the IRS experienced record traffic primarily due to EIPs.



Mobile Device Usage

Visits to the GMP application were primarily mobile, and as a result, the overall percentage of IRS.gov visits from mobile devices was 66% in FY 2020, up from 54% in FY 2019. Additionally, 14.9 million people used the IRS2Go mobile application at least once during the year.

IRS.gov Page Views

FY 2020 also set a record for IRS.gov page views with 9.2 billion, up 175% from FY 2019 and driven by the same factors prompting the increase in sessions.

IRS.gov Page Views	FY 2019 (Oct. 1 – Sep. 30)	FY 2020 (Oct. 1 – Sep. 30)	% Change
Total IRS.gov Visits	651.0M	1.60B	146%
Mobile Visits	350.5M	1.07B	204%
Mobile Visits as % of Total Visits	54%	66%	23%
Total Public User Portal (PUP) Page Views	1.6B	4.2B	161%
IRS2Go Active Users	10.0M	14.9M	50%

Expanding Digital Service Options

In addition to the deployment of the new GMP application, the IRS expanded the availability of taxpayer digital communication alternatives while also making several enhancements to existing digital services. The IRS expanded the SB/SE Correspondence Examination support from two campus locations to five. In FY 2020, Campus Correspondence Examination's performance results were 2,680 taxpayers with an overall 83.2% satisfaction rate.

Other digital service improvements included additions to the taxpayer online account by increasing payment history information from 24 months to 5 years and adding a new feature to allow taxpayers to determine eligibility for participation in a payment plan and a display of scheduled or pending electronic payments on the payment activity page.

Expanding Multilingual Products and Services

The IRS continues to make progress in expanding communication products and services for multilingual communities. The 2020 Form 1040 is available in Spanish for the first time, and another enhancement to the form gives taxpayers the opportunity to indicate whether contact with them should be in a language other than English. Taxpayers who interact with an IRS representative now have access to over-the-phone interpreter services in more than 350 languages.

The IRS.gov landing page now features a language selection drop-down menu in the main navigation area to allow limited English proficiency taxpayers to find tax information and free products and services in seven languages. A new multilingual page on IRS.gov provides basic tax information, including Publication 1, *Your Rights as a Taxpayer*, in 20 languages.

Providing Outreach and Education to Tax Professionals

To help improve the taxpayer experience, the IRS remains firmly committed to educating tax professionals about their responsibilities and limitations under Treasury Department Circular 230, *Regulations Governing Practice before the Internal Revenue Service* (Circular 230), and their ethical obligations to taxpayers and tax administration.

During FY 2020, the IRS performed its outreach activities through in-person and virtual presentations conducted through on-line webinars, telephonic operations, and electronic media. In FY 2020, the IRS created a new webinar titled, *The Office of Professional Responsibility: Circular 230 and What You Need to Know About Practicing before the IRS*. In FY 2020, about 11,395 tax professionals viewed the webinar. The IRS educated tax professionals about Circular 230 provisions at numerous events, including the IRS Nationwide Tax Forums. In FY 2020, the IRS reached nearly 31,900 tax professionals and IRS employees during 25 events, which consisted of in-person, telephonic, and electronic media.

Due to the COVID-19 pandemic, the IRS converted the six in-person Nationwide Tax Forums with course offerings to an online platform. There were more than 10,300 paid attendees, a strong showing that put attendance in line with previous in-person forums.

Key Performance Measures		
Performance Measure	FY 2020 Target	FY 2020 Results
Customer Service Representative (CSR) Level of Service	60.0%	53.1% ○
Customer Accuracy – Tax Law Phones	92.0%	91.0% ○
Customer Accuracy – Customer Accounts (Phones)	94.0%	93.5% ○
Timeliness of Critical Individual Filing Season Tax Products to the Public	89.0%	78.4% ○
Timeliness of Critical TE/GE and Business Tax Products to the Public	89.0%	96.0% ●
Percent of Business Returns Processed Electronically	60.0%	67.4% ●
Taxpayers Satisfied with the IRS	Indicator	N/A

● Target Met ○ Target Not Met

Explanation of Shortfalls

Customer Service Representative (CSR) Level of Service (LOS) was 53.1%, below the FY 2020 target of 60.0%. This was due primarily to the effects of COVID-19. Sites incrementally began closing March 16. All sites and toll-free lines were closed on March 31. Accounts Management phone lines began a phased approach for reopening in the months of May and June based on resources for telework. Taxpayer Assistance Center lines reopened June 26.

*Customer Accuracy – Tax Law Phones wa*s 91.0%, below the FY 2020 target of 92.0%. The primary reason can be attributed to all Tax Law toll-free applications being inactive from April 1 – June 12. When Tax Law phones resumed on June 15, the inactivity due to the COVID-19 severely impacted the enterprise quality, causing 30 Customer Accuracy defects charged over the remaining 12 business days of the planning period.

Customer Accuracy - Accounts (Phones) ended the fiscal year at 93.5%, below the FY 2020 target of 94.0%. The IRS closed all toll-free lines on March 31 to mitigate the spread of COVID-19 and began opening with limited staffing the week ending May 2 with services limited to the Taxpayer Protection Program lines. Other lines continued opening throughout the months of May and June. Taxpayer Assistance Centers was the last product line to reopen on June 26. The IRS will continue to monitor results through data driven analysis of reports obtained from Embedded Quality Review System (EQRS) to ensure achievement of future goals. Ongoing efforts have and will continue to focus on production meetings with field sites, promoting coding consistency of product reviews, and providing training to managers and employees to ensure quality service to customers.

Timeliness of Critical Individual Filing Season (CIFS) Tax Products to the Public ended the fiscal year at 78.4%, below the FY 2020 target of 89.0%. The December 20, 2019, enactment of Public Law 116-94 did not allow enough time to incorporate the new laws into the tax products by January 20, 2020. The legislation effected over 160 tax products; 34 (40%) of these were CIFS, many of which were already released to the public. Despite prioritization, workload planning, and the use of overtime, compensatory hours, and credit hours by IRS employees on weekdays, weekends, and holidays, the results fell 11.9% short of the annual target of 89%.

Protect the integrity of the tax system by encouraging compliance through administering and enforcing the tax code

Strategic Plan Goal Level Measure	FY 2020 Target	FY 2020 Results
Time to Start Compliance Resolution	Indicator	66%

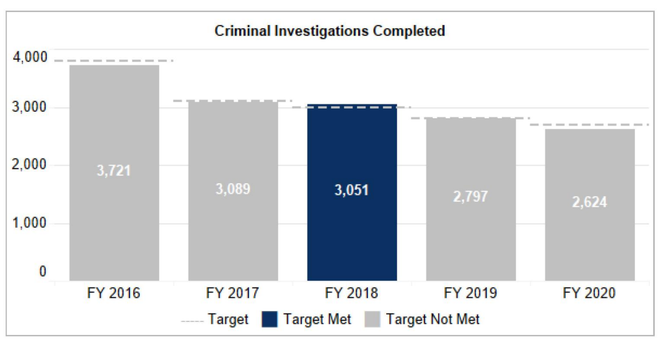
Progress toward goal: This new measure added for FY 2020, measures the percentage of all individual income tax enforcement cases started within six months of the return posting date.

One of the IRS's highest priorities is to ensure taxpayers comply with the tax law. The IRS continues to develop innovative approaches to understanding, detecting, and resolving potential noncompliance to maintain taxpayer confidence in the tax system. In FY 2020, for example, the IRS launched a campaign called *Unlock Fraud Referrals – You Are the Key,* which focuses on recognizing fraud, developing solid cases, and referring the cases for criminal investigation. Law-abiding taxpayers need to know that the IRS is doing all it can to catch those who are not paying their fair share.

Criminal Investigations

The IRS Criminal Investigation (CI) organization investigates potential criminal violations of the Internal Revenue Code and related financial crimes to enforce accountability and maximize deterrence of criminal activity. This includes money laundering, currency violations, tax-related identity theft fraud, and terrorist financing. Using its unique authority and financial expertise, IRS-CI contributes to important national law enforcement priorities. FY 2020 performance highlights included:

- Completing 2,624 criminal investigations.
- Achieving 1,187 convictions with a conviction rate of 90.4%.
- Achieving a Department of Justice case acceptance rate of 91.6% and a U.S. Attorney case acceptance rate of 92.4%, which compares favorably with other federal law enforcement agencies.



The Questionable Refund Program (QRP) identifies schemes that involve one or more individuals who use genuine identities for the purpose of preparing and filing fictitious tax returns that claim bogus income and deductions to generate fraudulent claims for refunds. Similarly, through its Return Preparer Program, IRS-CI encourages compliance by engaging in enforcement strategies targeting untrustworthy or incompetent return preparers. These strategies include education, outreach, and coordinated cross-functional publicity.

The IRS-CI Cyber Crimes unit identifies and pursues criminal investigations where there is reason to believe the subject is committing a tax or other financial crime through the internet. The internet provides perpetrators the means to commit the crime, remain anonymous, and elude law enforcement, as well as conceal financial transactions, ownership of assets, or other evidence. The IRS-CI Cyber Crimes unit also collaborates with other federal law enforcement agencies to identify the movement of criminally derived profits utilizing virtual currency and the Dark Web. FY 2020 performance highlights included:

- Initiated 140 criminal investigations.
- Completed 187 criminal investigations.
- Achieved 108 convictions with a 97.3% conviction rate.
- Achieved a 77.7% publicity rate.
- Identified 229 schemes, comprised of 133,451 individual tax returns with more than $530 million in potentially fraudulent refund claims.

International Tax Compliance

New patterns and trends emerging in complex international tax avoidance schemes and cross-border transactions have heightened the IRS's concerns about tax avoidance by individuals and entities with an international footprint. As international tax and money laundering crimes have increased, the IRS continues to protect the integrity of the U.S. tax system by helping the American taxpayers understand and meet their tax responsibilities and by enforcing the law with integrity and fairness, worldwide. The partnership initiative of the Joint Chiefs of Global Tax Enforcement (J5), between the criminal tax authorities of the United States, the United Kingdom, Canada, Australia, and the Netherlands continued to play a major role in combatting international tax and financial crimes through proactive collaboration.

High-Income Nonfilers

The IRS continues to prioritize and pursue high-income nonfilers by using multiple identification strategies. Using the Case Creation Nonfiler Identification Process (CCNIP), the IRS selected 100% of the identified high-income nonfiler cases for TYs 2016 through 2018. If the taxpayer does not voluntarily comply or respond after receiving two notices, the IRS proceeds with other IRS treatment streams, such as the Automated Substitute for Return, where the IRS generates an assessment for the missing return. In addition to the CCNIP process, the IRS developed several new compliance programs including virtual currency nonfilers, return preparer nonfilers, the network nonfiler test and learn, and nonfilers of Form 8300, *Report of Cash Payments Over $10,000 Received in a Trade or Business*.

In FY 2020, the IRS used a combination of data analytics, media outreach, and strategic use of its civil enforcement investigators to engage the most egregious high-income nonfilers through a specialized field operation, called *High-Income Delinquent Filer Revenue Officer Compliance Sweep*. The goal was to contact high-income nonfilers face-to-face to determine why they did not file, educate them on their legal responsibilities, and bring them into compliance.

The IRS has been testing new predictive models used in the case creation process, including their value in providing early filing reminders to taxpayers at risk of failing to file. The IRS is considering data-driven approaches for incorporating these case creation models into systemically starting nonfiler cases and proposing effective methods of outreach to encourage filing compliance based on predicted behavior and risk of non-filing.

Large Businesses - Campaigns

The IRS continues to position enforcement resources on issue-based campaigns. The IRS identifies issues that are significant compliance risks, then selects and executes one or more treatment streams directed to achieve compliance objectives. Campaign treatment streams include issuing administrative guidance, executing industry issue resolutions, conducting events, providing outreach, proposing legislation, publishing procedures or guidance, and modifying or creating IRS tax forms or publications. The campaign approach leverages IRS knowledge, deploying the right resources to address the right issues. During FY 2020, the IRS announced five additional campaigns bringing the total number of campaigns to 53.

Tax Cuts and Jobs Act of 2017 - Compliance Phase

The IRS FY 2020 Tax Cuts and Jobs Act (TCJA) efforts included developing and issuing the remaining guidance on several provisions that affect large and international taxpayers, as well as identifying and addressing any risks in previously issued guidance. The IRS launched several campaigns dedicated to addressing TCJA compliance. The IRS continues taking steps to ensure its workforce is well-prepared to examine tax returns incorporating TCJA provisions.

Ensuring Compliance by Exempt Organizations

The IRS continues to refine its issue-based strategy approach to ensure examination programs focus on the highest priority compliance areas to promote effective tax administration of the Exempt Organization sector. The IRS considers a variety of treatment streams in using the most appropriate cost-effective and least intrusive approach to achieve compliance. In FY 2020, the IRS provided additional fraud awareness education for employees to improve fraud detection and implemented a new process to detect potential fraudulent transportation fringe benefit claims.

Ensuring Preparer Tax Identification Number Compliance

In treating preparer tax identification number (PTIN) program noncompliance, the IRS mailed 8,696 compliance letters to preparers who filed returns in calendar year 2019 with an invalid PTIN. Sixty-five percent (5,666 of 8,696) of tax return preparers obtained or renewed their PTIN by February 24, 2020. The IRS called 383 preparers who failed to comply, resulting in another 166 preparers obtaining or renewing their PTIN.

Emerging Tax Issues

The IRS routinely monitors new and emerging compliance areas that require attention, including virtual currency, taxpayers working through online platforms (Gig Economy), and the marijuana industry. Along with enforcement activities, the IRS is providing outreach and education in these areas:

Virtual Currency: In March 2020, the IRS hosted a Virtual Currency Summit that brought together stakeholders to discuss virtual currency industry issues and subsequently issued several pieces of guidance, including Notice 2014-21 and Revenue Ruling 2019-24. The IRS began sending about 10,000 letters to virtual currency owners advising them to file amended returns and pay back taxes if they omitted or inaccurately reported virtual currency transactions.

Gig Economy: To evaluate compliance, the IRS sent notices to a population of gig workers identified as underreporting their gig income. The IRS will monitor whether these taxpayers filed an amended return after receiving the notice. The IRS performs outreach to the community on the tax implications of earning income in the gig economy, such as the *Gig Economy Tax Center* website with pages for gig workers and platform companies and Publication 5369, *Gig Economy and your taxes: things to know*, to provide gig workers with basic tax information.

Marijuana Industry: During FY 2020, 33 states and the District of Columbia allowed state-sanctioned use of marijuana. The IRS developed a marijuana strategy to evaluate the scope of noncompliance, provided examiners with appropriate training, and provided taxpayers with specific industry guidance.

Abusive Tax Shelters

The IRS remains committed to pursuing those who promote and make use of abusive tax shelters. As part of these efforts, the IRS *High-Income Nonfilers Initiative* will increase examinations of individual income tax returns with total positive income of $10 million or more. The expansion of the *Global High Wealth* compliance program will support efforts to improve the IRS's compliance activities focused on the wealthiest individual taxpayers. The IRS developed a Business Master File (BMF) Strategy to combat tax noncompliance by tax return preparers, promoters, and others who create schemes designed to obtain fraudulent business-related refunds, credits, or deductions. This includes liabilities that flow through to individual tax returns.

In addition, the IRS developed an *Emerging Issue Strategy* to provide a formal structure to identify and evaluate emerging tax issues that significantly affect tax compliance. Beginning as an issue-based campaign, the IRS formed 12 new examination teams to audit taxpayers who claim potentially abusive micro-captive deductions.

Private Debt Collection

Under the private debt collection program, the IRS assigns certain overdue federal tax accounts to one of four private-sector collection agencies. Since the start of the program, private collection agencies have assisted 329,000 taxpayers who either established a payment arrangement or paid their account in full. The IRS announced in an October 2019 News Release that taxpayers working with a private collection agency can choose to select the convenient and secure pre-authorized direct debit option to make one or a series of payments to the IRS. The IRS also communicated this option to taxpayers in the November 2019 revision to Publication 4518, *What You Can Expect When the IRS Assigns Your Account to a Private Collection Agency.*

Effective January 1, 2021, the TFA requires the IRS to exclude taxpayers who receive Social Security Disability Supplemental Security Income (SSDSI) and Supplemental Security Income (SSI) from the private debt collection program. Implementation of this TFA exclusion requires an exchange of data with the SSA. However, the SSA cannot lawfully provide data on SSI recipients. Therefore, the IRS and the SSA collaboratively drafted an informal technical change to the law, which would permit the SSA to provide and exchange all data needed to implement this provision of the TFA. The IRS submitted the technical change, and in anticipation of the changes being enacted, the SSA and the IRS continue to collaborate and build the technical requirements for the data exchange.

Tax-Related Identity Theft

Safeguarding IRS systems and taxpayer data from tax related identity theft remains an IRS priority, and the agency works continuously to address this threat to the tax system. Despite progress, the IRS remains concerned that identity thieves continue to grow in sophistication.

The IRS's key indicators of identity theft on tax returns have continued to drop at a time when many private sector organizations continue to struggle with this issue. Between 2015 and 2019, the number of taxpayers filing identity theft affidavits as identity theft victims fell 79% from 677,000 in 2015 to 137,000 in 2019. Between 2015 and 2019, the IRS protected a combined $26 billion in fraudulent refunds by stopping confirmed identity theft returns. Over the same period, the IRS recovered an additional $1.7 billion in fraudulent refunds with the help of financial industry partners.

Tax Practitioners' Professional Responsibilities

The IRS is responsible for the oversight of tax practitioner interaction with tax administration. During FY 2020, the IRS focused on education and outreach to minimize the number of tax practitioners who deflect from their professional responsibility obligations. To the extent a tax practitioner fails to adhere to the tax practice principles set forth in Circular 230, the IRS timely applies the appropriate level of discipline that will either put the tax practitioner back on track regarding proficiency and integrity in their tax practice or bar the practitioner from practicing before the IRS. Besides ensuring tax practice principles, the IRS takes disciplinary action against practitioners for tax noncompliance.

Key Performance Measures		
Performance Measure	FY 2020 Target	FY 2020 Results
Examination Coverage – Individual (1040)	0.48%	0.29% ○
Examination Coverage – Business (assets >$10M)	1.7%	1.3% ○
Examination Efficiency – Individual (1040)	115	76 ○
Automated Underreporter (AUR) Coverage	1.7%	0.6% ○
Collection Coverage	39.7%	34.9% ○
Time to Resolve Compliance Issue After Filing (median days)	Indicator	491
Repeat Noncompliance Rate	Indicator	35.6%
Cost to Collect $100 (in cents)	Indicator	N/A
Criminal Investigations Completed	2,700	2,624 ○
Conviction Rate	92.0%	90.4% ○

● Target Met ○ Target Not Met

Explanation of Shortfalls

Exam Coverage – Individual: Coverage was 0.29%, 39.6% below the FY 2020 target of 0.48%. The effects of the COVID-19 shutdown drove closures 24.9% lower than FY 2019 while filings continued to rise. IRS Operating Divisions will monitor resources, starts, and work-in-process to ensure FY 2021 targets are met.

Exam Coverage – Business ended the fiscal year at 1.3%, below the FY 2020 target of 1.7%. Several non-examination activities that took examination resources offline included:

- New hires in training and examiners conducting new hire training.
- Examiners taking make-up TCJA training.
- Hiring/moving managers to the new training groups, and loss of productivity due to delays resulting from the COVID-19 working environment.
- Reduced contacts with taxpayers.

Exam Efficiency – Individual was 76, falling short of the FY 2020 target of 115, due to the COVID-19 shutdown. The IRS will continue to monitor starts and the movement of inventory. IRS expects improvement in starts once the People First initiative expires, but closures and targets will not be met due to COVID-related impacts.

Automated Underreporter Coverage ended FY 2020 at 0.6%, below the target of 1.7%, due to office closures caused by COVID-19. When employees were able to return to the office time was spent on screening since they did not have access to all correspondence due to backlogs in mail rooms. Early in the year, closures were decreased due to fewer cases being available. This was a lasting effect of the FY 2019 lapse in appropriations. SB/SE will monitor resources, work in process, and planned starts to ensure FY 2021 targets are met.

Collection Coverage was 34.9%, below the FY 2020 target of 39.7% as a result of a decrease in collection dispositions related to Covid-19 and a decrease in available inventory. Collection missed its overall disposition target by 4.8%. Total new receipts were down 20% while available inventory decreased 11.7%.

Criminal Investigations Completed was 2,624, falling short of the FY 2020 target of 2,700. COVID-19 impacted day-to-day investigative activities, contributing to a higher cycle time for investigations completed. Additional factors such as the steady decrease in the number of special agents available to work cases (due to attrition and limited hiring) as well as CI's continued focus on traditional tax case programs, which tend to have a higher cycle time, continued to impact Criminal Investigation's overall performance. Despite this, Criminal Investigation continues to utilize proven case development strategies, expand case development efforts, and leverage interagency partnerships to identify, initiate, and complete significant criminal investigations in all program areas.

Conviction Rate is 90.4% below the FY 2020 target of 92% as convictions decreased more than 31% to 1,187 compared to FY 2019. The COVID-19 pandemic led to temporary court closures throughout the country and impacted day to day investigative activities in support of the judicial system thereby contributing to less cases being processed. Additionally, decreases in the number of special agents in previous years led to a decline in the total amount of cases initiated and consequently recommended for prosecution. Despite this, appropriate case selection and effective field performance continue to positively affect the quality of cases resulting in convictions. Criminal Investigation's rate of conviction continues to be a strong indicator of investigative quality given that it is one the highest in federal law enforcement. Since Criminal Investigation does not prosecute its own cases, it must depend on the ability of the DOJ to accept its cases for prosecution and to move such cases through the courts. Criminal Investigation management will continue its efforts of appropriate and consistent contact with DOJ and U.S. Attorney Offices regarding prosecutorial priorities and the appropriate movement of pipeline investigations to ensure a high rate of conviction.

Collaborate with external partners proactively to improve tax administration

Strategic Plan Goal Level Measures (Milestone Based)	Status
Process CARES Act EIPs Timely in Partnership with the Bureau of Fiscal Services	Completed ●
Develop the IRS Taxpayer Experience Strategy in Collaboration with our Stakeholders	Completed ●

● Milestone Completed ○ Milestone Ongoing

Progress toward goal: In FY 2020, the IRS continued to expand relationships outside the traditional outreach and communication channels to deliver messages about the filing season, tax scams, coronavirus tax relief, and other topics. The IRS also continued efforts to improve outreach to the underserved, millennials, and those who speak English as a second language.

To support the nation's tax system, the IRS must work with partners inside and outside the tax community to improve service and outreach to taxpayers, enhance collaboration, and share leading practices. Outreach efforts also work in coordination with IRS communications to share information with taxpayers across the nation.

Partnering with Foreign Governments to Improve Tax Administration

One of the IRS's goals is to expand partnerships with foreign governments and international organizations to address global tax administration concerns. The IRS is achieving this goal through its many interactions with two international organizations, the Organization for Economic Cooperation and Development (OECD) and the Inter-American Center of Tax Administrations (CIAT). Participation in these groups enable the IRS to improve taxpayer service and tax compliance and share internal best practices on tax governance, including tax control frameworks of multinational enterprises.

