



U.S. Department of the Treasury

How A Transformed IRS Will Bring Technology Into The 21st Century

President Biden in August 2022 signed the Inflation Reduction Act (“IRA”), providing critical resources to modernize the IRS after decades of underfunding. The Strategic Operating Plan shows how the IRS will use Inflation Reduction Act resources to provide taxpayers with world class customer service and reduce our deficits by hundreds of billions by pursuing high dollar noncompliance.

The IRS relies on technology that has not kept pace with the world around us. Lack of modern digital tools has negatively impacted taxpayer service, delayed timely processing of returns and refunds, and inhibited the introduction of new online services. Despite years of underfunding, IRS has made meaningful progress on the technology front, offering new digital services like the ability to respond online to notices and submit 1099 forms online. Technology will continue to be improved and updated in the years to come, with the goal of replacing many of its legacy systems in the next five years and achieving the ability to file and process all documents electronically. **These modernization efforts will help drive the IRS’s efforts to provide world class customer service.**

Expanded digitalization: The IRS currently enters the numbers from paper returns into its computers one digit at a time, which it has done since the 1960s. IRS is on track to scan 2 million returns in the 2023 filing season, and expanded digitalization made possible by scanning and data extraction will help deliver drastically improved service, faster refunds, and significantly lower levels of paper returns this filing season and in the years to come.

- The IRS will expand the scanning of key tax forms this year, including Forms 940, 941, 1040—the most common forms used by individuals and small businesses.
- IRS is automating the scanning of millions of individual paper returns, turning them into digital copies at that outset of the filing process.
- In the first five years of the 10-year plan, the IRS will eliminate paper backlogs that have delayed taxpayer refunds by digitizing all returns when they are received. The IRS will have end-to-end digital processing for high-volume forms and returns, while maintaining paper submission options.

New 1099 filing option for small businesses: The IRS launched an online portal to allow businesses to file Form 1099 series information returns electronically. These forms previously needed to be submitted through the mail. Small business owners often prepare their own taxes, rather than hire professional preparers, and this new tool is saving millions of small business owners time and money.

- Taxpayers will have the ability to file all documents, including information returns, electronically, so they are streamlined, mobile-friendly, and available in multiple languages.

New ability to respond to notices online, expanded self-service options: In the past, when taxpayers received notices for things like document verification they had to respond through the mail. Taxpayers are now able to respond to the most common notices for credits like the Earned Income and Health Insurance Tax Credits online, saving them time and money. The IRS will improve and develop online service tools for individual and Tax Pro accounts and launch new business online accounts in 2023.

- The IRS launched a new tool to respond to nine notices online, making it easier for taxpayers to get it right and get their refunds in a timely manner. The ability to respond electronically additional notices will be added in the coming years.
- The IRS enabled a direct-deposit refund option for 1040X amended returns. These refunds were previously only available by paper check, delaying taxpayers' receipt of their refunds.

Retire outdated technology and provide real-time processing: The Individual Master File, the source of all individual tax data, is 60 years old, making it one of the oldest information systems in the federal government. It contains a running record of all an individual's tax events including refunds, payments, penalties, and taxpayer status. The Business Master File is the equivalent for business entities, such as corporations and partnerships. While the IRS successfully delivered economic lifelines to hundreds of millions of Americans during the COVID-19 pandemic, the age of IRS's technology ecosystem became readily apparent when trying to rapidly deliver Economic Impact Payments.

- Modernizing the Individual Master File and Business Master File will enable the IRS to access and process taxpayer data more quickly, improve customer service, and accelerate the delivery of new technology capabilities.
- These improvements will be delivered incrementally over the next five years, culminating in a transformed system for storing tax data.

Along with IRS' annual discretionary budget, the IRA investment over 10 years will transform the IRS so that it provides world class service to taxpayers, delivers refunds quickly, enforces tax laws with a focus among high earners and corporations, supports the IRA's clean energy investments, and ensures that all Americans gain receive tax benefits for which they are eligible. These additional resources will not be used to increase the audit rates for small businesses and households making less than \$400,000, relative to historical levels. The IRS is focused on pursuing high-income and high-wealth individuals, complex partnerships, and large corporations that are not paying the taxes they owe. Put together, the IRA is a historic investment in building an economy that works for everyone.

For Further Information:

- [Strategic Operating Plan](#)
- [IRS.gov Tools](#)
- [Taxpayer Experience Days](#)
- [Credits and Deduction under the IRA](#)
- [Tax Information in Non-English Languages](#)