Security Summit

During FY 2020, the IRS and its partners in the Security Summit continued to implement measures to combat tax-related identity theft. The Security Summit continues to demonstrate the importance of collaboration between the IRS and its external partners – including the states and representatives from the private sector, both inside and outside the tax community. Security Summit members continue to meet regularly – including the annual Security Summit meeting in December 2019 – to discuss, emerging issues and new initiatives in combating identity theft and refund fraud. An important Security Summit initiative has been the Identity Theft Tax Refund Fraud – Information Sharing and Analysis Center, commonly referred to as the ISAC. This is an important platform for the IRS and its partners in their day-to-day efforts to combat identity theft by helping them gain near-term data on emerging trends.

Key Performance Milestones	
Action	Status
Increase transparency through building Congressional relationship	Ongoing ○
Expand social media capabilities and platforms	Ongoing ○

● Milestone Completed ○ Milestone Ongoing

Cultivate a well-equipped, diverse, flexible, and engaged workforce

Strategic Plan Goal Level Measure	FY 2020 Target	FY 2020 Results
Employee Engagement Index	Indicator	N/A

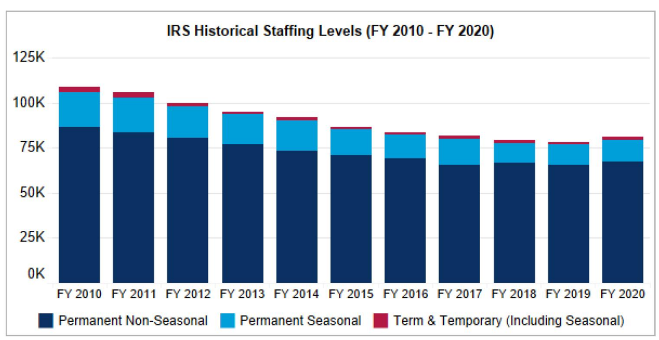
Progress toward goal: In FY 2020, the IRS began developing a comprehensive training strategy to address requirements of the TFA and to support employee development with training opportunities and clear career paths. The final strategy will be reported to Congress in December 2020. The IRS implemented a project entitled "HCO 2022" to determine and implement a new human resource delivery strategy for IRS employees.

The IRS is committed to planning, delivering, assessing, and managing its workforce effectively. Taxpayer service, enforcement, and business modernization efforts require a strong workforce. Supplying end-to-end accountability and promoting partnerships to support customers and operational goals ensures consistent service delivery throughout the human resources lifecycle to effectively attract, develop, and support a world-class workforce.

State of the Workforce

In FY 2020, the IRS employed about 81,272 employees, including 13,650 temporary and seasonal staff. The current FY 2020 staffing levels represent a 3.53% increase since the end of FY 2019. However, the IRS lost more than 33,378 full-time personnel between FY 2010 and FY 2020, including more than 13,388 key enforcement personnel. These losses included revenue agents and revenue officers who audit tax returns and perform collection activities; as well as special agents who investigate tax-related crimes and other issues.

Although the IRS workforce increased over the past year, IRS staffing levels are still below those of FY 2010. The graph below depicts a year-by-year summary of the IRS's total workforce and its subset of temporary and seasonal workforce from 2010 to 2020.



In FY 2020, the IRS continued to transform its hiring process by moving to a workstation concept, ending the hiring backlog and positioning itself to meet hiring requirements timely. In response to the COVID-19 pandemic, the IRS modified the onboarding process and conducted its first-ever virtual orientation on March 30, 2020, for more than 170 new hires. This new process enables new hires to present required identification virtually and take the oath of office via video or telephone to avoid unnecessary in-person contacts.

Talent Management

The IRS revitalized its Enterprise Workforce Planning Program (WFP) to improve talent management agency-wide, with an agile IRS workforce responsive to current and future operational requirements and changes as its primary goal. The Enterprise WFP promotes integrating human capital management business strategies, processes, and procedures to inform Talent Management function and enables the delivery of a sustainable workforce planning capability.

The TFA renewed the IRS's Streamlined Critical Pay (SCP) authority through September 30, 2025. The SCP provides unique personnel and pay flexibilities to aid in recruiting highly skilled information technology professionals, such as engineering, architecture, cybersecurity, and online services.

Employee Learning and Development

The IRS continued to provide employees with training and developmental opportunities to meet their job obligations and career aspirations. In FY 2020, the IRS developed and deployed Career+ career pathing and career broadening experiences. The newly created Enterprise Talent Development Program provides career management for similar occupational series to align career goals with developmental and training opportunities.

To cultivate a well-equipped workforce, the IRS entered a new partnership with Gallaudet University to expand Disability Service Division employees' knowledge and understanding of the "deaf culture" customer experience and expectations. In fostering a diverse and inclusive workforce, the IRS encouraged employees to self-identify known disabilities and update the human resources system to obtain accurate demographics for IRS employees with disabilities.

Knowledge Management

The IRS Servicewide Knowledge Management (SKM) Program centers around four critical pillars: Share, Connect, Learn, and Improve. The program bases its strategies on best practices of organizational programs worldwide with the goal of promoting collaboration, knowledge capture before attrition, data sharing, and building expertise across the IRS. During FY 2020, the IRS trained more than 720 managers and 2,023 employees on Knowledge Capture Tools and Templates.

Several new knowledge repositories were added to the IRS Virtual Library to preserve accumulated knowledge about working complex corporate examination issues, such as large partnerships under the *Bipartisan Budget Act of 2019* tax regime, banking, real estate investment trusts, regulated investment companies operating under the *American Jobs Creation Act*, and TCJA provisions.

Working During the COVID-19 Pandemic

The IRS sought and used employee suggestions to improve workload selection and develop practical solutions for working during the COVID-19 pandemic period. Frequent town halls, news alerts, human interest features in monthly publications, and options for posting feedback encouraged all employees to stay in touch with leadership on key concerns during the pandemic period. The IRS is assessing whether reopening IRS offices will have inequitable effects on employees.

Key Performance Measures		
Performance Measure	FY 2020 Target	FY 2020 Results
Inclusion Quotient Index	Indicator	N/A
Overall Attrition Rate	Indicator	6.65%[1]
Hiring Cycle Time	80.0	119.5 ○

● Target Met ○ Target Not Met

Explanation of Shortfall

Hiring Cycle Time: Hiring is a shared program between the IRS business operating divisions. The IRS is continuing to streamline hiring actions. However, some parts of the IRS experienced a "strategic pause" on the issuance of job offers, while others requested additional time to complete tasks for various reasons, such as pre-hire, funding, training, interviews, COVID-19, and onboarding.

[1] The overall attrition rate shown is pure losses for permanent employees compared to starting on-rolls.

Advance data access, usability, and analytics to inform decision-making and improve operational outcomes

Strategic Plan Goal Level Measures (Milestone Based)	Status
Establish a Comprehensive Catalog of Data Sources	Completed ●
Create Data Governance Council	Completed ●

● Milestone Completed ○ Milestone Ongoing

Progress toward goal: In FY 2020, the IRS developed its first learning agenda, which outlines 10 key research questions that align to its FY 2018-2022 Strategic Plan goals and objectives. The IRS also established an Innovation Lab to help develop and execute its data strategy.

The IRS strives to provide superior service to taxpayers and their representatives and ensure successful implementation of changes in tax laws. Using analytics, the IRS works continuously to improve its operations: taxpayer service, enforcement efforts, and its internal functions.

Taxpayer Service

Addressing Critical Staffing Needs in Taxpayer Assistance Center Locations

The IRS implemented a two-year staffing plan designed to address critical staffing needs in Taxpayer Assistance Center locations, identified through an analysis of appointment data to focus on current and projected staffing needs.

Preventing Identity Theft

The IRS made significant progress on the collaboration and enhancements to its identity theft detection processes. Since partnering with the Security Summit, the IRS increased identify theft prevention through data analytics and is continuing this trend. For example, in processing year 2018, the IRS successfully protected between $6.03 billion and $6.08 billion in identity theft refunds, while between $0.09 billion and $0.38 billion of identity theft tax refunds went unprotected. This is a substantial improvement from processing year 2015, when the IRS successfully protected between $12.35 billion and $12.88 billion in identity theft refunds and between $2.24 billion and $3.34 billion of identity theft tax refunds went unprotected. Unprotected identity theft tax refunds include those refunds paid on probable identity theft refund fraud claims and will most likely be unrecoverable.

Customer Experience Analyses

The IRS used automation to retrieve, catalog, and manage data at scale; for example, the IRS collected and analyzed more than 649,000 survey responses from taxpayers who visited the site for information about EIPs. That data allowed the IRS to find common issues to enhance the Get My Payment application. The IRS connected data from across end-to-end service journeys to identify improvements. As an example, data suggested that many visitors to the online account left the application to visit the online payment agreement tool only to check their payment agreement status, and not to create a new payment agreement. The IRS brought payment agreement status information within the online account itself, removing unnecessary steps. In FY 2020, the IRS increased analysis of application log files to better understand technical performance to determine when and where users were getting errors on IRS.gov, electronic authentication, and the taxpayer online account.

Securing Online Interaction for Taxpayers

The IRS Secure Access supplies a more convenient and secure online interaction for taxpayers. Taxpayers can obtain a copy of their tax return transcripts, identity protection personal identification number (IP PIN), and access to other applications. The IRS Secure Access security enhancements have a multifactor authentication process that verifies and establishes an individual's identity before providing access to applications within Secure Access.

Verifying Tax Return Preparers' Credentials

Tax return preparers report their credentials on PTIN applications. To provide valid information to taxpayers on such credentials, the IRS must verify the information provided by the preparers. This is a manual process involving more than 300,000 preparers, which has limited the number of possible reviews completed in one year to about one-third of the total. The Robotic Process Automation (RPA) pilot matched information in the directory for 5 select states to information provided in the state Board of Accountancy directories. To date, the pilot shows credentials in 75% of the select populations with a 99% accuracy rate and about 67% faster than the current process. The IRS expanded this pilot to incorporate 3 more states.

Enforcement

Identifying High-Effect Criminal Activity

The IRS continues to make significant strides in using data analytics to identify criminal activity for investigation. In FY 2017, the IRS-Nationally Coordinated Investigations Unit (NCIU) launched a centrally led team-based approach, to modernize IRS's criminal investigative tools. Since then, it has further reinforced its analytical efforts by enlisting the IRS-CI's applied analytics team and the Compliance Data Warehouse (CDW).

In FY 2020, the IRS-NCIU referred 109 cases for criminal investigation. In addition to the existing initiatives, the IRS-NCIU extensively used data-driven methodologies to identify and refer for criminal investigation numerous COVID-19 related fraud schemes and helped create a one-stop portal containing more than five million COVID-specific documents in order to develop leads and avoid duplicate investigative efforts.

Identifying High-Risk Corporate Tax Returns

During FY 2020, the IRS's Large Corporate Compliance (LCC) program combined data analytics with tax expertise to identify the largest, most complex, and highest-risk corporate tax returns. The LCC automated the previous manual process used to define the population, and considers all returns meeting the established criteria, saving thousands of staff hours.

The IRS promoted collaborative work on advanced data analytics in an innovation lab and focused on compliance enforcement challenges affecting multiple IRS business organizations. The innovation lab was built upon the work of IRS-CI to identify criminal tax fraud cases by matching wages reported by employees, with employer tax filings. This led to the establishment of 11 individual projects using data analytics to improve employment tax administration.

Maintaining a Balanced Circular 230 Enforcement Program

In FY 2020, the IRS began using its CDW to analyze data on tax practitioners who had penalties assessed and to assist in identifying cases that reflect serious Treasury Department Circular 230 *Regulations Governing Practice before the Internal Revenue Service*, violations. However, the number of potential conduct and compliance cases identified in the CDW data far exceeds the capacity to pursue those cases. The IRS's new intake processing team will use a set of objective criteria designed to select cases with the highest likelihood of actionable violations for further development, in addition to those from other sources.

Internal Operations

Implementation of the Foundations for Evidence-Based Policymaking Act of 2018

The IRS significantly contributed to the implementation of the Foundations for Evidence-Based Policymaking Act of 2018, which requires the federal government to modernize its data management practices. The IRS developed the first Learning Agenda of any bureau within Treasury.

Accessing Information Using a Graph Database Environment

Graph database environments provide powerful tools for exploring and understanding relationships between entities in the tax system, including taxpayers, businesses, and return preparers. The IRS developed and deployed a graph database environment that currently supports more than 5,000 users across the IRS. Users can quickly access information to identify relationships between noncompliant taxpayers and other tax-related people, organizations, and transactions, leading to more efficient and actionable investigations. In FY 2020, the IRS developed new features that included a pattern search capability and enhanced reporting on specific compliance issues. The graph data environment currently supports identity theft detection, evaluations of money laundering issues for field examination, with a planned expansion to detect changes in the tax structures of large corporations.

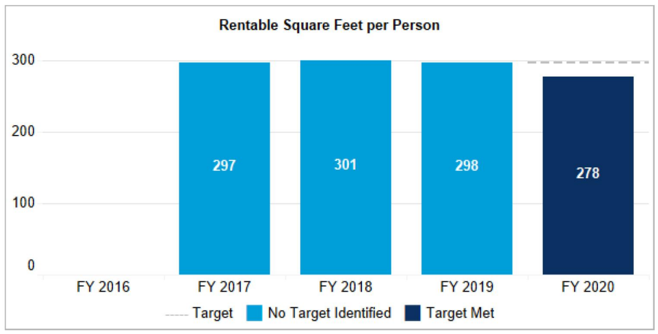
Human Capital Business Processes

The IRS continued to research and identify automation tools promoting effective and efficient program management and service delivery. From developing a data warehouse for reporting systems to Enterprise Case Management, the IRS continues its commitment to modernization and operational efficiency. During FY 2020, the IRS created and used forecasting tools and methods to make informed decisions about future workforce needs. Efforts included:

- Creating a forecasting tool to leverage sets of data to provide a balanced workforce planning approach. Data sets used in the forecasting tool included projected retirements and anticipated hiring and training needs to accurately identify human resource needs.
- Developing data-driven methodologies to prioritize and validate IRS Mission Critical positions. The results of this initiative inform the IRS's initial workforce planning service delivery model and business processes.

Facility Planning

The IRS continued to use data to select the best opportunities to release excess facility space by leveraging the timing of expiring leases and planned renovation projects, and by analyzing IRS housing needs to plan building closures and consolidations. In FY 2020, the IRS released 600,000 square feet of space including the closure of eight buildings from its portfolio and the closure of the former submission processing building in Covington, Kentucky.



Key Performance Milestones	
Action	Status
Development of Enterprise Research Plan	Completed ●
Creation of Innovation Lab	Completed ●
Development of Learning Agenda and Evaluation Plan	Ongoing ○

● Milestone Completed ○ Milestone Ongoing

Drive Increased Agility, Efficiency, Effectiveness and Security in IRS Operations

Strategic Plan Goal Level Measure	FY 2020 Target	FY 2020 Results
Rentable Square Feet per Person	298	278 ●
Percent of Aged Hardware	30.0%	16.0% ●

● Target Met ○ Target Not Met

Progress toward goal: Due to the release of square feet and the large volume of refreshed workstations, the IRS exceeded both targets associated with this goal.

The IRS continues to find ways to streamline and simplify processes and manage expenses to make operations more cost effective. This is necessary for sound financial stewardship and maintaining the physical and digital security of IRS systems and taxpayer information, enhancing internal controls, managing risks, and upholding accountability.

Taxpayer First Act

The passage of the TFA, signed July 1, 2019, created a new congressional mandate for the IRS. The IRS has not had a major reorganization of this magnitude since the implementation of the *Internal Revenue Service Restructuring and Reform Act of 1998*. The TFA requires the submission of a comprehensive proposal to Congress for three areas:

- Comprehensive taxpayer service strategy.
- Proposal to update the IRS organizational structure.
- Comprehensive training strategy.

In addition, the TFA has a provision related to the management of IRS information technology and multiple sections with specific requirements to implement a multiyear strategic plan for information technology. The Act also includes another 41 provisions designed to improve taxpayer service and ensure the IRS continues to enforce the tax law in a fair and impartial manner.

The IRS developed robust and effective TFA strategies that reflect taxpayers' input. The IRS prioritized continuous, productive engagement with a wide range of taxpayers, taxpayer representatives, and other stakeholders. The IRS also engaged heavily with employees who interact with taxpayers for their first-hand insights into how the IRS can evolve. Several key themes emerged from this comprehensive outreach including:

- Deliver a seamless experience.
- Expand secure digital communications.
- Provide access to information and promote transparency.
- Expand analytics capabilities.
- Improve agency-wide collaboration and coordination on strategic initiatives.
- Develop taxpayer-focused training.

These themes, along with extensive research and analysis of best practices, set the foundation for the Taxpayer Experience Strategy, Training Strategy, and Organization Redesign Plan. The

IRS implemented these ambitious outreach efforts by integrating stakeholders' perspectives and needs.

The TFA requires the IRS to develop a website by January 1, 2023, enabling users to prepare, maintain, and file Forms 1099 for the IRS and for distribution to others. As part of implementation, the IRS is conducting outreach to a broad base of external stakeholders.

Modernizing the IRS

Published in April 2019, the IRS Integrated Modernization Business Plan describes a six-year modernization roadmap for achieving IRS enterprise modernization goals. The IRS structured the plan into two three-year phases that began in FY 2019. As the IRS concludes the second year of phase one, initial performance results and outcomes show significant progress in delivering the capabilities planned across four pillars:

- Modernized Operations.
- Taxpayer Experience.
- Core Taxpayer Services & Enforcement.
- Cybersecurity & Data Protection.

The key factor for continued success in delivering modernization is stable, predictable, and consistent funding. In FY 2020, the IRS had to re-plan and scale back its modernization commitments due to receiving a lower funding level than requested. Despite these challenges, the IRS made considerable progress toward modernization.

Through June of FY 2020, the IRS delivered 40 new or expanded capabilities, which provided a solid foundation to continue accelerating modernization progress in FY 2021. Key accomplishments include:

Modernize IRS Operations

- *RPA.* The IRS used RPA to reduce the processing time and save around 26,800 hours of manual work per year as part of the IRS's obligation to monitor compliance with Offer in Compromise. In another example, RPA reduced an estimated 7,000 hours of manual work per year when applied to an email referral process and a compliance case management process. The IRS also applied RPA to other internal processes.
- *Application Programming Interface (API).* APIs allow data exchanges between computers via standard, reusable services and common programming code. This supports IRS business operations and stakeholders who rely on IRS data for authorized purposes by making the process easier and streamlined.
- *Next Generation Infrastructure (NGI).* NGI provides a more efficient, scalable, and flexible architecture by implementing advanced IT infrastructure tools and technologies for computer, network, and storage activities. This year, the IRS deployed a set of components via an automation tool to provision virtual servers with the latest patches, security compliance, and server domains. This reduced provision times from five days (120 hours) to 28 minutes. The IRS also delivered a strategy to reduce the legacy application code footprint that will reduce dependency on obsolete legacy development languages such as Common Business-Oriented Language (COBOL), Assembly Language Code (ALC), and Visual Basic 6 (VB6).
- *Migrating to the Cloud.* About 49 applications are using cloud technology today, and the IRS plans to deliver the ECM initiative using an IRS- wide cloud-based solution.

Core Taxpayer Services & Enforcement

Customer Account Data Engine (CADE) 2. Completion of CADE 2 will help modernize the technology environment that enables the IRS to process more than 150 million individual tax returns each year and will allow the IRS to more dynamically make changes to the core tax processing Masterfile. CADE 2 consists of multiple transition states or phases. The IRS completed the first phase in 2014 and is now in the second phase and making substantial progress. By the end of June 2020, the IRS converted at least 38% of the legacy code to the Java programming language, which significantly helps modernize and integrate the core code structure. The IRS also completed the CADE 2 Target State Plan by July 2020 in accordance with congressional deadlines set forth in the TFA.

Enterprise Case Management. Transitioning to an ECM system with standard business processes is a complex undertaking. The benefits include allowing authorized IRS employees to see a specific taxpayer's entire range of issues, history of relevant case data and communications, to more quickly resolve cases. This year, the IRS completed a major acquisition for the technical solution that will enable the agency to move forward with the consolidation of many case management systems across the IRS.

Cybersecurity and Data Protection

Protecting systems and taxpayer information against cyber threats is a top priority for the IRS. During FY 2020, the IRS continued working diligently to safeguard the security of its systems and taxpayer data, battling increasingly sophisticated and frequent efforts by cybercriminals to steal data, file fraudulent refunds, and infiltrate IRS systems. The IRS increased monitoring, detection, and analytical capabilities to find suspicious activity within its systems. These improvements have helped the IRS protect taxpayers while the IRS continues efforts to do more.

The IRS observes and mitigates more than 2.5 million unauthorized access attempts per day, including denial-of-service attacks, unsuccessful intrusion attempts, probes or scans, and other unauthorized connectivity attempts. In FY 2020, the IRS detected and mitigated 1,016 phishing and malware sites and identified and responded to 324 cyber incidents, 119 of which involved common threats such as removable media, email, and web-based activity. Additionally, the IRS implemented 9,136 content filtering restrictions to mitigate Internet content deemed a security risk to IRS information systems.

Due to the proliferation of sophisticated security threats and sensitive taxpayer information within systems, the IRS has adopted a proactive approach to security that includes continued investment in technology, tools, and processes necessary to defend against expanding cyber threats and to stay current with NIST guidelines.

As part of the IRS Integrated Modernization Business Plan, the IRS continued to deliver key improvements as part of cybersecurity and data protection, such as:

- Identity and Access Management.
- Security Operations and Management.

- Vulnerability and Threat Management.

Enterprise Risk Assessment

The IRS conducts an annual Enterprise Risk Assessment to update the IRS Enterprise Risk Profile that articulates the top risks to achieving its strategic goals. Having a clear line of sight into the top enterprise risks enables IRS leadership to make informed decisions that will encourage innovation, foster change, and lead to more efficient resource allocation. Throughout the past several years, the IRS has operated in an extremely challenging, resource-constrained environment. The IRS updated its FY 2020-2021 Enterprise Risk Profile to reflect the environment that included the CARES Act, the IRS Integrated Modernization Business Plan, the TFA, and disruptions to operations related to the COVID-19 pandemic. The top IRS enterprise risks are:

- Impaired Operations - The risk that significant disruptions, caused by natural disasters or lapses in appropriations, combined with a reliance on paper, manual, and in-person processes, results in halted or slowed operations, hindering the IRS's ability to successfully deliver its mission and make progress in critical areas.
- Adverse Effect of Reduced Enforcement on Compliance - The risk that reduced enforcement activities may adversely affect compliance, erode confidence in the tax administration system, and potentially contribute to the tax gap.
- Effect of Legislation and Non-Statutory Requirements - The risk that legislative or non-statutory requirements, including late, expiring, or retroactive directives that change the IRS's structure, operational or technological requirements may affect the IRS's ability to fulfill its responsibilities.
- Information Technology Operations and Maintenance Budget Reductions - The risk that IRS IT Operations and Maintenance budget reductions will adversely affect the ability to operate and maintain critical information technology systems and lead to increased system downtime when issues occur.
- Taxpayer Experience - The risk that an inability to execute and improve the customer experience, combined with increased demand for services, may negatively affect taxpayers' ability to meet their tax obligations and erode trust and confidence in the IRS.

Key Performance Measures		
Performance Measure	FY 2020 Target	FY 2020 Results
Percent of Major IT Investments within +/- 10% Cost Variance at the Investment Level	90.0%	84.2% ○
Percent of Major IT Investments within +/- 10% Schedule Variance at the Investment Level	90.0%	94.7% ●

● Target Met ○ Target Not Met

Explanation of Shortfalls

Percent of Major IT Investments within +/- 10% Cost Variance at the Investment Level: 16 of 19 major investments (84.2%) were within the cost variance threshold at the close of the 4th quarter, falling short of the FY 2020 target of 90.0%. Significant factors included:

- Account Management Services - caused by the underspend of the AMS project full-time equivalent (FTE). The labor budget was initially allocated to 70 FTE and currently allocated at 60 FTE.
- Customer Account Data Engine 2 - due to a cost underrun for the Individual Tax Processing Engine (ITPE) - Design, Development and Test activity. Last fiscal year, the program initiated an effort to increase resources to the ITPE project in two phases. The IRS implemented first phase and budgeted additional funds for the second phase. In the first quarter, the IRS proceeded with phase one resource levels and re-assessed development velocity. At this time, velocity has stabilized; therefore, the allocation of additional resources is not necessary.
- *Foreign Account Tax Compliance Act* (FATCA) - underrun caused by all FATCA projects categorized as "Keep the Lights On" only, and originally planned enhancements were put on hold.

Information Technology will continue to closely monitor cost reporting for investments in FY 2021 to improve current performance levels for this measure.

LOOKING INTO THE FUTURE – FISCAL YEAR 2021

As the IRS moves into FY 2021, the IRS will continue to pursue its mission on behalf of the American people. The IRS has important work ahead as it continues to implement the TFA, while at the same time continuing to improve the experience of all taxpayers and others who interact with the IRS while navigating complications caused by COVID-19. Throughout this, the IRS must keep the best interests of taxpayers and the nation in its focus.

The IRS is also dedicated to modernizing its systems and maintaining the integrity of the tax system, while also protecting sensitive taxpayer data. As the IRS builds toward the future, it will continue to put taxpayers first, recognize the critical role its workforce plays in fulfilling its mission and make improvements across all lanes of IRS operations. While working hard to enhance every perspective of the taxpayer experience, the IRS is also committed to improving both civil and criminal enforcement efforts and many other priorities.

The success of the IRS is essential to the health of the nation, particularly considering that the vast majority of the country's revenues flow through the IRS each year with billions of dollars distributed to families and others across the country. An illustration of this is the IRS's response to the COVID-19 situation, as described in this report. The IRS was called to provide economic relief during this national crisis while also fulfilling its routine responsibilities of tax administration, and its workforce performed heroically in accomplishing both. This is the latest in a long series of achievements by IRS employees in moments of national crisis through the years. This incremental work occurs in addition to the IRS's regular responsibility of operating the nation's tax system and delivering the tax filing season each year.

To be able to fulfill its mission, the IRS depends on adequate funding. The IRS will continue efforts to secure consistent, long-term funding so that it can deliver quality services to taxpayers, protect the safety and health of our employees, conduct enforcement initiatives to preserve a fair and equitable tax system, and support badly needed long-term information technology modernization efforts.

Even during national emergencies, the entire IRS workforce will remain dedicated to serving taxpayers, respecting their rights and improving the experience they have when they contact the IRS. Everyone at the IRS wants to do more, and the IRS will continue working to meet the challenges faced with innovative ideas and determination, so that the IRS can deliver on its mission of providing top-quality service to the American taxpayer.

INTERNAL CONTROLS AND COMPLIANCE WITH OTHER LAWS

The IRS continued to enhance financial management and appropriate controls that are an integral component of all IRS programs.

Federal Managers' Financial Integrity Act (FMFIA) and OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*

Management is responsible for managing risks and maintaining effective internal control and financial management systems that meet the objectives of the *Federal Managers' Financial Integrity Act* (FMFIA). Risk management practices that identify, assess, respond to, and report on risks are considered when designing internal controls and assessing their effectiveness. The IRS assessed risk and internal controls in accordance with OMB Circular A-123 this Circular's Appendix A, Management of Reporting and Data Integrity Risk through a comprehensive internal control assessment and analysis of entity-level and internal controls. Based on the results of this assessment, the IRS provides reasonable assurance that the internal controls over strategic, operational, reporting, and compliance objectives were operating effectively as of September 30, 2020, except for the *Federal Financial Management Improvement Act* (FFMIA) Section 803(a) Non-Conformance with Federal Financial Management Systems Requirements. This Non-Conformance was caused by two FMFIA Section 4 significant deficiencies, Unpaid Assessments and Internal Control Over Financial Reporting Systems. The IRS is a Treasury bureau. FFMIA is managed at the Department level. Treasury reports on this program in its Agency Financial Report.

During FY 2020, the IRS continued to make progress in addressing the FMFIA Section 4 significant deficiencies noted above. Regarding the Unpaid Assessment Significant Deficiency, the IRS uses a well-documented estimation process to mitigate the risk of material misstatement. The IRS will continue to improve data quality and enhance financial systems in order to maintain and improve conditions that led to the unpaid assessments significant deficiency. The IRS is pursuing an accounting standard change that, if successful, along with the implementation of an economic model, will have a significant effect on the issues surrounding this significant deficiency.

The IRS continued to enhance its control posture over its financial management system Information Technology (IT) security. The IRS implemented a strategy and assessment process to verify the effectiveness of internal controls for the financial systems that collect, process, and summarize data to generate the financial statements.

Federal Financial Managers' Financial Integrity Act (FFMFIA)

As noted above, the IRS is not in substantial compliance with FFMIA Section 803(a) due to the two FMFIA Section 4 significant deficiencies discussed above.

Federal Information Security Management Act (FISMA)

In accordance with *Federal Information Security Management Act* (FISMA) requirements and OMB Circular A-130, the IRS maintained an service-wide information security program and provided a comprehensive framework for validating the effectiveness of information security controls over resources that support IRS business operations and goals. Specifically, the IRS inventory of FISMA reportable systems is compliant with the security requirements from OMB, NIST, Treasury, and IRS internal policies. The IRS completed annual security control testing on these systems, participated in required security authorization and assessment activities, and addressed required Plans of Actions and Milestones (POA&Ms) for identified weaknesses.

Continuity of Operations (COOP)

Under the IRS Information System Contingency Plan (ISCP), the IRS tests application and system contingency plans annually to ensure the recovery of the IRS's technical infrastructure and resumption of processes can be accomplished in the event of an incident or disaster. The IRS conducted exercises and tests to validate that contingency plans were current and executable, backed-up data was available and readable, and Critical Infrastructure Protection assets performed disaster recovery or alternate site processing tests to ensure they could recover within their defined Recovery Time Objective. POA&Ms were assigned for resolution when vulnerabilities were identified during ISCP testing.

The Payment Integrity Information Act (PIIA) of 2019 and the *Fraud Reduction and Data Analytics Act (FRDAA) of 2015*

The IRS is a Treasury bureau. *The Payment Integrity Information Act (PIIA) of 2019* and the *Fraud Reduction and Data Analytics Act (FRDAA) of 2015* are managed at the Department level, Treasury reports on these programs in its Agency Financial Report.

Government Charge Card Abuse Prevention Act of 2012

In accordance with the requirements of the *Government Charge Card Abuse Prevention Act of 2012*, the IRS provides assurance that its internal control over the use of government charge cards was effective. Specifically, the IRS complied with the Department of the Treasury Charge Card Management Plan and provided agency-wide purchase card guidance for the proper use of government charge cards. The IRS conducted monthly and quarterly reviews of charge card activity to verify proper card use and to address potential inappropriate use. The Treasury Inspector General for Tax Administration (TIGTA) reviewed the IRS's purchase card program and found that controls are generally effective, and the number of purchase card violations identified by the IRS Credit Card Services Branch were minimal and generally for nominal amounts.

Reports Consolidation Act of 2000

In accordance with the *Reports Consolidation Act of 2000*, the IRS provides assurance that the IRS Critical Performance Measures are reliable. Internal Revenue Manual 1.5.1, *Managing Statistics in a Balanced Measurement System*, *The IRS Balanced Performance Measurement System*, provides a detailed template that documents each measure's definition, formula, reliability, and reporting frequency. These controls verify that performance data is consistent and accurately collected over time.

MANAGEMENT CHALLENGES

GAO High-Risk Areas and Other Financial Management Challenges

GAO reports on federal programs and operations that are vulnerable to waste, fraud, abuse, and mismanagement or that need broad reform at the start of each new Congress in its biennial High-Risk Report. The IRS's high-risk area and its two components below appear in GAO's High-Risk Series report, *Substantial Efforts Needed to Achieve Greater Progress on High-Risk Areas* (GAO-19-392T), published March 6, 2019.

GAO High-Risk Area

Enforcing Tax Laws

- Addressing the tax gap
- Combatting identity theft refund fraud

The IRS remains dedicated to improving taxpayer compliance and combatting identity theft refund fraud through new and existing program activities as presented throughout this document.

TIGTA Management and Performance Challenges

The *Reports Consolidation Act of 2000* requires that TIGTA summarize for inclusion in the annual Department of the Treasury Agency Financial Report its perspective on the most serious management and performance challenges confronting the IRS.

Each year, TIGTA evaluates IRS programs, operations, and management functions to identify the areas of highest vulnerability to the Nation's tax system and presents them to the IRS in a memorandum titled *Management and Performance Challenges Facing the Internal Revenue Service*. The IRS addresses these challenges through new and existing program activities. For FY 2020, the IRS's top management and performance challenges, in order of significance, were:

1. Security Over Taxpayer Data and Protection of IRS Resources
2. Implementing Tax Law Changes
3. Addressing Emerging Threats to Tax Administration
4. Supporting an Enhanced Taxpayer Experience
5. Modernizing IRS Operations
6. Improving Tax Reporting and Payment Compliance
7. Reducing Fraudulent Claims and Improper Payments
8. Impact of Global Economies
9. Protecting Taxpayer Rights
10. Achieving Operational Efficiencies

Below the IRS addresses audits conducted in FY 2020 under each challenge, providing actions taken in FY 2020 and future actions planned to correct the issue, if any.

Security Over Taxpayer Data and Protection of IRS Resources

Taxpayers have the right to expect nondisclosure of the information they provide to the IRS unless authorized by them or the law. In FY 2020, the IRS continued to make progress toward improving electronic authentication controls on its public-facing applications. These improvements align with NIST SP 800-63-3, *Digital Identity Guidelines*, through the IRS's Digital Identity Risk Assessment (DIRA) process. The DIRA process is a data-driven approach used to broadly assess IRS public-facing application risk. In March 2020, all existing public-facing applications completed the DIRA process. The IRS created a Plan of Action and Milestones (POA&M) to consolidate application survey data and perform an internal analysis using a prioritization scoring model for integration readiness. The IRS will draft a plan for e-Services migration to deploy all external-facing applications behind Secure Access Digital Identity (SADI).

In accordance with NIST SP 800-63-3, the IRS may determine alternatives to NIST recommended guidance. As part of the DIRA process, the IRS will document both the justification for any departure from normal requirements and detail the compensating control(s) employed. Further planned FYs 2021 and 2022 milestones include determining whether solution leveraging can meet the IRS's performance expectations and confirming that web applications do not require any unique access control rules. After filing season 2021, the IRS will begin to deploy external facing applications behind the NIST SP 800-63-3 compliant solution. This is on target for completion by February 2023.

To further safeguard taxpayer data, the IRS continues to strengthen its validation controls to protect against unauthorized filing and input of fraudulent information returns. In September 2019, the IRS completed the DIRA process for the Filing Information Returns Electronically (FIRE) and FIRE-Test System five-step process. The IRS developed an implementation plan for identity proofing the FIRE system's web-based users and a POA&M to track any deficiencies. Milestones for FY 2020 were to analyze data from FIRE to determine the number of foreign users using the Files Information Return, review alternatives for foreign users authenticating through FIRE, and establish requirements. The IRS will complete a milestone to establish a plan for FIRE authentication integration with either eAuthentication or SADI in October 2021.

The IRS's Bring Your Own Device (BYOD) program enables employees to use their pre-approved, personal handheld devices to access IRS applications and data to conduct official IRS business. In FY 2020, the IRS completed risk assessments and analyses and implemented or strengthened policies to improve the BYOD security controls.

The IRS is on target to update the documentation for the device operating system and technical baseline configurations and will review and update the procedures and guidelines related to application audit logs. Contingent upon budgetary, technical, and resource allocations, the IRS will also ensure the retention of BYOD program application audit logs for the appropriate period and implement periodic review of the application audit logs by an independent source.

Implementing Tax Law Changes

The TCJA made substantial changes to the tax code that affect individuals, businesses, and tax-exempt organizations. A review of these changes showed needed revisions to Form 1040, *U.S. Individual Income Tax Return*.

In December 2019, the IRS revised the 2019 Form 1040, Schedule 1, Line 2b to capture the date of original divorce or separation agreement. Prior to December 2019, the IRS only required the individual claiming the alimony deduction to provide the Taxpayer Identification Number of the individual who received the alimony. Without the date of the divorce or separation agreement, the IRS was unable to determine the eligibility of individuals claiming the alimony deduction. In addition, the IRS added the word "original" to Line 2b and Line 18c to read "Date of original divorce or separation agreement." The IRS also created and activated two new code and edit rules to prevent taxpayers from claiming the alimony deduction that originated after January 1, 2019.

In FY 2020, the IRS expanded the IP PIN opt-in program to allow ITIN holders who are not automatically issued an IP PIN the option to obtain an IP PIN so that they will receive the same identity theft protection measures as SSN holders. The IP PIN web pages instructs all taxpayers on how to apply for an IP PIN and whether they are eligible. If an ITIN holder receives a notice that the IRS flagged their account for identity theft, it includes language to opt into the IP PIN Program.

Addressing Emerging Threats to Tax Administration

The IRS continues to explore programs and processes to further improve the detection and prevention of tax-related identity theft. The IRS completed an analysis to determine whether the reduction of the risk of tax-related identity theft resulting from the use of the Form W-2 Verification Code justifies the cost to fully implement the Form W-2 Verification Code Program. The analysis takes into consideration the reduced benefit of the program as a result of the accelerated receipt of W-2s as required by the PATH Act. The PATH Act requires employers to file third-party income information to the IRS by January 31 and requires the IRS to delay refund issuance on returns claiming EITC/ACTC until February 15th. These changes allow the IRS additional time to perform document matching. The IRS found that the PATH Act requirements mitigate tax-related identity theft risk intended by the Form W-2 Verification Code Program.

Supporting an Enhanced Taxpayer Experience

The IRS offers taxpayers the use of multiple mediums when they need IRS assistance. These include toll-free telephone lines, face-to-face assistance at Taxpayer Assistance Centers or Volunteer Program sites, and self-assistance using IRS.gov and other social media channels. The IRS relies on technology-based services and external partners to direct taxpayers to the most cost-effective method to receive needed services. This approach allows the IRS to focus limited telephone and walk-in resources on customer issues that can be best resolved with person-to-person interaction.

The IRS redesigned the Geographic Coverage Model (GCM) at new and existing Taxpayer Assistance Centers, Virtual Service Delivery, and SSA office locations to expand face-to-face assistance at under or unserved locations. Underserved taxpayers are within a 51 to 120-minute radius of a Taxpayer Assistance Center or Virtual Service Delivery site, and unserved taxpayers are in a radius greater than 120 minutes from a Taxpayer Assistance Center or Virtual Service Delivery site. A set of optimal Virtual Service Delivery locations relative to SSA offices and their resulting population coverage will help inform decisions on future expansion.

Each year, millions of taxpayers call the IRS toll free telephone assistance lines seeking help in understanding the tax laws to meet their tax obligations. The IRS assessed the value of using the level of access (LOA) as a telephone measure to reflect overall call demand and performance of IRS telephone assistance and determined that LOA measures are not significantly different from the current CSR LOS. The LOA would not reflect the services callers receive and only addresses the access to assistance.

Modernizing IRS Operations

Successful modernization of systems and the development and implementation of new information technology applications are critical to meeting the IRS's evolving business needs and enhancing services provided to taxpayers. The IRS's Information Technology organization provides and maintains the information technology products and services that the IRS needs to meet its mission to deliver tax administration.

To ensure that information technology support aligns with the priorities of the business organizations responsible for delivering tax administration, the Information Technology organization held discussions with the IRS senior executive team to determine key FY 2020 projects that support the IRS Strategic Plan and to track progress towards meeting strategic goals. Information Technology leadership will meet with the senior executives on Phase II of the Modernization Plan and the FY 2022 budget formulation to understand the business and technology effects of unfunded priority requests. In addition, Information Technology leadership will conduct individual recurring check-ins with IRS business organizations' senior executives to facilitate open communication and collaboration on prioritizing information technology demand. In FY 2021, the CFO Strategic Planning Office will prepare an annual report to assess how the IRS has progressed towards meeting its strategic goals. The IRS Information Technology organization will develop the framework for the FY 2021 Internal Review Manual to document its strategic planning and to detail an end-to-end, multi-year approach for selecting, managing, and evaluating a portfolio of strategic modernization initiatives.

The IRS implemented the Information Technology Request for Change (RFC) process on December 13, 2019, to capture updates needed to add new statuses and new categories of work requests needed due to legislative mandates or updates to business processes. The IRS also completed the improvements on internal guidance, including the User Guide. The IRS updated all system bulletins and supporting documentation following the RFC process and disseminated the information to all users. The IRS will work with information technology supporting organizations to evaluate and assess the benefits and/or costs/burdens of establishing a process to track estimated and actual resources needed to complete each work request by system or application.

Improving Tax Reporting and Payment Compliance

The IRS consistently works to improve tax compliance by ensuring taxpayers understand their tax filing requirements and obligations to comply with the tax law. In FY 2020, the IRS took several actions to improve tax compliance.

As required by the 2015 *Fixing America's Surface Transportation Act* (FAST Act), the IRS implemented the Private Debt Collection program, which allows the use of private collection agencies to collect inactive tax receivables. The IRS developed a new payment arrangement estimator tool for use by all private collection agencies. Employees in the Private Debt Collection program office reviewed 12 payment arrangements of less than 60 months to ensure the accuracy of the new payment agreement estimator. The IRS certified readiness to all four private collection agencies that each payment arrangement estimator is fully functional. The IRS also reviewed its policy and procedures guide to determine there were no needed changes to the payment arrangement terms. The IRS considered the payment arrangement options for taxpayers who owe less than $50,000 and compared the Private Debt Collection program policies to those in other IRS work streams. After review, the IRS determined that there was no need to revise payment options. The procedures in the policy and procedures guide for the inactive tax receivables assigned to private collection agencies have been effective in providing taxpayers an opportunity for voluntary compliance and support the intent of the law.

With the growth of online platform companies in recent years, which allow people easy and convenient ways to obtain needed services and allow others to work as self-employed individuals providing those services (also known as the sharing or "gig" economy), self-employment tax underreporting continue to be challenging. The IRS developed a gig economy strategy, which included enforcement, communication, and outreach activities. The gig economy strategy team updated the Sharing Economy Tax Center on IRS.gov to provide critical information for taxpayers participating in the sharing economy. The IRS initiated plans to identify and select inventory to test compliance in the gig economy and completed programing changes, which became operational in February 2020.

While various tax products, including instructions and publications, have already been updated to provide information to those earning income in the gig economy, additional updates are expected for Tax Year 2021 instructions for Schedule C, Profit or Loss From Business, and 1099K, Merchant Card and Third Party Network Payments. The IRS is in the process of securing a vendor to conduct gig worker focus groups to assist in learning more about their needs. In addition, the IRS will continue outreach as opportunities arise.

In FY 2020, the IRS reviewed options for systemically identifying non-payroll tax withholding discrepancies between the amount of backup and Federal income tax withheld and reported on Form 1099-MISC, Miscellaneous Income, Form W-2G, Certain Gambling Winnings, and Form 1096, Annual Summary and Transmittal of U.S. Information Returns, to the amounts reported and remitted to the IRS on Form 945, Annual Return of Withheld Federal Income Tax.

The IRS previously updated tax year 2018 to comply with TCJA legislation. In addition, following procedures outlined in IRM 4.1.26.3.2, *Campus Case Selection*, the IRS reviewed the tax year 2018 alimony filters, made tax year specific updates to the filters, and updated tax year 2019. The IRS also provided additional outreach to disseminate the change during the 2020 filing season. In May 2020, the IRS reviewed and updated Tax Topic 452, Alimony and Separate Maintenance, on IRS.gov. The IRS will continue to monitor its alimony selection filters and revise them as needed. In addition, the IRS will review recent alimony communication and outreach efforts for additional education opportunities.

Reducing Fraudulent Claims and Improper Payments

While refundable credits such as the EITC, ACTC, and American Opportunity Tax Credit provide benefits to individuals, these credits can be targets for unscrupulous individuals who file erroneous claims.

The IRS initiated a pilot program to identify and address erroneous EITC and ACTC claims by individuals issued a "nonwork" SSN number. Based on the results of the pilot conducted in PYs 2018 and 2019, the IRS created a model to select and evaluate 4,000 tax returns filed by individuals who have nonwork SSNs, preventing erroneous ACTC refunds through the erroneous EITC process. The IRS will create a rule by 2021 for ACTC only and where there is no EITC claimed.

Impact of Global Economies

The TCJA provides for a tax (subject to special tax rates) on U.S. shareholders of specified foreign corporations (and U.S. persons that own interests through domestic pass-through entities that are U.S. shareholders of specified foreign corporations) through a one-time deemed repatriation of foreign accumulated earnings, set forth under Section 965 of the Internal Revenue Code.

The IRS developed a comprehensive TCJA compliance plan for major international business provisions, one of which was a 965 campaign to identify taxpayers that did not properly comply with Section 965. The IRS developed procedures to monitor taxpayers that elected to defer the 965 tax. The IRS also conducted an assessment to create a campaign that would issue notifications to taxpayers who might have a filing requirement according to information on Form 5471, Information Return of U.S. Persons With Respect to Certain Foreign Corporations. However, the IRS did not launch the campaign due to taxpayer fairness considerations. Instead, the IRS considered a stakeholder outreach campaign with various industry and practitioner groups, which provided general information about the 965 law and filing requirements. During the 965 Cadre training in March of 2020, the anti-abuse provisions were discussed and as part of the 965 campaign, a concurrence check sheet for the very biggest reporters was created with one of the questions asked being, whether the exam team considered any of the anti-abuse rules. The IRS approved to issue a 965 educational soft-letter campaign to individuals based on a filter (Form 5471, with positive Earnings and Profits (E&P)) who potentially should have a 965 inclusion.

The IRS took several approaches to validate Section 965 data reported by taxpayers. The IRS added a program to the agents' Auditors Workbench, which reviews data from the current and prior year Forms 5471 and estimates both an inclusion and a cash position. It also looks for situations where the prior year ending E&P balances do not match, which raises a red flag that some adjustment to E&P occurred. The IRS developed a detailed 965 "lead sheet" that provides suggested audited steps (tailored to specific taxpayers on the initial risk assessment), including instructions to validate various forms of 965 data. Similarly, the IRS developed a pro forma 965 Information Document Request (IDR), which helps agents obtain taxpayer workpapers to verify 965 data. In addition, the IRS provided in-person and virtual training on section 965 verification procedures and the anti-abuse rules under Treasury Regulations 1.965-4. The IRS also produced an IDR that agents can issue to a taxpayer which ask questions about potentially abusive transactions. If a taxpayer inverts, agents reach out to the Technical Specialist on inversions who, among other items, ensures that the taxpayer meets the recapture requirements under IRC Section 965(l).

The IRS assessed the success of the Form 1120-F, *U.S. Income Tax Return of a Foreign Corporation*, nonfiler campaign and determined that the campaign's benefits outweigh the limited amount of resources allocated to better understand compliance risk and uncertainty in the foreign corporate nonfiler population. The IRS made significant changes to the campaign methods to identify nonfilers by broadening the definition of nonfiler to include Form 1120-F protective returns. These returns represent a growing risk to the IRS because the only requirement is for filers to disclose basic identifying information on page one of the returns in exchange for starting the statute of limitation and preserving deductions. For this reason, the IRS expanded the campaign to include a limited number of protective return examinations based on the business activity and other risk factors identified from the databases.

Some of the databases present challenges. The small sample from the Sales Tax and the Form 941, *Employer's Quarterly Federal Tax Return,* databases have disclosed limited potential of identifying Form 1120-F nonfilers. The IRS will discontinue these databases as the Form 1042-S, *Foreign Person's U.S. Source Income Subject to Withholding,* database and Customs database have demonstrated better potential for identifying Form 1120-F nonfilers. In addition, the IRS modified the Customs database filter to include importers that have an IRS TIN. Furthermore, the campaign added the Form 1065 database to identify foreign corporate partners that received a Schedule K-1, *Partner's Share of Income, Deductions, Credits, etc.*, without withholdings by the partnership. This database identified foreign corporate partners that either filed a Protective return or did not file a Form 1120-F.

Protecting Taxpayer Rights

The IRS continues to balance tax compliance activities against the taxpayers' rights to receive fair and equitable treatment. The IRS provides taxpayers with the Taxpayer Bill of Rights in many notices and in in-person interviews to inform them about their rights with respect to examinations, appeals, collections, and refunds.

In FY 2020, the IRS revised its policies and procedures to instruct personnel to forward mis-directed Collection Due Process and Equivalent Hearing requests to the correct location, within one business day of receipt. To receive a Collection Due Process hearing, taxpayers must send the hearing request to the IRS address in a timely manner, as directed on the Collection Due Process notice. Since some notices may include multiple addresses (for example, one for the Collection Due Process request and another for payment), the IRS clarified procedures to allow the use of any address on the notice, for determining timeliness.

The IRS assigns Collection Statute Expiration Date (CSED) on taxpayer accounts who request an appeal hearing. The CSED is the last day the IRS must collect assessed tax debts. A review of CSED revealed the IRS did not process the hearing requests timely for some taxpayers and made errors regarding the determination of the CSED on eight taxpayer accounts. The IRS corrected all inaccurate suspension start or stop dates for the identified taxpayer accounts with CSED errors.

Also, an evaluation of the IRS's compliance with legal seizure provisions took place to determine if there was an active collection case upon receipt of non-judicial foreclosure notices and to determine compliance with legal and internal guidelines related to each seizure. As a result of the evaluation, the IRS developed and implemented a work process to receive, identify, and document its receipt of notices of non-judicial foreclosures, and notify the assigned Collection function employee when such a notice is received on cases under their purview. To reinforce the new process, the IRS updated Publication 4235, *Collection Advisory Group Numbers and Addresses*, to indicate sending non-judicial sale notifications to the Advisory Consolidated Receipts site. When Advisory Consolidated Receipts' employees receive a case assigned to a Collection function employee, policies and procedures directs them to notify the Collection function employee via email and send all documents to them. The IRS also worked to provide Advisory Consolidated Receipts Site employees with access to the Account Management System (AMS). The IRS will use the AMS to receive, batch, and control the non-judicial foreclosure case inventory. The IRS will develop metrics for timely processing, aging of inventory, volume of casework, and other data points.

Achieving Operational Efficiencies

Achieving efficiencies within Federal tax administration requires the IRS to continuously monitor and effectively manage a wide range of risks inherent within a fast-paced and changing operational environment.

Efficient and cost-effective management and implementation of the IRS's software assets is crucial to ensure that information technology services continue to support the IRS's business operations and help provide services to taxpayers. In FY 2020, the IRS implemented processes and tools to support increased utilization of available licenses and enhanced license compliance by migrating to a software program that allows products to be accessed on an as needed basis and once the use stopped, returned to an overall token pool for reallocation. The IRS measure the effectiveness of these programs through monitoring tools.

In FY 2020, the IRS developed and implemented an IBM Service/Software Credit Operating Guidance document, which formalizes the review and approval process for the use of software and service credits. This process requires review and approval by the Information Technology management team and IBM Service Credit Approval Team prior to sending it to the Associate Chief Information Officer for approval. This also ensures that the procurement of hardware, service, and support includes a well-developed plan, process for utilization, and reasonable timelines.

Due to potential cost-saving benefits, the IRS decided to consolidate platforms and migrate applications from Oracle-based proprietary hardware to Linux-based operating systems. The IRS's processes to effectively assess and execute Linux migration activities are maturing with consistent use of the Enterprise Demand Management tool in conjunction with the "Linux Cross-Functional Playbook." Per IRS policy, Information Technology will continue to submit acquisition plans for any purchases greater than $250,000. The Linux Lifestyle Program (LLP) remained compliant with the *Federal Information Technology Acquisition Reform Act (FITARA) of 2014.*

FINANCIAL MANAGEMENT HIGHLIGHTS

The IRS received an unmodified financial statement audit opinion for the 21st consecutive year.

The principal financial statements are prepared to report the financial position, financial condition, and results of operations, pursuant to the requirements of 31 U.S.C. Section 3515(b). The statements are prepared from records of Federal entities in accordance with Federal generally accepted accounting principles (GAAP) and the formats prescribed by OMB. Reports used to monitor, and control budgetary resources are prepared from the same records. Users of the statements are advised that the statements are for a component of the U.S. Government.

The IRS is responsible for the administration of tax laws and the custodial collections of taxes for the U.S. Federal Government. The financial management activities that support the responsibilities of the IRS are divided into two distinct account categories.

Administrative accounts are included as appropriations and offsetting collections in the Statement of Budgetary Resources. These resources are also reflected as assets, liabilities, costs, revenues, and ultimately the net position of the IRS.

Custodial accounts include activity in support of tax collection. The IRS is the custodian for the majority of receipts for the U.S. Federal Government. These receipts are accounted for in designated custodial accounts as presented on the Statement of Custodial Activity. Custodial accounts are also included as custodial fund balance with Treasury prior to distribution as refunds or credits, taxes receivable not yet collected, and taxes payable not yet disbursed on the Balance Sheet.

COVID-19 Legislation

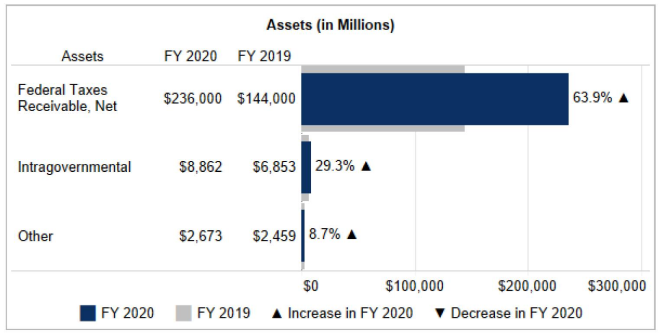
The IRS implemented legislative provisions to support the national response to the COVID-19 pandemic in FY 2020. This legislation includes the *Families First Coronavirus Response Act of 2020* (FFCRA) and the CARES Act. The IRS distributed $275 billion in economic impact payments as presented on the Statement of Custodial Activity under Federal tax refund and outlay activities. The IRS was also the recipient of $766 million in additional appropriations to fund the requirements included in this legislation. Fluctuations resulting from this activity are discussed in more depth in the applicable financial statement analysis.

Financial Statement Analysis

Analysis of the Balance Sheet

The Balance Sheet displays amounts of future economic benefits owned or available for use (assets), amounts owed (liabilities) and the residual amounts (net position) at the end of the fiscal year.

Assets of the IRS are primarily comprised of Federal taxes receivable, Intragovernmental balances (Fund balance with Treasury and Due from the General Fund of the U.S. Government), and Internal Use Software classified as General Property and Equipment. Comparative asset balances as of September 30, 2020 and 2019 are presented below.



Asset fluctuations in FY 2020 include increased Federal taxes receivable, net, due to higher collectability estimations, increased appropriations to fund the State Innovation Waiver Program (SIWP), and the administration of COVID-19 legislative requirements.

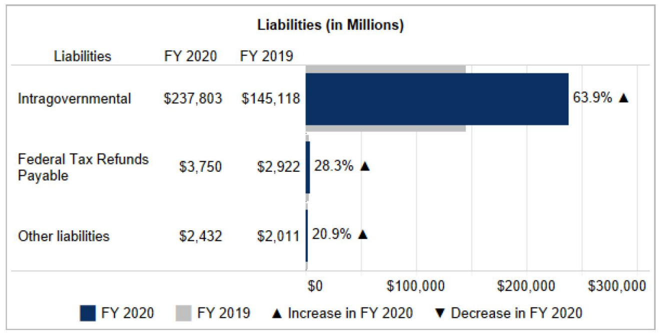
Federal taxes receivable, net, increased $92 billion in FY 2020 as compared to FY 2019. The IRS estimates Federal taxes receivable, net, using the collectability methodology as discussed in Other Information, Analysis of Unpaid Assessments. In FY 2020, the estimated rate of collectability for IRC Section 965(h) balances increased based on individual account analysis. A small number of taxpayers, representing 88% of the IRC Section 965(h) balance, are in a favorable long-term position to make the payments. Taxes receivable also includes an increase resulting from the two-year deferral on the employer portion of *Federal Insurance Contributions Act* (FICA) Social Security taxes due to the federal government.

Intragovernmental Fund balance with Treasury (FBWT) increased $658 million due to the expansion of the SIWP. These funds are not available for use by the IRS. This program is authorized under Section 1332 of the *Patient Protection and Affordable Care Act* (PPACA). The Department of Health and Human Services administers the program which permits states to pursue innovative strategies for providing their residents with access to high quality, affordable health insurance while retaining the basic protections of the PPACA.

FBWT also increased by $482 million as a result of budgetary resources in FFCRA and the CARES Act appropriations received that have not yet been disbursed.

Intragovernmental amounts Due from General Fund of the U.S. Government increased $828 million as this line item correlates to Federal taxes payable. This line item is representative of funds that will be required in future periods to liquidate the Federal taxes payable liability.

Liabilities include amounts due to the General Fund of U.S. Government, federal tax refunds payable, and other liabilities. Other liabilities include accrued annual leave and employee benefits. Comparative asset balances as of September 30, 2020 and 2019 are presented below.



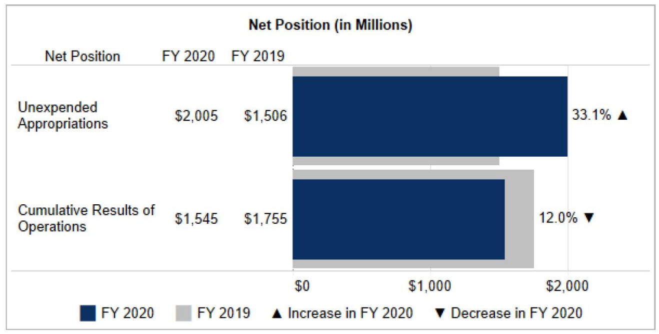
Liability fluctuations in FY 2020 primarily include increased Federal taxes payable and increased Intragovernmental liabilities.

The increase in FY 2020 Federal tax refunds payable of $828 million is due to amounts payable to the public for tax refunds that the IRS has processed and are either pending disbursement, or were undeliverable by the Department of the Treasury, Bureau of Fiscal Service.

Intragovernmental amounts Due to General Fund of the U.S. Government increased $92 billion as this line items correlates to Federal taxes receivable, net. This line item is representative of funds that will be distributed to the General Fund upon collection.

Net Position consists of Unexpended appropriations and the Cumulative results of operations. Funds made available by Congress are recorded in Unexpended appropriations. Cumulative results of operations is the net difference between 1) expenses, losses, and transfers out from the inception of an agency or activity, and 2) financing sources such as appropriations and revenues, and gains from the inception of an agency or activity (whether financed from appropriations, transfer in, revenues, reimbursements, or any combination of the four) to the reporting date of the financial statements.

The Net Position of the IRS includes increased appropriations offset by higher expenses resulting from COVID-19 legislation. Comparative Net Position for the periods ending September 30, 2020 and 2019 are presented below.



Analysis of the Statement of Net Cost

The Statement of Net Cost presents costs and exchange revenues aligned under four core programs. Taxpayer Assistance and Education, Filing and Account Services, Compliance, and the Administration of Tax Credit Programs. These programs are discussed in detail in the financial Section, Note 1.K Program Costs.

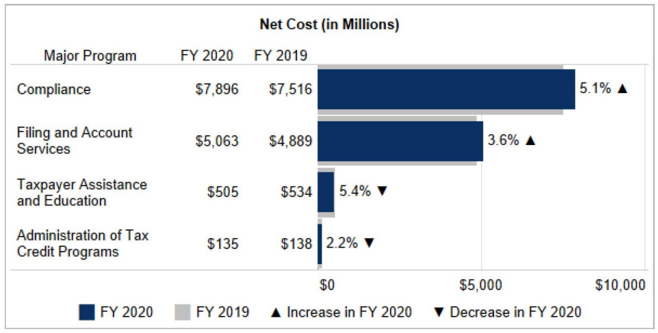
The Total Net Cost of IRS operations has remained stable as compared to the prior fiscal year. The Statement of Net Cost reflects a total of $13,599 million for the period ending September 30, 2020 as compared to $13,077 million for the period ending September 30, 2019.

The total gross cost for FY 2020 increased $462 million due to expenses incurred under the FFCRA and CARES Act. Total earned revenue decreased $60 million due to several factors.

The IRS experienced a decrease in user fees of $110 million. This is primarily attributable to a $119 million decrease in installment agreement user fees, which decreased as the result of the COVID-19 temporary relief for taxpayers, suspension of certain collection activities under the President's declaration of a national state of emergency. User fees in FY 2020 included those collected for consent based-income verification as a result of modernization implementation under section 2201(d)(1) of the TFA.

Additionally, miscellaneous revenue for services provided to FEMA and other agencies, Treasury for the Debtor Master File, and the Treasury Executive Office for Asset Forfeiture increased by $50 million.

Comparative Net Cost of Operations results by core program are presented in the table below for the periods ending September 30, 2020 and 2019.



Analysis of the Statement of Budgetary Resources

IRS operations are financed through appropriations, spending authority from offsetting collections, and unobligated balances carried forward.

Appropriations for the periods ending September 30, 2020 and 2019 (in Millions)	2020	2019
Taxpayer Services	$ 2,892	$ 2,557
Enforcement	4,993	4,678
Operations Support	4,215	3,918
Other:		
Business Systems Modernization	195	240
Private Debt Collection Program	152	97
Miscellaneous Retained Fees	261	299
Total Other	608	636
Total Budgetary Resources	**$ 12,708**	**$ 11,789**

Taxpayer Services funds staffing for the processing of tax returns and related documents, and assistance for taxpayers in filing returns and paying taxes due.

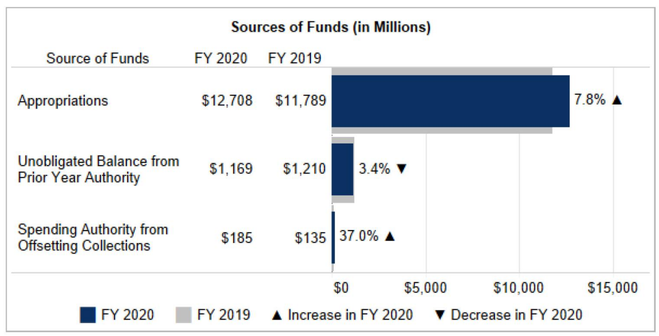
Enforcement funds staffing for the examination of tax returns, collection of balances due, the administrative and judicial settlement of taxpayer appeals of examination findings, provides resources for strengthening enforcement to reduce invalid claims, and erroneous finding associated with the EITC program as well as other refundable tax credits.

Operations Support funds overall planning, direction, operations management and control, and critical infrastructure activities for the IRS. These activities include information technology and cybersecurity that keep tax systems running and protect taxpayer data, the financial management activities that ensure effective stewardship of the nation's revenues, and the physical infrastructure and security that helps keep IRS employees and customers safe and well served in office, campus, and Taxpayer Assistance Center sites. Human resources, telecommunications, and communications infrastructure are also critical components of this appropriation and are vital to maintaining adequate levels of customer service and post-filing processes that ensure the tax system's fairness and equity.

Business Systems Modernization funds capital asset acquisitions of information technology to modernize key tax administration systems.

The Private Debt Collection Program funds qualified tax collection contracts to use private collection agencies.

IRS Miscellaneous Retained Fees include those collected and retained by the IRS for installment agreements, enrolled agents, tax preparation, photocopies, and other general fees.

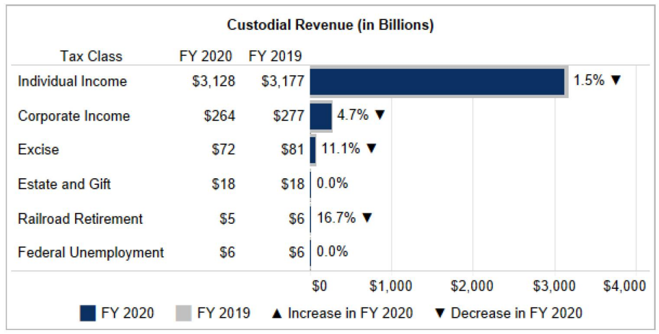


The IRS Total Budgetary Resources increased $973 million. This increase was primarily attributable to $766 million in COVID appropriations and an increase of $207 million in appropriations compared to FY 2019. Spending authority from offsetting collections primarily increased due to $30 million in spending authority from FEMA for support provided by the IRS call center during hurricane Laura. In addition, the IRS received increased reimbursements from the Treasury Executive Office for Asset Forfeiture and the collection of certain offsets for state and local governments.

Analysis of the Statement of Custodial Activity

The Statement of Custodial Activity is the presentation of custodial revenues, appropriations, and distributions that occur for the current and prior fiscal year. This activity is performed on behalf of the Federal Government. The custodial appropriations presented on the Statement of Custodial Activity are not available to the IRS for operational expenditures and are therefore not included in the presentation of the Statement of Budgetary Resources. Additional information relative to the fluctuations discussed below is provided in the Other Information section of this report.

FY 2020 revenue receipts collected by the IRS totaled $3.5 trillion, a decrease from $3.6 trillion in FY 2019. Federal tax revenues are collected through six major classifications: individual income and FICA/*Self-Employment Contributions Act* (SECA) taxes, corporate income taxes, excise taxes, estate and gift taxes, railroad retirement taxes, and federal unemployment taxes.



The Statement of Custodial Activity also presents refund and outlays made by the IRS on behalf of the Federal government. Refund and outlay activity was $736 billion for the period ending September 30, 2020, as compared to $452 billion for the period ending September 30, 2019. This 63% increase in activity was primarily driven by the $275 billion in COVID-19 economic impact payments paid under the CARES Act. Federal tax refunds and outlay activity include refunds of tax overpayments, payments for interest, and disbursements for refundable tax credits such as EITC and the ACTC.

Unpaid Assessments

Unpaid assessments require taxpayer or court agreement to be considered federal taxes receivable under federal accounting standards. Assessments not agreed to by taxpayers or the courts are not included on the balance sheet as federal taxes receivable and are categorized as compliance assessments. Assessments with no future collection potential are categorized as write-offs.

Unpaid Assesments
As of September 30, 2020 and September 30, 2019 (in Billions)

	2020	2019
Federal taxes receivable, gross	**427**	**369**
Amounts not agreed to by taxpayer or courts	74	75
No future collection potential	95	106
Total Unpaid Assessments	**$ 596**	**$ 550**

The increase in total unpaid assessments is equal to $46 billion, with $23 billion for Social Security Deferrals (SSD) payable by December 31, 2022[2], and $17 billion of additional IRC Section 965(h) amounts[3] owed by taxpayers who can elect by law to pay over eight years without being subject to penalties or interest.

The unpaid assessment balance consists of delinquent and non-delinquent balances. Non-delinquent balances include the IRC Section 965(h) amounts and SSD. Delinquent balances are owed by taxpayers who file returns without sufficient payment as well as amounts assessed through the IRS's enforcement programs.

Federal Taxes Receivable, Gross
As of September 30, 2020 and 2019 (in Billions)

	2020	2019
Nondelinquent 965h unpaid assessments	$ 178	$ 160
Nondelinquent SSD unpaid assessments	23	-
Delinquent unpaid assessments	224	207
Delinquent restitution based unpaid assessments	2	2
Federal taxes receivable, gross	**$ 427**	**$ 369**

Collectability Modeling and Economic Conditions

The economic uncertainty of FY 2020 related to COVID-19 resulted in new legislation and changes to collectability. New legislation affecting payroll tax deferrals introduced almost 71,000 new SSD. IRS treated these deferrals as collectable unless there was specific evidence otherwise, for FY 2020 reporting as these amounts are not yet due. Indicators of financial health were manually reviewed for publicly traded taxpayers with large dollar IRC Section 965 amounts due. Analysis determined that large dollar IRC Section 965(h) taxpayers are primarily in a favorable long-term position to make the payments. The unpaid assessments audit process effectively incorporates current economic conditions at the time it is performed.

The total Federal taxes receivable, net, reflects a reduction of $191 billion in uncollectable amounts as of September 30, 2020 and $225 billion as of September 30, 2019. Examples of uncollectible taxes include taxpayers who agree they owe the tax but are unlikely to pay, and taxpayers with extreme financial hardships. Overall collectability combines separate

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[2] CARES Act Section 2302 contains a provision for employers to defer, without penalty, the entire amount of the employer's share of the Social Security portion of FICA, and the employer's and employee representative's share of the Railroad Retirement Tax (RRTA). Self-employed individuals can defer up to 50% of the Social Security tax on net earnings. The deferral period began March 27, 2020 and will end on December 31, 2020. The deferment must be repaid over two years. The first payment is due December 31, 2021. The amount due is 50% of the maximum deferral, less any payments. The remaining deferred amount is due by December 31, 2022.

[3] Section 14103 of the Tax Cuts and Jobs Act (TCJA) of 2017, P.L. 115-97, required changes to IRC section 965. IRC 965 requires U.S. shareholders to pay a transition tax on untaxed foreign earnings of corporations as if those earnings had been repatriated to the United States. Specifically, these repatriated profits are subject to a one-time reduced tax rate, with the option to pay on an eight-year installment schedule, referred to as subpart (h) elections.

collectability calculations for taxes receivable, IRC Section 965(h) amounts, Social Security deferrals, and restitution-based assessments.

Federal Taxes Receivable As of September 30, 2020 (in Billions)			
	Collectability	Gross	Net
Nondelinquent 965h unpaid assessments	94.3%	$ 178	$ 168
Nondelinquent SSD unpaid assessments	99.6%	23	23
Delinquent unpaid assessments	20.0%	226	45
Federal Taxes Receivable		**$ 427**	**$ 236**

Federal Taxes Receivable As of September 30, 2019 (in Billions)			
	Collectability	Gross	Net
Nondelinquent 965h unpaid assessments	60.8%	$ 160	$ 98
Nondelinquent SSD unpaid assessments	-	-	-
Delinquent unpaid assessments	22.1%	209	46
Federal Taxes Receivable		**$ 369**	**$ 144**

Financial Statements

Principal Financial Statements

The principal financial statements have been prepared to report the financial position and results of operations of the Internal Revenue Service, pursuant to the requirements of the *Chief Financial Officers Act of 1990* (Public Law 101-576), the *Government Management Reform Act of 1994*, and the Office of Management and Budget Circular No. A-136, *Financial Reporting Requirements*. The responsibility for the integrity of the financial information included in these statements rests with the management of the IRS. The audit of the IRS principal financial statements was performed by the Government Accountability Office.

The IRS principal financial statements for fiscal years 2020 and 2019 are:

- The **Balance Sheet** presents the assets, liabilities, and net position.
- The **Statement of Net Cost** presents the net cost of operations by program. It includes the gross costs less any exchange revenue earned from activities.
- The **Statement of Changes in Net Position** presents the change in net position resulting from the net cost of operations, budgetary financing sources other than exchange revenues, and other financing sources.
- The **Statement of Budgetary Resources** presents the budgetary resources; the status of those resources; and the agency outlays, net. Additional detail by major budget accounts is available in the Required Supplementary Information section.
- The **Statement of Custodial Activity** presents the sources and disposition of non-exchange federal tax revenues collected and refunds disbursed.

1

Internal Revenue Service
Balance Sheet
As of September 30, 2020 and 2019

(In Millions)

	2020	2019
Assets		
Intragovernmental		
Fund balance with Treasury (Note 2)	$ 5,069	$ 3,919
Due from General Fund of the U.S. Government (Note 6)	3,750	2,922
Other assets (Note 3)	43	12
Total intragovernmental	**8,862**	**6,853**
Cash and other monetary assets (Notes 4, 6)	787	548
Federal taxes receivable, net (Notes 5, 6, 8)	236,000	144,000
General property and equipment, net (Note 7)	1,871	1,896
Other assets (Note 3)	15	15
Total assets	**$ 247,535**	**$ 153,312**
Liabilities		
Intragovernmental		
Due to General Fund of the U.S. Government (Note 8)	$ 237,612	$ 144,954
Other liabilities (Note 9)	191	164
Total intragovernmental	**237,803**	**145,118**
Federal tax refunds payable	3,750	2,922
Other liabilities (Note 9)	2,432	2,011
Total liabilities	**243,985**	**150,051**
Net position		
Unexpended appropriations	2,005	1,506
Cumulative results of operations	1,545	1,755
Total net position	**3,550**	**3,261**
Total liabilities and net position	**$ 247,535**	**$ 153,312**

The accompanying notes are an integral part of these statements.

2

Internal Revenue Service
Statement of Net Cost
For the Years Ended September 30, 2020 and 2019

(In Millions)

	2020	2019
Program		
Taxpayer Assistance and Education		
Gross cost	$ 507	$ 536
Earned revenue	(2)	(2)
Net cost of program	**505**	**534**
Filing and Account Services		
Gross cost	5,224	4,998
Earned revenue	(161)	(109)
Net cost of program	**5,063**	**4,889**
Compliance		
Gross cost	8,187	7,920
Earned revenue	(291)	(404)
Net cost of program	**7,896**	**7,516**
Administration of Tax Credit Programs		
Gross cost	135	138
Earned revenue	-	-
Net cost of program	**135**	**138**
Net cost of operations	**$ 13,599**	**$ 13,077**

The accompanying notes are an integral part of these statements.

3

Internal Revenue Service
Statement of Changes in Net Position
For the Years Ended September 30, 2020 and 2019

(In Millions)

	2020		2019	
	Unexpended Appropriations	Cumulative Results of Operations	Unexpended Appropriations	Cumulative Results of Operations
Beginning balances	$ 1,506	$ 1,755	$ 1,765	$ 1,692
Budgetary financing sources				
Appropriations received	12,276		11,303	
Other adjustments	(47)		(107)	
Appropriations used	(11,730)	11,730	(11,455)	11,455
Non-exchange revenues	-	153	-	97
Transfers in/out without reimbursement	-	6	-	9
Other financing sources				
Imputed financing (Note 12)		1,504		1,583
Transfers in/out without reimbursement		-		-
Transfers to General Fund of the U.S. Government		(4)		(4)
Total financing sources	499	13,389	(259)	13,140
Net cost of operations		(13,599)		(13,077)
Net change	499	(210)	(259)	63
Ending balances	$ 2,005	$ 1,545	$ 1,506	$ 1,755

The accompanying notes are an integral part of these statements.

4

Internal Revenue Service
Statement of Budgetary Resources
For the Years Ended September 30, 2020 and 2019

(In Millions)

	2020	2019
Budgetary resources		
Unobligated balance brought forward, October 1	$ 1,026	$ 1,133
Recoveries of prior year unpaid obligations	150	101
Other changes in unobligated balance	(7)	(24)
Unobligated balance from prior year budget authority, net	1,169	1,210
Appropriations (discretionary and mandatory)	12,708	11,789
Spending authority from offsetting collections (discretionary and mandatory)	185	135
Total budgetary resources	**$ 14,062**	**$ 13,134**
Status of budgetary resources		
New obligations and upward adjustments (total)	$ 12,666	$ 12,108
Unobligated balance, end of year		
Apportioned, unexpired accounts	1,078	565
Exempt from apportionment, unexpired accounts	7	8
Unapportioned, unexpired accounts	70	257
Unexpired unobligated balance, end of year	1,155	830
Expired unobligated balance, end of year	241	196
Unobligated balance, end of year (total)	1,396	1,026
Total budgetary resources	**$ 14,062**	**$ 13,134**
Outlays, net		
Outlays, net (total) (discretionary and mandatory)	$ 12,172	$ 11,707
Distributed offsetting receipts	(275)	(386)
Agency outlays, net (discretionary and mandatory)	**$ 11,897**	**$ 11,321**

The accompanying notes are an integral part of these statements.

5

Internal Revenue Service
Statement of Custodial Activity
For the Years Ended September 30, 2020 and 2019

(In Billions)

	2020	2019
Revenue activit FFSN page 5 of 42		
Collections of federal tax revenue (Note 15)		
Individual income, FICA/SECA, and other	$ 3,128	$ 3,177
Corporate income	264	277
Excise	72	81
Estate and gift	18	18
Railroad retirement	5	6
Federal unemployment	6	6
Total collections of federal tax revenue	**3,493**	**3,565**
Increase in federal taxes receivable, net	92	86
Total federal tax revenue	**$ 3,585**	**$ 3,651**
Distribution of federal tax revenue due to General Fund of the U.S. Government	$ 3,493	$ 3,565
Increase in amount due	92	86
Total disposition of federal tax revenue	**3,585**	**3,651**
Net federal revenue activity	$ -	$ -
Federal tax refund and outlay activities		
Total refunds of federal taxes and outlays (Note 16)	$ 736	$ 452
Appropriations used for refund of federal taxes and outlays	(736)	(452)
Net federal tax refund and outlay activities	**$ -**	**$ -**

The accompanying notes are an integral part of these statements.

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Notes to the Financial Statements

For the Years Ended September 30, 2020 and 2019

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The Internal Revenue Service (IRS) is a bureau of the United States (U.S.) Department of the Treasury (Treasury). The IRS originated in 1862, when Congress established the Office of the Commissioner of the Internal Revenue. The IRS administers the nation's tax laws and annually collects 94 percent of the revenues funding the Federal Government. Numerous organizational divisions and major programs within the IRS contribute to this achievement.

B. Basis of Accounting and Presentation

The financial statements have been prepared from the accounting records of the IRS in conformity with accounting principles generally accepted in the U.S. and in accordance with the Office of Management and Budget (OMB) Circular No. A-136, *Financial Reporting Requirements*. Accounting principles generally accepted for federal entities are the standards prescribed by the Federal Accounting Standards Advisory Board, which is the official body for setting accounting standards of the Federal Government.

These comparative financial statements and related notes consist of the Balance Sheet, the Statement of Net Cost (SNC), the Statement of Changes in Net Position (SCNP), the Statement of Budgetary Resources (SBR), and the Statement of Custodial Activity (SCA).

The accounting structure of federal agencies is designed to reflect both accrual and budgetary accounting transactions. Under the accrual method of accounting, revenues are recognized when earned and expenses are recognized when incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal constraints and controls over the use of federal funds. The SCA is presented on the modified cash basis of accounting. Under this method, cash collections and transfers to the General Fund of the U.S. Government are reported on a cash basis. The collections and transfers are adjusted on the face of the SCA for the net change in taxes receivable, producing modified cash basis balances.

Certain assets, liabilities, earned revenues, and costs have been classified as intragovernmental throughout the financial statements and notes. Intragovernmental is defined as transactions made between two reporting entities within the Federal Government.

C. Fund Balance with Treasury

The fund balance with Treasury (FBWT) is an asset of a reporting entity and a liability of the General Fund. The amounts represent commitments by the Federal Government to provide resources for particular programs, but do not represent net assets to the Federal Government as a whole.

When the IRS seeks to use FBWT to liquidate budgetary obligations, Treasury will finance the disbursements in the same way it finances all other disbursements, using some combination of receipts, other inflows, and borrowing from the public (if there is a budget deficit).

D. Other Assets

Accounts receivable consist of amounts due to the IRS from the public and from federal agencies. Accounts receivable are recorded and reimbursable revenues are recognized as services are performed

INTERNAL REVENUE SERVICE

Notes to the Financial Statements

For the Years Ended September 30, 2020 and 2019

and costs are incurred. The allowance for uncollectible accounts is based on an annual review of groups of accounts by age for accounts receivable balances older than one year. Receivables include an expenditure transfer receivable from the Treasury Forfeiture Fund for the repayment of costs incurred in criminal investigations related to seizure and forfeitures.

Advances to the public represent cash outlays for criminal investigations and employee travel.

Forfeited property held for sale is acquired as a result of forfeiture proceedings or foreclosure sales to satisfy a tax liability. The Federal Tax Lien Revolving Fund, established in accordance with Title 26 United States Code (USC), Section 7810, is used to redeem real property foreclosed upon by a holder of a lien. The IRS may sell the property, reimburse the revolving fund in an amount equal to the redemption, and apply any net proceeds to the outstanding tax obligation.

E. Cash and Other Monetary Assets

Imprest funds are maintained by headquarters and field offices in commercial bank accounts. Other monetary assets consist primarily of offers-in-compromise, voluntary deposits received from taxpayers pending application of the funds to unpaid tax assessments, and seized monies pending the results of criminal investigations.

F. Federal Taxes Receivable, Net

Federal taxes receivable, net, are not accrued until related tax returns are filed or assessments are made by the IRS and agreed to by either the taxpayer or the court. The IRS reduces its taxes receivable amount by an allowance to report the amount of Federal taxes receivable, net, on its balance sheet. The allowance reflects an estimate of the portion of total taxes receivable deemed to be uncollectible.

Accruals are made to reflect penalties and interest on taxes receivable through the balance sheet date. The majority of the Due to General Fund of the U.S. Government balance is the offsetting liability of Federal taxes receivable, net.

Taxes receivable consist of unpaid assessments (taxes, associated penalties and interest) due from taxpayers. The existence of a receivable is supported by a taxpayer agreement, such as filing of a tax return without sufficient payment, or a court ruling in favor of the IRS. The Internal Revenue Code (IRC) Section 965 requires United States shareholders to pay a transition tax on the untaxed foreign earnings of certain specified foreign corporations as if those earnings had been repatriated to the United States. IRC Section 965(h) which allows taxpayers to elect to pay their IRC Section 965(h) tax on an eight-year installment schedule. The *Coronavirus Aid, Relief, and Economic Security Act of 2020* (CARES Act) (P.L. 116-136), Section 2302, contains a provision which allows employers to defer payment, without penalty, of the entire amount of the employer's share of the Social Security portion of *Federal Insurance Contributions Act* (FICA), and the employer's and employee representative's share of the *Railroad Retirement Tax* (RRTA). Restitution-based assessments are included in the taxes receivable balance.

Other Unpaid Assessments

Compliance assessments are unpaid assessments which neither the taxpayer nor a court has affirmed is owed to the Federal Government. Examples include assessments resulting from an IRS audit or examination in which the taxpayer does not agree with the results. Write-offs consist of unpaid

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Notes to the Financial Statements

For the Years Ended September 30, 2020 and 2019

assessments for which the IRS does not expect further collections due to factors such as taxpayers' bankruptcy, insolvency, or death. Compliance assessments and write-offs are not reported on the balance sheet. Statutory provisions authorize the IRS to collect on unpaid assessments for a specific statutory timeframe. In order to pursue collections and account for collection efforts, the IRS maintains unpaid assessment accounts in the financial records until the statute for collection expires.

Tax Assessments

Under IRC Section 6201, the Secretary of the Treasury is authorized and required to make inquiries, determinations, and assessments of all taxes imposed and accrued under any internal revenue law, which have not been duly paid, including interest, additions to the tax, and assessable penalties. The Secretary has delegated this authority to the Commissioner of the IRS. Unpaid assessments result from taxpayers filing returns without sufficient payments and from the enforcement programs of the IRS, such as examination, under-reporter, substitute for return, and combined annual wage reporting.

Abatements

IRC Section 6404 authorizes the Commissioner of the IRS to abate certain paid or unpaid portions of assessed taxes, interest, and penalties. Abatements occur for a number of reasons and are a standard part of the tax administration process. Abatements may be allowed for qualifying corporations claiming net operating losses that create a credit when carried back and applied against a prior year's tax liability. Additionally, abatements can correct previous assessments from enforcement programs, eliminate taxes discharged in bankruptcy, reduce or eliminate taxes encompassed in offers-in-compromise, eliminate penalty assessments for reasonable cause, eliminate contested assessments caused by mathematical or clerical errors, and eliminate assessments contested after the liability has been satisfied. Abatements may result in claims for refunds or reductions of the unpaid assessed amounts.

G. General Property and Equipment

General property and equipment is recorded at historical cost. It consists of tangible and intangible assets, including software. The IRS depreciates property and equipment on a straight line basis over its estimated useful life. Except for leases meeting the 75 percent useful life and/or 90 percent of net present value (NPV) criteria, the IRS records a half-year of depreciation in the first year and the final year for all property and equipment. The IRS depreciates leases meeting the 75 percent useful life and/or 90 percent of NPV criteria over the life of the leases. Disposals are recorded annually.

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Notes to the Financial Statements

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The IRS capitalization policy for property and equipment by asset class and threshold:

Asset Class	Capitalization Threshold
IT equipment	Bulk cost of $50 thousand or greater.
Non-IT equipment	Assets with bulk cost of $50 thousand or greater and the individual cost is $5 thousand or greater.
Furniture and fixtures	Assets with bulk cost of $50 thousand or greater and the individual cost is $5 thousand or greater.
Investigative equipment	Bulk cost of $50 thousand or greater.
Vehicles	No threshold.
Internal use software	Projects with an estimated cost of greater than or equal to $10 million per year or greater than or equal to $50 million over the life cycle.
Leasehold improvements (LHI)	Improvements with bulk cost of $50 thousand or greater.
Assets under capital lease	Assets with bulk cost of $50 thousand or greater.

H. Due to General Fund of the U.S. Government

Due to General Fund of the U.S. Government is the liability for Federal taxes receivable, net, and State Innovation Waiver Program (SIWP), which primarily represents amounts to be collected on behalf of the General Fund of the U.S. Government. The IRS provides funding for the SIWP to the Centers for Medicare and Medicaid Services (CMS) through two allocation accounts. SIWP are the issued awards by CMS, under Section 1332 of the *Affordable Care Act*, where the grantees participating in the program have not drawn down the funds per the term of the grant. The program is also referred to as a State Relief and Empowerment Waiver.

I. Federal Tax Refunds Payable and Due from General Fund of the U.S. Government

Federal tax refunds payable is comprised of measurable and legally payable amounts due to taxpayers under established refund processes of the IRS. It is a fully funded liability offset by a corresponding asset, Due from General Fund of the U.S. Government. The IRS records an amount Due from General Fund of the U.S. Government to designate approved funding to pay year-end tax refund liabilities to taxpayers.

J. Financing Sources and Revenues

Appropriations Received

The IRS receives the majority of its funding through annual, multi-year, and no-year appropriations available for use within statutory limits for operating and capital expenditures. Appropriations are presented as a budgetary financing source on the SCNP.

Exchange Revenues

Exchange revenues recognized by the IRS represent reimbursements and user fees. Reimbursements are recognized as the result of costs incurred for services performed for federal agencies or the public under reimbursable agreements. User fees are derived from transactions with the public and are generally recognized when earned.

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For the Years Ended September 30, 2020 and 2019

Non-exchange Revenues
Budgetary financing sources includes non-exchange revenue collected for outstanding inactive Federal tax receivables through the IRS private debt collection program. The IRS is required by law to enter into qualified tax collection contracts to retain private collection agencies. The collection agents assist in the collection of certain outstanding tax receivables, on behalf of the Federal Government, to provide needed support to close the nation's tax gap.

Imputed Financing Sources
Imputed financing sources are recognized for goods or services received from other federal agencies without reimbursement from the IRS. This includes pension and other benefit costs administered by the Office of Personnel Management (OPM), costs of processing payments and collections by the Bureau of the Fiscal Service, and legal judgments paid by the Treasury Judgment Fund.

K. Program Costs

Taxpayer Assistance and Education provides services to assist taxpayers with tax return preparation. Primary activities include tax law interpretations, developing and disseminating tax forms and publications, researching customer needs and establishing partnerships with stakeholder groups, and taxpayer advocacy. In addition, these programs continue to emphasize taxpayer education, outreach, and enhancing pre-filing taxpayer support through electronic media. Earned revenues include reimbursable revenues for services provided.

Filing and Account Services provides resources and support services to taxpayers with filing returns or paying taxes, and for the issuance of refunds and maintenance of taxpayer accounts. Program activities include providing assistance, education, and compliance services to taxpayers through telephone, correspondence, and electronic means to resolve account and notice inquiries. Earned revenues include reimbursable revenues for services provided and user fees for several services performed including photocopies, U.S. residency certifications, and Income Verification Express Service disclosures.

Compliance administers compliance activities after a return is filed to identify and correct possible errors or underpayments. This program includes examination and collection programs, which ensure proper payment and tax reporting; criminal investigation programs to uncover violations of internal revenue tax laws and other financial crimes; the development and printing of published IRS guidance materials; and support of taxpayers for pre-filing agreements, determination letters, and advance pricing agreements. It also includes specialty program examinations, international collections, and international examinations. Earned revenues are primarily from user fees for installment agreements, letter rulings and determinations, offers-in-compromise, enrolled agent and actuary programs, advance pricing agreements, and from reimbursable revenues for services provided.

Administration of Tax Credit Programs primarily administers the Earned Income Tax Credit (EITC) program, which works closely with internal and external stakeholders through expanded customer service and public outreach, enforcement, and research efforts to increase the number of eligible taxpayers who claim the EITC and to reduce the number of EITC claims paid in error. The EITC payments actually refunded to individuals or credited against tax liabilities are not included in program costs.

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L. Custodial Activity

Revenues
The IRS collects custodial non-exchange revenues for taxes levied against taxpayers for: individual and corporate income, FICA and *Self-Employment Contributions Act* (SECA), excise, estate, gift, railroad retirement, and federal unemployment taxes. These collections are not available to the IRS for obligation or expenditure and are recognized as custodial revenues when collected. The sources of federal tax revenue and their distribution to the General Fund of the U.S. Government are reported on the SCA.

Appropriations
The IRS was granted permanent and indefinite budgetary authority through legislation to disburse tax refund principal and related interest as they become due. The permanent and indefinite appropriations are not subject to budgetary ceilings set by Congress during the annual appropriation process.

Refunds due to taxpayers are reported as Federal tax refunds payable on the balance sheet. The IRS records an offsetting asset, Due from General Fund of the U.S. Government, to reflect the year-end budget authority to pay this liability.

Disbursements for tax refunds, refundable tax credits and related interest, reported on the SCA, are offset by appropriations used for refunds. Disbursements for refunds are not a cost to the IRS, but rather a cost to the Federal Government as a whole.

M. Funds from Dedicated Collections

In accordance with SFFAS No. 43, *Funds from Dedicated Collections: Amending Statement of Federal Financial Accounting Standards 27, Identifying and Reporting Earmarked Funds*, Funds from Dedicated Collections are financed by specifically identified revenues, which remain available over time. These specifically identified revenues are required by statute to be used for designated activities, benefits or purposes, and must be accounted for separately from the Federal Government's general revenues.

The Federal Tax Lien Revolving Fund (20X4413) was established pursuant to Section 112(a) of the *Federal Tax Lien Act of 1966*, to serve as the source of financing for the redemption of real property by the United States.

Established under the *American Jobs Creation Act of 2004*, the Private Collection Agent Program (20X5510) ended in March 2009. The remaining unobligated funds were retained by the IRS. The *Fixing America's Surface Transportation Act*, Public Law 114-94, enacted in December 2015, amended Title 26 United States Code, Section 6306, requiring the IRS to contract with private collection agencies for the collection of delinquent taxes. The delinquent taxes have (1) been removed from the IRS's active inventory due to a lack of resources or inability to find the taxpayer; (2) passed more than one-third of the applicable limitation period and no IRS employee has been assigned to the debt; or (3) been assigned for collection, but more than a year has passed without interaction with the taxpayer for the purpose of increasing the probability of collection. The Private Collection Agent Program (20X5510) is allowed to expend retained funds for qualified tax collection contracts and collection enforcement activities. The Special Compliance Personnel Program Account (20X5622) requires the hiring, training, and employment of personnel in compliance with Section 6307.

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Notes to the Financial Statements

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N. Allocation Transfers

The IRS is a party to allocation transfers with other federal agencies as both a transferring (parent) entity and a receiving (child) entity. Allocation transfers are legal delegations by one department of its authority to obligate budget authority and outlay funds to another department. A separate fund account (allocation account) is created in the U.S. Treasury as a subset of the parent fund account for tracking and reporting purposes. All allocation transfers of balances are credited to this account, and subsequent obligations and outlays incurred by the child entity are charged to this allocation account as they execute the delegated activity on behalf of the parent entity. Financial activity related to these allocation transfers is reported in the financial statements of the parent entity, from which the underlying legislative authority, appropriations, and budget apportionments are derived. The IRS allocates funds, as the parent entity, to the U.S. Department of Health and Human Services (HHS). Also, the IRS receives allocation transfers, as the child entity, from the U.S. Department of Transportation's Federal Highway Administration and HHS.

O. Fiduciary Activities

Fiduciary activities are the collection or receipt, and the management, protection, accounting, investment, and disposition by the Federal Government of cash or other assets in which non-federal individuals or entities have an ownership interest the Federal Government must uphold.

The IRS fiduciary activities include the net collections for a taxable year from U.S. military and federal employees working in the U.S. territories of the Northern Mariana Islands, the U.S. Virgin Islands, Guam, and American Samoa. These fiduciary assets are not assets of the IRS.

P. Employee Compensation and Benefits

Accrued Annual, Sick, and Other Leave

Annual and compensatory leave is accrued and expensed as earned and used, respectively. Each year, the IRS adjusts the balance in the accrued annual leave liability account to reflect current pay rates. To the extent current or prior year appropriations are not available to fund annual and compensatory leave earned but not taken, funding is obtained from future financing sources. Sick leave and other types of non-vested leave are expensed as used.

Federal Employees' Compensation Act

The Federal Employees' Compensation Act (FECA) provides income and medical cost protection and other death benefits to beneficiaries for federal civilian employees with proper coverage who are injured on the job, have incurred work-related occupational diseases, and whose deaths were attributed to job-related injuries or occupational diseases. The FECA program is administered by the U.S. Department of Labor (DOL), which pays valid claims and subsequently seeks reimbursement for claims paid. Accrued FECA liability represents amounts due to the DOL for claims paid on behalf of the IRS. Actuarial FECA liability represents the liability for future workers' compensation benefits, which includes the expected liability for death, disability, medical, and miscellaneous costs for approved cases. The DOL estimates the liability for future payments as a result of past events.

Employee Health and Life Insurance Benefits

Employees are eligible to participate in the Federal Employees Health Benefit Program (FEHB) and Federal Employees' Group Life Insurance Program (FEGLI). The FEHB offers a wide variety of

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group plans and coverage. The coverage is available to employees, retirees, and their eligible family members. The cost for each plan varies and is shared between the IRS and the employee. An employee participating in the FEGLI program can obtain basic term life insurance, with the employee paying two-thirds of the cost and the IRS paying one-third. Additional coverage is optional, to be paid fully by the employee. The basic life coverage may continue into retirement if certain requirements are met. The IRS recognizes the full cost of providing these benefits.

Employee Pension Benefits
The IRS recognizes the full costs of its employees' pension benefits. The liabilities associated with these costs are reported by the OPM, who administers the plans. Eligibility of employees to participate in the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS) is based on their hire date with the Federal Government, and the IRS contributes a percentage of an employee's basic pay toward the employee's retirement plan.

EMPLOYEE PENSION BENEFIT CONTRIBUTION RATES

	Category	Employee	Agency
CSRS Rates	Regular	7.0%	7.0%
	Law Enforcement Officers	7.5%	7.5%
FERS Rates	Regular	0.8%	16.0%
Hired prior to January 1, 2013	Law Enforcement Officers	1.3%	33.4%
FERS – Revised Annuity Rate	Regular	3.1%	14.2%
Hired January 1, 2013 - December 31, 2013	Law Enforcement Officers	3.6%	31.6%
FERS – Further Revised Annuity Rate	Regular	4.4%	14.2%
Hired January 1, 2014 or later	Law Enforcement Officers	4.9%	31.6%

Employees covered by either CSRS or FERS are also eligible to contribute to the Thrift Savings Plan (TSP), a defined contribution plan. A TSP account is automatically established for employees participating in FERS, and the IRS makes a mandatory contribution to this plan equal to one percent of an employee's compensation. The IRS matches up to four percent of the compensation for FERS-eligible employee's contributions to their TSP accounts. No TSP matching contributions are made to the CSRS.

Q. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions related to the reporting of assets, liabilities, revenues, expenses, and the disclosure of contingent liabilities. Actual results could differ from these estimates.

R. Classified Activities

SFFAS No. 52, *Classified Activities*, allows certain presentations and disclosures to be modified, if needed, to prevent the disclosure of classified information.

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Notes to the Financial Statements

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Note 2. Fund Balance with Treasury

(In Millions)	2020	2019
Fund balance with Treasury	**$ 5,069**	**$ 3,919**

(In Millions)	2020	2019
Unobligated balances		
Available	$ 1,085	$ 573
Unavailable	311	453
Obligated balance not yet disbursed	2,054	1,935
Non-budgetary and other FBWT	1,619	958
Status of fund balance with Treasury	**$ 5,069**	**$ 3,919**

Non-budgetary and other FBWT includes Section 1332 SIWP funds. As of September 30, 2020, the grantee has not drawn down the funds per the terms of the grant. In FY 2020 and FY 2019, the SIWP funds were $1,612 and $954 million, respectively.

The status of fund balance with Treasury represents amounts obligated and unobligated. The obligated balances not yet disbursed represent the unpaid funds with budgetary obligations. Unobligated balances, available represent amounts in unexpired appropriations as of the end of the current fiscal year. Unobligated balances become available when apportioned by the OMB. Unobligated balances, unavailable represent amounts in expired appropriations and amounts not apportioned for obligation as of the end of the current fiscal year.

Note 3. Other Assets

	2020		2019	
(In Millions)	Intra-governmental	With the Public	Intra-governmental	With the Public
Accounts receivable, net	$ 43	$ 5	$ 12	$ 6
Advances	-	10	-	9
Other assets	**$ 43**	**$ 15**	**$ 12**	**$ 15**

Note 4. Cash and Other Monetary Assets

(In Millions)	2020	2019
Imprest fund	$ 2	$ 3
Other monetary assets	785	545
Cash and other monetary assets	**$ 787**	**$ 548**

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Note 5. Federal Taxes Receivable, Net

(In Billions)	2020	2019
Federal taxes receivable	$ 427	$ 369
Allowance for uncollectible taxes receivable	(191)	(225)
Federal taxes receivable, net	**$ 236**	**$ 144**

Federal taxes receivable are taxes due from taxpayers for which the IRS can support the existence of a receivable through either a taxpayer agreement or a court ruling determining an assessment. Federal taxes receivable, net, is the portion of Federal taxes receivable estimated to be collectible and the corresponding liability is Due to General Fund of the U.S. Government which is to be transferred when collected. The taxes receivable consists primarily of two categories:

- Delinquent tax assessments, penalties, and interest not paid or abated, which were agreed to by the taxpayer and the IRS or upheld by the courts.
- Non-delinquent IRC Section 965(h) and Social Security Tax Deferral amounts. IRC Section 965(h) allowed taxpayers to elect to pay the IRC Section 965(h) tax on an eight-year installment schedule. The CARES Act Section 2302 contains a provision for employers to defer payment of the employer's share of the Social Security portion of FICA, and their portion and the employee representative's share of the RRTA. (See Note 1.F.) The deferred amount is due in two installments with 50% due by December 31, 2021 and the remaining amount by December 31, 2022. The $58 billion increase in taxes receivable is due to the $40 billion increase in non-delinquent taxes receivable and an $18 billion increase in delinquent tax receivable. Of the $40 billion increase in non-delinquent tax receivables, $23 billion is attributable to the Social Security Tax Deferral and $17 billion to IRC Section 965(h), from taxpayer filings.

The Allowance for uncollectible taxes receivable represents the difference between the gross Federal taxes receivable and the portion estimated to be collectible based on collectability projections for the same categories. The $236 billion in Federal taxes receivable, net, represents the total amount of taxes receivable estimated to be collectible as of September 30, 2020. For FY 2019, the Federal taxes receivable, net, was $144 billion. In FY 2020, Federal taxes receivable, net, increased by $92 billion primarily due to the $58 billion increase in Federal taxes receivable discussed above, and a $34 billion decrease in the allowance for uncollectible taxes receivable primarily resulting from a change in IRS's collectability methodology for Section 965(h) taxes receivable. FY 2020 non-delinquent taxes receivable amounts total $190 billion of which $168 billion is attributable to IRC Section 965(h) as compared to FY 2019 which was $98 billion. Delinquent taxes receivable for both years are $46 billion.

For taxes receivable, specific collectability methods were applied:

- **IRC Section 965(h) elections**. In FY 2020, the IRS used an updated econometric methodology to derive its collectability estimate. This methodology considered indicators of financial health of the largest business modules (more than 90 percent of the remaining unpaid deferral balance) along with industry specific data in determining the degree to which IRC Section 965(h) taxpayers are considered to be at-risk of nonpayment. IRC Section 965(h) taxes receivable collectability was 94.3 percent overall due to the high collectability from

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Notes to the Financial Statements

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large businesses outweighing the remaining smaller businesses and individuals who are at-risk due to global uncertainties.

- **Social Security Tax Deferral**. New legislation authorizing Social Security Tax Deferrals resulted in $23 billion in new non-delinquent unpaid assessments to be paid over two yearly installments. In FY 2020, no payments were due. Businesses determined to be at-risk for nonpayment of an IRC Section 965(h) election were considered at-risk for non-payment of Social Security Tax Deferral. IRS considered businesses not at-risk to be fully collectible. This resulted in a 99.6 percent collectability for Social Security Tax Deferrals.
- **Delinquent tax assessments**. In FY 2020, to derive the estimated collectability rate applied to delinquent gross Federal taxes receivable, the IRS utilized the 2020 sample collectible point estimate of $40 billion (+/- $8.6 billion). The IRS averaged three years of collectability rates (2018-2020) to normalize the effect of significant year-to-year fluctuations. In FY 2019, the $46 billion in taxes receivable, net, was derived from a three-year average including the 2019 collectible point estimate of $51 billion (+/-$9.3 billion). The UA audit process effectively incorporates current economic conditions.

Note 6. Non-entity Assets

(In Millions)	2020 Intra-governmental	2020 With the Public	2019 Intra-governmental	2019 With the Public
Due from General Fund of the U.S. Government	$ 3,750	$ -	$ 2,922	$ -
Federal taxes receivable, net	-	236,000	-	144,000
Other monetary assets	-	785	-	545
Non-entity assets	**$ 3,750**	**$ 236,785**	**$ 2,922**	**$ 144,545**

Non-entity assets are not available for use by the IRS. Federal taxes receivable, net, is collected for the U.S. Government, but the IRS does not have the authority to spend them.

Note 7. General Property and Equipment, Net

(In Millions)	Useful Life (Years)	Cost	Accumulated Depreciation	2020 Net Book Value	2019 Net Book Value
IT equipment	3 to 7	$ 1,237	$ (803)	$ 434	$ 447
Internal use software (IUS)	2 to 15	3,255	(2,373)	882	1,050
Leasehold improvements (LHI)	2 to 10	232	(161)	71	71
IUS - software in development		402	-	402	255
Vehicles	5	3	(2)	1	-
Furniture and non-IT equipment	8 and 10	192	(150)	42	42
Assets under capital lease	4.5 to 8	28	(16)	12	15
Investigative equipment	10	4	(3)	1	1
LHI construction in progress		26	-	26	15
Property and equipment		**$ 5,379**	**$ (3,508)**	**$ 1,871**	**$ 1,896**

The Cost column represents the historical cost of property and equipment, net of disposals. The cost basis for FY 2020 and FY 2019 was $5,379 and $5,196 million, respectively. Accumulated

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depreciation for FY 2020 and FY 2019 was $3,508 and $3,300 million, respectively. The Internal use software line includes Major systems which is fully depreciated. Prior to FY 2020, Major systems was reported on a separate line.

Internal use software projects, either deployed or in development include, but are not limited to:

- Customer Account Data Engine 2 (CADE 2) - leverages existing systems and new development to implement a single data-centric solution, which provides daily processing of individual taxpayer accounts.
- Enterprise Case Management (ECM) - an enterprise solution for performing case management functions using a common infrastructure platform and common services.
- Foreign Account Tax Compliance Act (FATCA) – this project enables foreign financial institutions to report information about financial accounts held by U.S. taxpayers or foreign entities in which U.S. taxpayers hold a substantial ownership interest.
- Patient Protection and Affordable Care Act (PPACA) -this project used to support tax administration responsibilities.
- Return Review Program (RRP) - an automated system designed to maximize fraud detection at the time tax returns are filed.
- Web Applications (Web Apps) - a program to improve the taxpayer's online experience, provide secure digital communications, and add more interactive capabilities.
- e-A3 program - provides Secure Access to IRS Web based applications and data to protect taxpayers from identify theft and make the IRS's applications more accessible, secure, and intuitive for customers.

Internal Use Software in Development

(In Millions)	2020	2019
CADE 2	$ 309	$ 214
RRP	-	27
Web Apps	2	4
ECM	50	10
e-A3	41	-
Internal use software in development	**$ 402**	**$ 255**

Deployed Internal Use Software

(In Millions)	Cost	Accumulated Depreciation	2020 Net Book Value	2019 Net Book Value
AMS	$ 78	$ (60)	$ 18	$ 24
CADE 2	348	(303)	45	57
FATCA	316	(210)	106	152
IRDM	59	(59)	-	3
IFS	167	(167)	-	1
MeF	405	(391)	14	25
PPACA	995	(509)	486	585
RRP	228	(115)	113	116
Web Apps	140	(40)	100	87
Other	298	(298)	-	-
Deployed internal use software	**$ 3,034**	**$ (2,152)**	**$ 882**	**$ 1,050**

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Notes to the Financial Statements

For the Years Ended September 30, 2020 and 2019

The Other internal use software category is comprised of nine deployed projects fully depreciated. These applications are used for either internal support or taxpayer services.

Note 8. Due to General Fund of the U.S. Government

(In Millions)	2020	2019
Federal taxes receivable, net	$ 236,000	$ 144,000
Fund balance with Treasury	1,612	954
Due to General Fund of the U.S. Government	**$ 237,612**	**$ 144,954**

Due to General Fund of the U.S. Government reports General Fund assets held and managed on behalf of the U.S. Government. These General Fund assets constitute resources available to meet the operating needs of the U.S. Government. The Federal taxes receivable, net, is the portion of gross Federal taxes receivable estimated to be collectible and will be transferred to the General Fund when collected. The fund balance with Treasury represents funds to administer the SIWP. These funds are not available for use by the IRS.

Note 9. Liabilities

Other Liabilities

	2020		
(In Millions)	Current	Non-Current	Total
Intragovernmental			
Accrued payroll and benefits	$ 105	$ -	$ 105
Accrued FECA liability	36	41	77
Accrued expenses	5	-	5
Accrued UCFE liability	3	-	3
Capital lease liabilities	-	1	1
Other liabilities	**$ 149**	**$ 42**	**$ 191**
With the Public			
Accrued annual leave	$ 607	$ -	$ 607
Actuarial FECA liability	-	447	447
Accrued payroll and benefits	348	-	348
Accrued expenses	230	-	230
Liability for deposit funds and clearing accounts	786	-	786
Accounts payable	13	-	13
Energy savings performance liability	1	-	1
Other liabilities	**$ 1,985**	**$ 447**	**$ 2,432**

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For the Years Ended September 30, 2020 and 2019

Other Liabilities

	2019		
(In Millions)	Current	Non-Current	Total
Intragovernmental			
Accrued payroll and benefits	$ 78	$ -	$ 78
Accrued FECA liability	37	46	83
Accrued expenses	1	-	1
Capital lease liabilities	1	1	2
Other liabilities	**$ 117**	**$ 47**	**$ 164**
With the Public			
Accrued annual leave	$ 517	$ -	$ 517
Actuarial FECA liability	-	444	444
Accrued payroll and benefits	273	-	273
Accrued expenses	213	-	213
Liability for deposit funds and clearing accounts	546	-	546
Accounts payable	16	-	16
Energy savings performance liability	1	1	2
Other liabilities	**$ 1,566**	**$ 445**	**$ 2,011**

Liabilities Not Covered by Budgetary Resources

(In Millions)	2020	2019
Intragovernmental		
Accrued FECA liability	$ 77	$ 83
Accrued UCFE liability	3	-
Capital lease liabilities	1	2
Intragovernmental	**81**	**85**
With the public		
Accrued annual leave	607	517
Actuarial FECA liability	447	444
Energy savings performance liability	1	2
With the public	**1,055**	**963**
Liabilities not covered by budgetary resources	1,136	1,048
Liabilities covered by budgetary resources	6,063	4,457
Liabilities not requiring budgetary resources	236,786	144,546
Liabilities	**$ 243,985**	**$ 150,051**

Liabilities not covered by budgetary resources result from the receipt of goods and services, or occurrence of eligible events in the current or prior periods, for which revenue to pay the liabilities has not been made available through appropriations of the IRS.

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Notes to the Financial Statements

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Note 10. Leases

Capital Leases

The IRS leases IT telecommunications equipment for toll free call centers, and currently has a two-year lease and two seven-year leases. There are no future payments due for equipment under these active leases. The liability for the two-year lease was paid in FY 2012, and title for the equipment remains with the vendor. The liability for the two seven-year leases was paid in FY 2011.

In FY 2018 the IRS entered into a software license agreement for five years with perpetual use rights to the licenses. The liability for the software license agreement was paid in FY 2019.

The IRS has a lease with the General Services Administration (GSA) for vehicles used for enforcement and leases for furniture. Vehicles are being leased over a period of three to five years; the lease payments were completed in FY 2019. Furniture is being leased over a period of five years.

Summary of Assets Under Capital Lease:

(In Millions)

Capital Lease Category	2020	2019
Telecom equipment	$ 8	$ 8
Software license agreement	17	17
Vehicles	-	1
Furniture	2	2
Accumulated depreciation	(16)	(13)
Assets under capital lease, net	**$ 11**	**$ 15**

Future minimum payments due are as follows:

(In Millions)	2020		
Fiscal Year	Intra-governmental	With the Public	Total
2021	$ -	$ -	$ -
2022	1	-	1
After 2022	-	-	-
Capital lease liabilities	**$ 1**	**$ -**	**$ 1**

Capital lease liabilities not covered by budgetary resources	**$ 1**
Capital lease liabilities covered by budgetary resources	**$ -**

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Notes to the Financial Statements

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Operating Leases

The IRS leases office space from GSA and commercial entities under non-cancelable operating leases with lease terms from 1 to 30 years. Future lease payments under non-cancelable leases of office spaces are:

(In Millions)	2020		
Fiscal Year	Intra-governmental	With the Public	Total
2021	$ 161	$ 4	$ 165
2022	92	1	93
2023	75	-	75
2024	71	-	71
2025	61	-	61
After 2025	279	-	279
Future lease payments	**$ 739**	**$ 5**	**$ 744**

The IRS also maintains annual operating leases with both GSA for other office space and vehicles, and commercial entities for equipment and software licenses. These leases may be canceled or renewed on an annual basis at the option of the IRS. Binding commitments cannot be imposed for any future rental payments on leases with terms longer than one year.

Note 11. Commitments and Contingencies

The IRS is a party to legal actions whose outcome, if unfavorable, could materially affect the financial statements. The IRS has determined it is reasonably possible as of September 30, 2020, one of these proceedings will result in a loss of up to $288 million. There were no contingent liabilities as of September 30, 2019.

For some of the legal actions to which the IRS is a party, management and legal counsel cannot determine the likelihood of an unfavorable outcome nor can any related loss be reasonably estimated. The IRS does not accrue for possible losses related to cases where the potential loss cannot be estimated or the likelihood of an unfavorable outcome is less than probable. As of September 30, 2020, and 2019, there are one case and two cases, respectively, for which the IRS is unable to determine the likelihood of an unfavorable outcome or establish a range of potential losses. Additionally, for some of the legal actions, the IRS determined the likelihood of an unfavorable outcome is remote.

As of September 30, 2020, and 2019, the IRS does not have contractual commitments for payments on obligations related to canceled appropriations or contractual arrangements that have not recognized liabilities for goods and services provided.

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INTERNAL REVENUE SERVICE

Notes to the Financial Statements

For the Years Ended September 30, 2020 and 2019

Note 12. Inter-Entity Costs

(In Millions)	2020	2019
Fiscal Service cost for tax collections and refunds	$ 937	$ 911
Federal Employees Benefit Programs	566	671
Treasury Judgement Fund	1	1
Inter-Entity Costs	**$ 1,504**	**$ 1,583**

Goods and services are received from other federal entities at no cost or at a cost less than the full cost to the providing federal entity. Consistent with the accounting standards, certain costs of the providing entity that are not fully reimbursed are recognized as imputed cost in the SNC and are offset by imputed revenue in the SCNP. Such imputed costs and revenues relate to business-type activities, employee benefits and claims to be settled by the Treasury Judgement Fund. Unreimbursed costs of goods and services other than those identified above are not included in the IRS financial statements.

Note 13. Undelivered Orders at the End of the Period

	2020		
(In Millions)	Intra-governmental	With the Public	Total
Unpaid	$ 241	$ 1,179	$ 1,420
Paid	-	10	10
Undelivered orders at the end of the period	**$ 241**	**$ 1,189**	**$ 1,430**

	2019		
(In Millions)	Intra-governmental	With the Public	Total
Unpaid	$ 164	$ 1,216	$ 1,380
Paid	-	9	9
Undelivered orders at the end of the period	**$ 164**	**$ 1,225**	**$ 1,389**

Undelivered orders are the value of goods and services ordered and obligated, but not yet received. Amounts include any prepaid or advanced orders for which delivery or performance has not yet occurred.

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INTERNAL REVENUE SERVICE

Notes to the Financial Statements

For the Years Ended September 30, 2020 and 2019

Note 14. Statement of Budgetary Resources

Explanation of Differences Between the FY 2019 Statement of Budgetary Resources and the *FY 2021 Budget of the United States Government*

(In Millions)	Budgetary Resources	New Obligations and Upward Adjustments	Distributed Offsetting Receipts	Outlays, Net
Statement of Budgetary Resources	$ 13,134	$ 12,108	$ 386	$ 11,707
Not included on the *Budget of the United States Government*				
Expired funds	(280)	-	-	-
Not included on the Statement of Budgetary Resources				
Refundable tax credits, interest refunds to taxpayers, and other outlays	164,803	164,802	-	154,206
Informant payments	88	88	-	88
Other	(2)	3	-	2
Budget of the United States Government	**$ 177,743**	**$ 177,001**	**$ 386**	**$ 166,003**

The *FY 2022 Budget of the United States Government* presenting the actual amounts for the year ended September 30, 2020 has not been published as of the issue date of these financial statements and will be available at a future date. A reconciliation of the FY 2019 SBR and the FY 2019 actual amounts in the *FY 2021 Appendix, Budget of the United States Government* for budgetary resources, new obligations and upward adjustments, distributed offsetting receipts, and outlays, net is presented above.

Refundable tax credits, interest refunds, other outlays and Informant payments total $164.9 billion in appropriations. These appropriations are primarily EITC, Premium Tax Credit, and Child Tax Credit reported with refunds as custodial activities on the SCA and are not reported as budgetary resources on the SBR.

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INTERNAL REVENUE SERVICE

Notes to the Financial Statements

For the Years Ended September 30, 2020 and 2019

Note 15. Collections of Federal Tax Revenue

(In Billions)	Tax Year 2020		Tax Year 2019	Tax Year 2018	Tax Year Prior Years	Collections Received FY 2020	Collections Received FY 2019
Individual income, FICA/SECA, and other	$ 1,948	*	$ 1,118	$ 34	$ 28	$ 3,128	$ 3,177
Corporate income	152	**	89	10	13	264	277
Excise	53		19	-	-	72	81
Estate and gift	2		12	2	2	18	18
Railroad retirement	4		1	-	-	5	6
Federal unemployment	4		2	-	-	6	6
Collections of federal tax revenue	**$ 2,163**		**$ 1,241**	**$ 46**	**$ 43**	**$ 3,493**	**$ 3,565**

* Includes other collections of $252 million.
** Includes tax year 2021 corporate income tax receipts of $6 billion.

Note 16. Federal Tax Refund and Outlay Activities

(In Billions)	Tax Year 2020	Tax Year 2019	Tax Year 2018	Tax Year Prior Years	Refunds and Outlays FY 2020	Refunds and Outlays FY 2019
Individual income, FICA/SECA, and other	$ 336	$ 299	$ 31	$ 8	$ 674	$ 398
Corporate income	4	14	21	21	60	52
Excise	-	2	-	-	2	2
Estate and gift	-	-	-	-	-	-
Federal tax refund and outlay activities	**$ 340**	**$ 315**	**$ 52**	**$ 29**	**$ 736**	**$ 452**

Federal tax refunds and outlays include overpayments from taxpayers; payments for the various refundable credits, including EITC and the Premium Tax Credit; and other payments, Basic Health Program, and the SIWP under the PPACA. The *Coronavirus Aid, Relief, and Economic Security Act of 2020* (CARES Act) (P.L. 116-136), included provisions to help stimulate the economy through economic impact payments. In FY 2020, the IRS disbursed payments of $275 billion to eligible taxpayers of up to $1,200 for individuals and $2,400 for individuals filing a joint tax return, with up to an additional $500 for each eligible child.

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INTERNAL REVENUE SERVICE

Notes to the Financial Statements

For the Years Ended September 30, 2020 and 2019

Note 17. Fiduciary Activities

(In Millions)	2020 20X6737	20X6738	20X6740	20X6741	Total
Fiduciary net assets, beginning of year	$ -	$ 19	$ -	$ 1	$ 20
Contributions	63	96	4,523	47	4,729
Disbursements to and on behalf of beneficiaries	(63)	(98)	(4,523)	(48)	(4,732)
Decrease in fiduciary net assets	-	(2)	-	(1)	(3)
Fiduciary net assets, end of year	**$ -**	**$ 17**	**$ -**	**$ -**	**$ 17**

(In Millions)	2019 20X6737	20X6738	20X6740	20X6741	Total
Fiduciary net assets, beginning of year	$ -	$ 8	$ -	$ -	$ 8
Contributions	11	22	238	12	283
Disbursements to and on behalf of beneficiaries	(11)	(11)	(238)	(11)	(271)
Increase in fiduciary net assets	-	11	-	1	12
Fiduciary net assets, end of year	**$ -**	**$ 19**	**$ -**	**$ 1**	**$ 20**

In fiduciary fund 20X6738, the fiduciary net assets, end of year balances are pending a tax matter resolution.

In accordance with the SFFAS No. 31, *Accounting for Fiduciary Activities*, fiduciary cash and other assets are not assets of the Federal Government. The IRS has four fiduciary funds not reported on the balance sheet:

- Internal Revenue Collections for Northern Mariana Islands — 20X6737
- Coverover Withholdings – U.S. Virgin Islands — 20X6738
- Coverover Withholdings – Guam — 20X6740
- Coverover Withholdings – American Samoa — 20X6741

IRC Section 7654 governs the tax coordination between the governments of the United States and the U.S. territories of the Northern Mariana Islands, the U.S. Virgin Islands, Guam, and American Samoa.

The collections of federal income taxes withheld from U.S. military and federal employees working in these U.S. territories are maintained in fiduciary funds of the IRS. The disbursements of these collections to these U.S. territory governments represent the transfer of the individual tax liability for a taxable year.

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INTERNAL REVENUE SERVICE

Notes to the Financial Statements

For the Years Ended September 30, 2020 and 2019

Note 18. Budget and Accrual Reconciliation

	2020		
(In Millions)	Intra-governmental	With the Public	Total
Net Cost of Operations	$ 4,712	$ 8,887	$ 13,599
Components of net cost that are not part of net outlays:			
Property, plant, and equipment depreciation	-	(391)	(391)
Property, plant, and equipment disposal and reevaluation	-	(7)	(7)
Other	-	249	249
Increase/decrease in assets:			
Accounts receivable	30	-	30
Other assets	-	1	1
Increase/decrease in liabilities			
Accounts payable	-	4	4
Salaries and benefits	(27)	(75)	(102)
Other liabilities	-	(110)	(110)
Other financing sources			
Federal costs imputed to the agency	(1,504)	-	(1,504)
Transfers out(in) without reimbursement	(6)	-	(6)
Total components of net cost not part of the net outlays	(1,507)	(329)	(1,836)
Components of the net outlays that are not part of net cost			
Acquisition of capital assets	1	133	134
Total components of the net outlays that are not part of net cost	1	133	134
Net outlays	$ 3,206	$ 8,691	$ 11,897

In accordance with the SFFAS No. 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting, amended* and SFFAS No. 53, *Budget and Accrual Reconciliation,* the IRS's relationship between the net cost of the programs and operations presented on an accrual basis must be reconciled to the net outlays presented on the budgetary basis during the reporting period. The accrual basis of accounting reports the net cost of resources used. Budgetary accounting reports the outlays of financial resources to acquire or provide goods and services.

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INTERNAL REVENUE SERVICE

Notes to the Financial Statements

For the Years Ended September 30, 2020 and 2019

Note 18. Budget and Accrual Reconciliation (continued)

(In Millions)	2019 Intra-governmental	2019 With the Public	2019 Total
Net Cost of Operations	$ 4,596	$ 8,481	$ 13,077
Components of net cost that are not part of net outlays:			
Property, plant, and equipment depreciation	-	(407)	(407)
Property, plant, and equipment disposal and reevaluation	-	(42)	(42)
Other	-	187	187
Increase/decrease in assets:			
Accounts receivable	(30)	1	(29)
Increase/decrease in liabilities			
Accounts payable	-	(2)	(2)
Salaries and benefits	(6)	(33)	(39)
Other liabilities	8	(33)	(25)
Other financing sources			
Federal costs imputed to the agency	(1,583)	-	(1,583)
Transfers out(in) without reimbursement	(9)	-	(9)
Total components of net cost not part of the net outlays	(1,620)	(329)	(1,949)
Components of the net outlays that are not part of net cost			
Acquisition of capital assets	1	192	193
Total components of the net outlays that are not part of net cost	1	192	193
Net outlays	$ 2,977	$ 8,344	$ 11,321

Note 19. COVID-19 Activity

The IRS received COVID-19 supplemental funding pursuant to the CARES Act for $751 million and the *Families First Coronavirus Response Act of 2020* for $15 million totaling $766 million in budgetary resources. The budgetary resources were appropriated for two-year and three-year availability. This funding supports the IRS costs associated with the implementation of COVID-19 legislation. In FY 2020, the IRS incurred obligations of $439 million and the remaining balance available beyond FY 2020 equals $327 million.

These note disclosures include COVID-19 legislation balances as of September 30, 2020:

- Fund Balance with Treasury $ 482 million
- General Property and Equipment, net $ 9 million
- Other Liabilities, Public $ 14 million
- Undelivered Orders at the End of the Period $ 141 million

Additionally, the IRS received appropriated funding, which is included in the Statement of Custodial Activity's Federal tax refund section, to execute COVID-19 related refundable tax credits and economic impact payments as noted in further detail in the Other Information, Refundable Tax Credit and Other Outlays section. (See Note 16)

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Required Supplementary Information

INTERNAL REVENUE SERVICE

Required Supplementary Information - Unaudited

For the Years Ended September 30, 2020 and 2019

Schedule of Budgetary Resources by Major Budget Accounts

(In Millions)	2020 Taxpayer Services	Enforcement	Operations Support	Other	Total
Budgetary resources					
Unobligated balance brought forward, October 1	$ 42	$ 125	$ 176	$ 683	$ 1,026
Recoveries of prior year unpaid obligations	16	17	103	14	150
Other changes in unobligated balance	4	11	343	(365)	(7)
Unobligated balance from prior year budget authority, net	62	153	622	332	1,169
Appropriations (discretionary & mandatory)	2,892	4,993	4,215	608	12,708
Spending authority from offsetting collections (discretionary & mandatory)	73	47	65	-	185
Total budgetary resources	$ 3,027	$ 5,193	$ 4,902	$ 940	$ 14,062
Status of budgetary resources					
New obligations and upward adjustments (total)	$ 2,812	$ 4,860	$ 4,598	$ 396	$ 12,666
Unobligated balance, end of year					
Apportioned, unexpired accounts	178	277	163	460	1,078
Exempt from apportionment, unexpired accounts	-	-	-	7	7
Unapportioned, unexpired accounts	-	-	-	70	70
Unexpired unobligated balance, end of year	178	277	163	537	1,155
Expired unobligated balance, end of year	37	56	141	7	241
Unobligated balance, end of year (total)	215	333	304	544	1,396
Total budgetary resources	$ 3,027	$ 5,193	$ 4,902	$ 940	$ 14,062
Outlays, net					
Outlays, net (total) (discretionary & mandatory)	$ 2,618	$ 4,705	$ 4,460	$ 389	$ 12,172
Distributed offsetting receipts	-	-	-	(275)	(275)
Agency outlays, net (discretionary & mandatory)	$ 2,618	$ 4,705	$ 4,460	$ 114	$ 11,897

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INTERNAL REVENUE SERVICE

Required Supplementary Information - Unaudited

For the Years Ended September 30, 2020 and 2019

Schedule of Budgetary Resources by Major Budget Accounts (continued)

(In Millions)	2019 Taxpayer Services	Enforcement	Operations Support	Other	Total
Budgetary resources					
Unobligated balance brought forward, October 1	$ 64	$ 64	$ 325	$ 680	$ 1,133
Recoveries of prior year unpaid obligations	12	19	65	5	101
Other changes in unobligated balance	24	5	173	(226)	(24)
Unobligated balance from prior year budget authority, net	100	88	563	459	1,210
Appropriations (discretionary & mandatory)	2,557	4,678	3,918	636	11,789
Spending authority from offsetting collections (discretionary & mandatory)	35	37	56	7	135
Total budgetary resources	$ 2,692	$ 4,803	$ 4,537	$ 1,102	$ 13,134
Status of budgetary resources					
New obligations and upward adjustments (total)	$ 2,650	$ 4,678	$ 4,361	$ 419	$ 12,108
Unobligated balance, end of year					
Apportioned, unexpired accounts	3	92	60	410	565
Exempt from apportionment, unexpired accounts	-	-	-	8	8
Unapportioned, unexpired accounts	-	-	-	257	257
Unexpired unobligated balance, end of year	3	92	60	675	830
Expired unobligated balance, end of year	39	33	116	8	196
Unobligated balance, end of year (total)	42	125	176	683	1,026
Total budgetary resources	$ 2,692	$ 4,803	$ 4,537	$ 1,102	$ 13,134
Outlays, net					
Outlays, net (total) (discretionary & mandatory)	$ 2,556	$ 4,537	$ 4,287	$ 327	$ 11,707
Distributed offsetting receipts	-	-	-	(386)	(386)
Agency outlays, net (discretionary & mandatory)	$ 2,556	$ 4,537	$ 4,287	$ (59)	$ 11,321

Other Claims for Refunds

Management has estimated amounts that may be paid out as other claims for tax refunds. This estimate represents the amount (principal and interest) which may be paid for claims pending judicial review by the federal courts or, internally, by Appeals. In fiscal years 2020 and 2019, the total estimated payout (including principal and interest) for claims pending judicial review by the federal courts and Appeals was $1.6 and $1.7 billion, and $7.8 and $2.3 billion, respectively. To the extent judgments against the government in these cases prompt other similarly situated taxpayers to file similar refund claims, these amounts could become significantly greater.

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INTERNAL REVENUE SERVICE

Required Supplementary Information - Unaudited

For the Years Ended September 30, 2020 and 2019

Federal Taxes Receivable, Net

In accordance with the Statements of Federal Financial Accounting Standards No. 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, some unpaid assessments do not meet the criteria for financial statement recognition as discussed in Note 1.F., Federal Taxes Receivable, Net, and Note 1.H., Due to General Fund of the U.S. Government. Although compliance assessments and write-offs are not considered receivables under federal accounting standards, they represent legally enforceable claims of the IRS acting on behalf of the Federal Government. There is, however, a significant difference in the collection potential of these categories.

The components of the total unpaid assessments and derivation of net Federal taxes receivable were as follows:

(In Billions)	2020	2019
Total unpaid assessments	$ 596	$ 550
Compliance assessments	(74)	(75)
Write-offs	(95)	(106)
Gross federal taxes receivables	427	369
Allowance for uncollectible taxes receivable	(191)	(225)
Federal taxes receivable, net	**$ 236**	**$ 144**

Total unpaid assessments include $200 billion of non-delinquent taxes receivable, including $178 billion in IRC Section 965(h) tax, of which $168 billion is collectible based on the type of taxpayer and the financial help of large dollar businesses. The non-delinquent IRC Section 965(h) component refers to taxpayers who elected to pay their IRC Section 965 tax on an eight-year installment schedule. The remaining balance is Social Security Tax Deferral. The Social Security Tax Deferral is from the *Coronavirus Aid, Relief, and Economic Security Act of 2020*, Section 2302, which contains a provision for employers to defer the employer's share of the Social Security portion of FICA, and the employer's and employee representative's share of the Railroad Retirement Tax. (See Note 1.F.) The deferred amount is due by December 31, 2022. (See Note 5) The $46 billion increase in total unpaid assessments comes from the $58 billion increase in gross taxes receivables, offset by the decreases in write-offs and compliance assessments. The $58 billion increase in gross taxes receivables is largely due to the $40 billion increase in non-delinquent taxes receivables, of which $23 billion is attributable to Social Security Tax Deferral and $17 billion to IRC Section 965(h), from additional taxpayer filings.

To eliminate double counting, the compliance assessments reported above exclude duplicated trust fund recovery penalties assessed against officers and directors of businesses involved in the non-remittance of federal taxes withheld from their employees. These penalties totaled approximately $1.4 and $1.5 billion as of September 30, 2020 and 2019, respectively. The related unpaid assessments of those businesses are reported as taxes receivable or write-offs, but the IRS may also recover portions of those businesses' unpaid assessments from any and all individual officers and directors against whom a trust fund recovery penalty is assessed.

Other Information

INTERNAL REVENUE SERVICE

Other Information - Unaudited

For the Years Ended September 30, 2020 and 2019

Refundable Tax Credits and Other Outlays

Refundable Tax Credits

To offer tax relief to targeted individuals and businesses, Congress has provided assistance in the form of tax credits. For the majority of tax credits, the economic benefit is limited to the taxpayer's tax liability. Credits limited in this manner are termed non-refundable credits. Refundable credits, in contrast, are fully payable to the taxpayer, even if the credit exceeds the tax liability. These types of credits provide greater economic benefits because the taxpayer realizes the full amount of the credit, regardless of the underlying tax liability.

The following overview summarizes the refundable credits the IRS administers and pays. This overview describes refundable credits in existence for many years, and those created more recently by Congress, including those enacted as part of the *American Recovery and Reinvestment Act of 2009* (ARRA), the *Patient Protection and Affordable Care Act of 2010* (PPACA), the *Coronavirus Aid, Relief, and Economic Security Act of 2020* (CARES Act), and the *Families First Coronavirus Response Act of 2020* (FFCRA).

Earned Income Tax Credit

The Earned Income Tax Credit (EITC) is a refundable tax credit for low to moderate income working individuals and families. Congress originally approved the tax credit legislation in 1975, in part, to offset the burden of social security taxes and to provide an incentive to work. To qualify, taxpayers must meet certain requirements and file a tax return, even if they did not have sufficient income to meet regular tax return filing requirements.

Premium Tax Credit

Starting January 1, 2014, persons who purchase health insurance coverage through the Health Insurance Marketplace may be eligible for the premium tax credit. In general, a person is eligible for the credit if they (a) buy health insurance through the Marketplace, (b) are ineligible for coverage through an employer or government plan, (c) are within certain income limits, (d) do not file a Married Filing Separately tax return (unless they meet specific criteria that allow certain victims of domestic abuse to claim the premium tax credit using the Married Filing Separately filing status), and (e) cannot be claimed as a dependent by another person. Eligible individuals may elect to have some or all of their estimated credit paid in advance directly to their insurance company to lower the amount they must pay out-of-pocket for their monthly premiums or they may elect to receive all of the credit when they file their tax return. Each person who receives the benefit of a credit advance or who wishes to claim the credit must file an income tax return.

Additional Child Tax Credit

The Additional Child Tax Credit is a special credit for taxpayers who work, have earnings below an established ceiling, and have a qualifying child. The Child Tax Credit is limited to the taxpayer's tax liability and is a nonrefundable tax credit. Certain individuals who receive less than the full amount of the Child Tax Credit may qualify for the "Additional" Child Tax Credit. Under this credit, subject to additional criteria, the taxpayer may receive the full credit amount even if such amount exceeds the taxpayer's tax liability. Consequently, the Additional Child Tax Credit is categorized as a refundable tax credit.

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INTERNAL REVENUE SERVICE

Other Information - Unaudited

For the Years Ended September 30, 2020 and 2019

Sick & Paid Family Leave and Employee Retention Tax Credit

Sick and Paid Family Leave credit was created by the FFCRA Section 7001-7004. The credit allows employers a payroll credit against the tax imposed on the qualified sick leave and family leave wages paid in the calendar quarter, limited to ten sick days and $200 leave wages per day. In addition, the family leave wages paid is limited to $10,000. The credit is available to employers with fewer than 500 employees.

The Employee Retention Tax Credit was created by CARES Act Section 2301. The provision provides a refundable payroll tax credit for 50 percent of wages paid by employers to employees during the COVID-19 crisis. The credit is available to employers whose (1) operations were fully or partially suspended, due to a COVID-19 related shut-down order, or (2) gross receipts declined by more than 50 percent when compared to the same quarter in the prior year.

Build America and Recovery Zone Bonds

Build America Bonds (BABs) are a financing tool for state and local governments. The bonds, which allow a new direct federal payment subsidy, are taxable bonds issued by state and local governments to give them access to the conventional corporate debt markets. At the election of the state and local governments, the U.S. Department of Treasury (Treasury) will make a direct payment to the state or local governmental issuer in an amount equal to 35 percent of the interest payment on the BABs. This federal subsidy payment provides state and local governments lower net borrowing costs and allows them to reach more sources of borrowing than they can with more traditional tax-exempt or tax credit bonds.

Created by the ARRA, Recovery Zone Bonds are targeted to areas particularly affected by job losses and help local governments obtain financing for much needed economic development projects, such as public infrastructure development.

Qualified Zone Academy Bonds and Qualified School Construction Bonds

Congress created Qualified Zone Academy Bonds and Qualified School Construction Bonds to help schools raise funds to renovate and repair buildings, invest in equipment and current technology, develop more challenging curricula, and train teachers. The tax credit portion of these bonds depends on the issuance date of the bonds, the number of bonds outstanding, and the time remaining until their redemption.

Qualified Energy Conservation Bonds and New Clean Renewable Energy Bonds

Qualified Energy Conservation Bonds (QECB) may be issued by state, local, and tribal governments to finance qualified energy conservation projects. A minimum of 70 percent of a state's allocation must be used for governmental purposes, and the remainder may be used to finance private activity projects. QECBs were originally structured as tax credit bonds. However, the March 2010 *Hiring Incentives to Restore Employment* (HIRE) *Act* (H.R. 2847 (Section 301)) changed QECB from tax credit bonds to direct subsidy bonds similar to BABs. The QECB issuer pays the investor a taxable coupon and receives a rebate from Treasury.

New Clean Renewable Energy Bonds (CREBs) may be issued by public power utilities, electric cooperatives, government entities (states, cities, counties, territories, Indian tribal governments), and certain lenders to finance renewable energy projects. CREBs were originally structured as tax credit

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For the Years Ended September 30, 2020 and 2019

bonds. The March 2010 HIRE Act (H.R. 2847 (Section 301)) changed CREBs from tax credit bonds to direct subsidy bonds similar to BABs. The issuer pays the investor a taxable coupon and receives a rebate from Treasury.

American Opportunity Tax Credit

The American Opportunity Tax Credit replaces the Hope Credit. The credit was made permanent by the *Protecting Americans Against Tax Hikes Act of 2015*. This tax credit makes the Hope Credit available to a broader range of taxpayers, including many with higher incomes and those who owe no tax. Additionally, it adds required course materials to the list of qualifying expenses and allows the credit to be claimed for four post-secondary education years instead of two. Many of those eligible will qualify for the maximum annual credit of $2,500 per student.

Corporate Alternative Minimum Tax Credit

Internal Revenue Code (IRC) Section168(k)(4) allows a taxpayer to elect to claim a refundable credit for certain unused research credits in lieu of the special depreciation allowance for eligible property.

Health Coverage Tax Credit

The federal Health Coverage Tax Credit (HCTC) was created by the *Trade Act of 2002* to help certain displaced workers and certain retirees pay for health insurance. Generally, those eligible to claim the credit fall into one of two categories: 1) trade-impacted workers who have lost their jobs because of increased imports or a shift in production to another country and are classified as Trade Adjustment Assistance (TAA) or Alternative Trade Adjustment Assistance (ATAA) and, 2) individuals whose pensions are being paid by the Pension Benefit Guaranty Corporation (PBGC), are at least 55 years of age and not entitled to Medicare.

The *Further Consolidated Appropriations Act of 2020* (P.L. 116-94) extended the expired HCTC from 2019 to 2020. Previously, the *Trade Preferences Extension Act of 2015* (Public Law 114-27) extended and modified the expired HCTC through 2019. Previously, those eligible for the HCTC could claim the credit against the premiums they paid for certain health insurance coverage through 2013. The HCTC can now be claimed for coverage through 2020. Eligible participants are responsible for paying 27.5 percent of their insurance premium while the IRS is responsible for paying the remaining 72.5 percent.

The HCTC Monthly Program is only available to individuals who are determined eligible by Department of Labor or PBGC, enrolled in qualified health coverage, and have an approved HCTC monthly vendor. These vendors are Health Plan Administrators or Third-Party Administrators who are willing to provide direct deposit information in order to accept health insurance premiums on their member's behalf.

Payments for Disaster Related Tax Relief

On September 29, 2017, the President of the United States of America signed into law H.R. 3823, known as the *Disaster Tax Relief and Airport and Airway Extension Act of 2017* (the Act), which provides a series of relief measures for zones and areas affected by hurricanes Harvey, Irma and Maria, among other matters. Pursuant to Section 504(d)(1) of the Act, the Secretary of the Treasury shall pay to Virgin Islands and Puerto Rico amounts estimated by the Secretary of the Treasury as being equal to the aggregate benefits that would have been provided to residents of Virgin Islands and Puerto Rico by

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INTERNAL REVENUE SERVICE

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reason of the provisions of Title V of the Act if a mirror code tax system had been in effect in Virgin Islands and Puerto Rico.

Small Business Health Insurance Tax Credit

Certain small employers are eligible for a tax credit, provided they contribute a uniform percentage of at least 50 percent toward their employees' health insurance. For nonprofit (tax-exempt) organizations, the credit cannot exceed the total amount of income and Medicare tax (i.e., hospital insurance) withholdings the employer must make and the related employer share of Medicare tax on employees' wages.

Other Outlays

Economic Impact Payments

Economic Impact Payments were created by the CARES Act. It allowed for individuals with adjusted gross income up to $75,000 ($150,000 joint return), who are not a dependent of another taxpayer and have a work eligible social security number, to be eligible for the full $1,200 ($2,400 joint return) rebate. In addition, they are eligible for up to an additional $500 per eligible child. For filers with income above those amounts, the payment amount is reduced by $5 for each $100 above the $75,000/$150,000 thresholds. Single filers with income exceeding $99,000 and $198,000 for joint filers with no children are not eligible. Social Security recipients and railroad retirees who are otherwise not required to file a tax return are also eligible and will not be required to file a return.

Cost Sharing Reduction

In addition to the premium tax credit, individuals who purchased a qualified health care plan through the Marketplace could qualify for Cost Sharing Reductions (CSR) based on their family income. This lowered the amount they had to pay for out-of-pocket costs such as deductibles, coinsurance, and copayments. Unlike the premium tax credit, these subsidies were not tax credits and were not reported on the recipient's income tax return. The CSR program was administered jointly by the U.S. Department of Health and Human Services (HHS) and the IRS. These CSR payments were outlays of the Federal Government.

On October 10, 2017, the Attorney General issued a formal legal opinion on the permanent, indefinite appropriation for refunding internal revenue collections, 31 U.S.C. Section 1324, indicating the appropriation is not available to fund the CSR payments authorized by Section 1302 of the *Affordable Care Act*, 42 U.S.C. Section 18071. Considering the Attorney General's opinion, the Acting Secretary of HHS issued a directive on October 11th prohibiting CSR payments, and on October 12th an executive order was issued to discontinue CSR payments effective October 1, 2017.

Basic Health Program

Section 1331 of the PPACA gives states the option of creating a health benefits coverage program for low-income residents who would otherwise be eligible to purchase coverage through the Health Insurance Marketplace. The Basic Health Program (BHP) gives states the ability to provide more affordable coverage for these low-income residents and improve continuity of care for people whose income fluctuates above and below Medicaid and Children's Health Insurance Program levels. These subsidies, which are Federal Government outlays, are not tax credits and are not reported on the

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For the Years Ended September 30, 2020 and 2019

recipient's income tax return. In addition, the CSR portion of the BHP was terminated and no further quarterly payments were disbursed in FY 2018.

State Innovation Waiver Program

Starting January 1, 2017, the states can apply for a waiver under Section 1332 of the *Affordable Care Act*. The waivers will enable the states to implement innovative ways for providing access to quality health care to their residents. The coverage must be at least as comprehensive and affordable as would be provided absent the waiver. In addition, the states must extend coverage to a comparable number of residents as would be provided coverage absent a waiver and must not increase the federal deficit. Pass through funding is the foundation of the waivers, which will grant the states the equivalent of the forgone financial assistance they otherwise would receive absent the waiver, such as the Premium Tax Credit (IRC Section 36B), and the Small Business Health Tax Credit (IRC Section 45R).

Interest on Tax Refunds

The IRS pays interest on refunds sent later than 45 days from the original filing deadline (April 15, 2020) of the return. Additionally, interest is generally paid on amended returns that result in a refund. Returns that have been examined and show an overpayment also result in the payment of interest. The interest rate on overpayments is adjusted quarterly.

INTERNAL REVENUE SERVICE

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For the Years Ended September 30, 2020 and 2019

Payments of refundable tax credits in excess of tax liabilities and other outlays in FY 2020 and FY 2019 are shown below.

(In Millions)	2020	2019
Earned Income Tax Credit	$ 57,577	$ 59,209
Premium Tax Credit*	44,554	43,619
Additional Child Tax Credit	27,779	28,898
Sick & Paid Family Leave and Employee Retention Tax Credit	714	-
Build America and Recovery Zone Bonds	2,075	3,357
Qualified Zone Academy Bonds	34	43
Qualified School Construction Bonds	462	650
Qualified Energy Conservation Bonds	27	40
New Clean Renewable Energy Bonds	31	48
American Opportunity Tax Credit	2,787	2,881
Corporate Alternative Minimum Tax Credit	16,104	8,233
Health Coverage Tax Credit	13	24
Payments for Disaster Related Tax Relief	61	200
Economic Impact Payments	274,654	-
Cost Sharing Reduction**	(3)	(335)
Basic Health Program	6,303	5,095
State Innovation Waiver Program	605	204
Interest on Tax Refunds	2,957	2,042
Refundable tax credits and other outlays	**$ 436,734**	**$ 154,208**

*Includes advanced amounts for the Premium Tax Credit. Beginning in FY 2015, preliminary outlay amounts are adjusted upward or downward based on information from tax returns. In FY 2020 and FY 2019, total Premium Tax Credit advances disbursed by the Center for Medicare and Medicaid Services totaled $52,516 and $52.608, respectively. The FY 2020 and FY 2019 advanced amounts were adjusted downward based on tax return information.

**Negative amount represents funds CMS recovered from insurance companies.

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Social Security and Medicare Taxes

The FICA provides for a federal system of old-age, survivors, disability, and hospital insurance benefits. Payments to trust funds established for these programs are financed by payroll taxes on employee wages and tips, employers' matching payments, and a tax on self-employment income.

A portion of FICA benefits involves old-age, survivors, and disability payments. These benefits are funded by the social security tax, which is currently 6.2 percent of wages and tips up to $137,700, and an employer matching amount of 6.2 percent, bringing the total rate to 12.4 percent for calendar year 2020. In calendar year 2019, the rate was 6.2 percent of wages and tips up to $132,900 and an employer matching amount of 6.2 percent, bringing the total rate to 12.4 percent. These benefits are also funded by a self-employment tax of 12.4 percent on self-employment income up to $137,700 and $132,900 for calendar years 2020 and 2019, respectively. Remaining benefits under FICA pertain to hospital benefits (referred to as Medicare) and are funded by a separate 1.45 percent tax on all wages and tips (there is no wage limit) and the employer matching contribution of 1.45 percent, for a total of 2.9 percent. Self-employed individuals pay a Medicare tax of 2.9 percent on all self-employment income. Beginning in 2013, an additional Medicare tax of 0.9 percent was collected on earned individual income of more than $200,000 and $250,000 for married couples filing jointly. Social security taxes collected by the IRS were approximately $973 billion and $923 billion in FY 2020 and FY 2019, respectively. Medicare taxes collected by the IRS were approximately $294 billion and $279 billion in FY 2020 and FY 2019, respectively. Social security taxes and Medicare taxes are included in the Individual income, FICA/SECA, and other financial statement line on the Statement of Custodial Activity.

Tax Expenditures

The *Congressional Budget and Impoundment Control Act of 1974* (Public Law 93-344) defines tax expenditures as "revenue losses attributable to provisions of the Federal tax laws which allow a special exclusion, exemption, or deduction from gross income or which provide a special credit, a preferential rate of tax, or a deferral of tax liability." Tax expenditures are the foregone federal revenue resulting from deductions and credits provided in the Internal Revenue Code. Since tax expenditures directly affect funds available for government operations, decisions to forego federal revenue are as important as decisions to spend federal revenue.

While the term "revenue losses" is used in the statutory definition, tax expenditures have traditionally been measured as reductions in federal tax revenues relative to normal baseline provisions of an individual and corporate income tax system, which were properly approved and authorized by the Congress to accomplish identified policy objectives, recognizing that federal tax revenues would be reduced.

In accordance with Statement of Federal Financial Accounting Standards 52, *Tax Expenditures*, narrative disclosures and information regarding tax expenditures are reported in the consolidated *Financial Report of the U.S. Government*. Such disclosures do not apply to the financial statements of component reporting entities such as the IRS. Tax expenditures also do not affect the reporting in the *Budget of the U.S. Government* or any other special purpose report.

INTERNAL REVENUE SERVICE

Other Information - Unaudited

For the Years Ended September 30, 2020 and 2019

Tax Gap and Tax Burden

Tax Gap

The gross tax gap is the amount of true tax liability for a given tax year not paid voluntarily and/or timely. The IRS develops tax gap estimates on a periodic basis. In September 2019, the IRS issued tax gap estimates for the tax year (TY) 2011-2013 timeframe. Like the TY 2008-2010 tax gap estimates, these estimates reflect an average compliance rate and average annual tax gap for a timeframe of three years. This approach was selected as it provides more reliable tax gap estimates by category and source of noncompliance. The estimated average annual gross tax gap for the TY 2011-2013 timeframe is $441 billion.

There are three primary sources of noncompliance:
(1) nonfiling tax gap (the tax not paid on time by those who do not file required returns on time);
(2) underreporting tax gap (the net understatement of tax on timely filed returns); and
(3) underpayment tax gap (the amount of tax reported on timely filed returns not paid on time).

The estimated gross tax gap of each of these components is $39 billion for nonfiling, $352 billion for underreporting, and $50 billion for underpayments. Additionally, the gross tax gap can be grouped by type of tax, as follows:

- $314 billion for individual income tax,
- $ 42 billion for corporation income tax,
- $ 81 billion for employment tax, and
- $ 3 billion for combined estate and excise tax.

(The estimates of the component breakouts may not add to the $441 billion total due to rounding.)

The net tax gap is the gross tax gap less tax subsequently paid either voluntarily paid late or collected through IRS administrative and enforcement activities. As a result, the net tax gap is the portion of the gross tax gap that will not be paid. The portion of gross tax gap that is estimated to be eventually collected is $60 billion, resulting in a net tax gap of $381 billion. The estimated net tax gap by type of tax is:

- $271 billion for individual income tax,
- $ 32 billion for corporation income tax,
- $ 77 billion for employment tax, and
- $ 1 billion for combined estate and excise tax.

Tax Burden

The IRC provides for progressive rates of tax, whereby higher incomes are generally subject to higher rates of tax. The following pages present in both graph and table format various income levels and tax liability levels reported by individuals and corporations (that is, these amounts do not account for tax burdens that taxpayers do not report on their returns). This information is the most recent available for individuals (tax year 2018) and corporations (tax year 2017). The graphs and charts are representative of more detailed data and analyses available from the IRS Statistics of Income Office.

For individuals, the information illustrates, in both percentage and dollar terms, the tax burden that taxpayers bear by varying levels of Adjusted Gross Income (AGI). The corporate information illustrates, for varying corporate asset categories, the tax burden borne by these entities as a percentage of taxable income.

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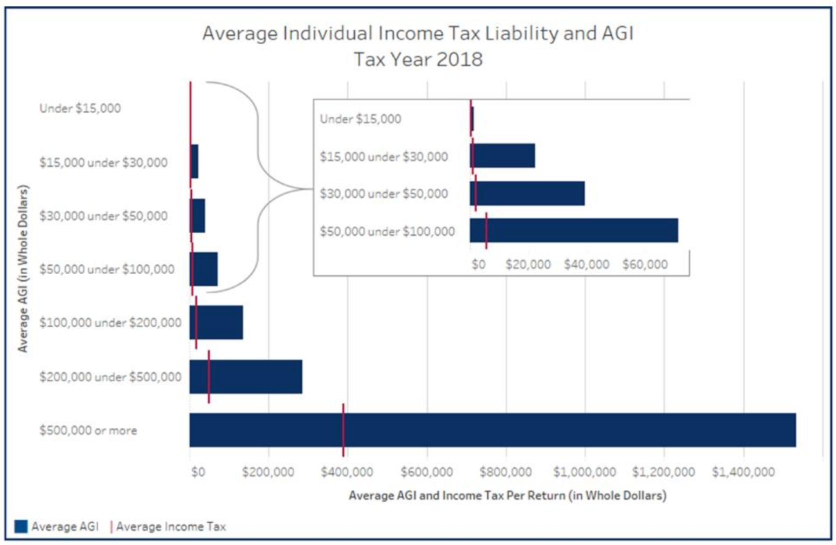
For the Years Ended September 30, 2020 and 2019



Adjusted gross income (AGI).	Number of taxable returns (in thousands)	AGI (in millions)	Total income tax (in millions)	Average AGI per return (in whole dollars)	Average income tax per return (in whole dollars)	Income tax as a percentage of AGI
Under $15,000	32,618	$ 40,228	$ 591	$ 1,233	$ 18	1.5%
$15,000 under $30,000	28,782	640,648	14,894	$ 22,259	$ 517	2.3%
$30,000 under $50,000	27,528	1,078,886	49,485	$ 39,192	$ 1,798	4.6%
$50,000 under $100,000	35,146	2,507,316	186,826	$ 71,340	$ 5,316	7.5%
$100,000 under $200,000	21,146	2,878,203	320,536	$ 136,111	$ 15,158	11.1%
$200,000 under $500,000	6,906	1,971,306	327,806	$ 285,448	$ 47,467	16.6%
$500,000 or more	1,648	2,526,852	638,611	$ 1,533,284	$ 387,507	25.3%
Totals	**153,774**	**$ 11,643,439**	**$ 1,538,749**			

(All figures are estimates and based on samples provided by the Statistics of Income Office.)

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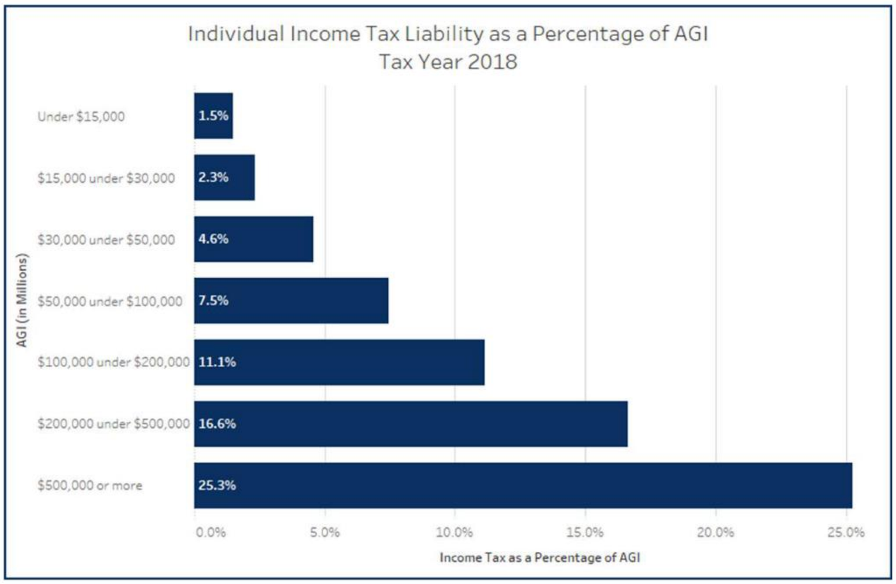
INTERNAL REVENUE SERVICE

Other Information - Unaudited

For the Years Ended September 30, 2020 and 2019



(All figures are estimates and based on samples provided by the Statistics of Income Office.)

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INTERNAL REVENUE SERVICE

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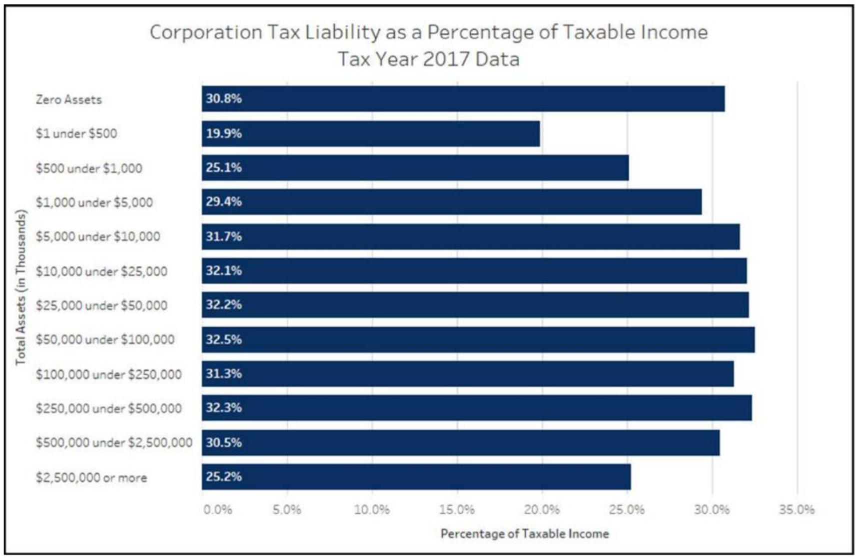
For the Years Ended September 30, 2020 and 2019



Total Assets (in thousands)	Income subject to tax (in millions)	Total income tax after credits (in millions)	Percentage of income tax after credits to taxable income
Zero Assets	$ 25,145	$ 7,740	30.8%
$1 under $500	7,611	1,514	19.9%
$500 under $1,000	3,784	950	25.1%
$1,000 under $5,000	13,638	4,011	29.4%
$5,000 under $10,000	8,617	2,727	31.7%
$10,000 under $25,000	12,535	4,021	32.1%
$25,000 under $50,000	11,831	3,809	32.2%
$50,000 under $100,000	13,496	4,391	32.5%
$100,000 under $250,000	21,275	6,652	31.3%
$250,000 under $500,000	20,996	6,790	32.3%
$500,000 under $2,500,000	85,366	25,998	30.5%
$2,500,000 or more	777,981	196,257	25.2%
Totals	**$ 1,002,275**	**$ 264,860**	

(All figures are estimates and based on samples provided by the Statistics of Income Office.)

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Appendix I: Management's Report on Internal Control over Financial Reporting

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, DC 20224

COMMISSIONER

November 9, 2020

Ms. Cheryl E. Clark
Director, Financial Management and Assurance
U.S. Government Accountability Office
441 G Street, NW, Room 5474
Washington, DC 20548

Dear Ms. Clark:

The Internal Revenue Service's (IRS's) internal control over financial reporting is a process effected by those charged with governance and management, as well as other personnel with related responsibilities. The objectives of this process are to provide reasonable assurance that: (1) transactions are properly recorded, processed, and summarized to permit the preparation of financial statements in accordance with U.S. Generally Accepted Accounting Principles, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition; and (2) transactions are executed in accordance with provisions of applicable laws, including those governing the use of budget authority, regulations, contracts, and grant agreements, noncompliance with which could have a material effect on the financial statements.

IRS management is responsible for maintaining effective internal control over financial reporting, including the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error. IRS management evaluated the effectiveness of the IRS's internal control over financial reporting as of September 30, 2020, based on the criteria established under 31 U.S.C. 3512(c), (d) (commonly known as the Federal Managers' Financial Integrity Act).

Based on that evaluation, we conclude that as of September 30, 2020, the IRS's internal control over financial reporting was effective. Accordingly, we provide unmodified assurance with respect to internal control over financial reporting. The IRS has two deficiencies in its internal control over financial reporting, for Unpaid Assessments and Financial Reporting Systems Security, which we are actively addressing.

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Charles P. Rettig Digitally signed by Charles P. Rettig

Charles P. Rettig
Commissioner of Internal Revenue

November 9, 2020
Date

Jeffrey J. Tribiano Digitally signed by Jeffrey J. Tribiano

Jeffrey J. Tribiano
Deputy Commissioner, Operations Support

November 9, 2020
Date

Ursula S. Gillis Digitally signed by Ursula S. Gillis

Ursula S. Gillis
Chief Financial Officer

November 9, 2020
Date

Appendix II: Comments from the Internal Revenue Service

COMMISSIONER

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, DC 20224

November 4, 2020

Ms. Cheryl E. Clark
Director
Financial Management and Assurance
U.S. Government Accountability Office
441 G Street, NW, Room 5474
Washington, DC 20548

Dear Ms. Clark:

Thank you for the opportunity to comment on the draft report titled, Financial Audit: IRS's Fiscal Years 2020 and 2019 Financial Statements. We are pleased that the Internal Revenue Service (IRS) received an unmodified opinion on its combined financial statements. The unmodified opinion demonstrates that the IRS accurately accounts for tax revenue receipts, tax refunds and IRS appropriated funds.

We appreciate the Government Accountability Office (GAO) recognizing our successful efforts to implement the Families First Coronavirus Response Act and the CARES Act that resulted in IRS processing over $274 billion in economic impact payments and accounting for $23 billion in deferred payroll taxes, as well as two new employer refundable tax credits. We also continued efforts to improve the internal controls protecting our financial systems and modernize information technology security by implementing initiatives that address the root causes of audit findings and prevent similar occurrences. Over the course of the past year, we made significant progress toward addressing prior year recommendations related to information systems.

The IRS's ability to produce accurate and reliable financial statements each year is due to the efforts of our solid management team and staff. We are dedicated to promoting the highest standard of financial management, and we look forward to working with GAO to continue providing high-quality reporting and improving our internal controls.

Sincerely,

Charles P. Rettig Digitally signed by Charles P. Rettig

Charles P. Rettig

Appendix III: Accessible Data

Management's Report

Accessible Text for Appendix I Management's Report on Internal Control over Financial Reporting

Page 1

November 9, 2020

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Director, Financial Management and Assurance

U.S. Government Accountability Office

441 G Street, NW, Room 5474

Washington, DC 20548

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Page 2

Charles P. Rettig

Commissioner of Internal Revenue

November 9, 2020

Jeffrey J. Tribiano

Deputy Commissioner, Operations Support

November 9, 2020

Ursula S. Gillis

Chief Financial Officer

November 9, 2020

Agency Comment Letter

Accessible Text for Appendix II Comments from the Internal Revenue Service

November 4, 2020

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Director

Financial Management and Assurance

U.S. Government Accountability Office

441 G Street, NW, Room 5474

Washington, DC 20548

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Sincerely,

Charles P. Rettig

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