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**Four Hurdles for IRS to Implementing its \$80 Billion Plan**

By Naomi Jagoda and Lauren Vella

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- Hostile lawmakers will leave little room for missteps

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Four Hurdles for IRS to Implementing its \$80 Billion Plan

By Naomi Jagoda and Lauren Vella 2023-04-10T04:45:51000-04:00

1. Competing with Big Four salaries will be hiring challenge
2. Hostile lawmakers will leave little room for missteps

The IRS finally has a blueprint for spending the \$80 billion it got from the tax-and-climate law.

Now comes the hard part—to implement it.

The long-awaited document lays out key goals and timetables to boost taxpayer services, technology, and enforcement. But key details that lawmakers, former Treasury and IRS officials, and tax professionals were hoping to see are missing. And IRS observers see potential pitfalls the agency will have to avoid.

"I would say it's a high-level document," said Eric Solomon, senior counsel at Steptoe & Johnson, LLP, who previously served as assistant secretary for tax policy at the US Treasury Department. "In some ways, it's aspirational."

Here are some of the challenges the IRS faces following the release of the plan.

**Filling in the Details**

Among the blanks to be filled are targets for hiring and audits over the 10-year period covered by the plan.

"It remains short on measurable objectives and short on changes in the organization that will reasonably lead to the desired outcomes," said Robert Strauss, professor of public policy at Carnegie Mellon and an alumnus of both the Treasury Department and the Joint Committee on Taxation.

Solomon said he was interested in how the IRS was going to increase audit rates of corporations and complex partnerships, adding that aside from hiring specialists, the document doesn't get into employee training, specific tax issues they're going to address, and which corporations they're looking to inspect.

"Really, the question is: What are the next steps, and what are the challenges, and how are they going to overcome these challenges?" Solomon said.

IRS Commissioner Danny Werfel said Thursday the IRS thinks it makes the most sense to only give a three-year window for employment estimates because that's more precise.

But Mary Burke Baker, a government affairs counselor at K&L Gates who worked at the IRS and as an aide to Senate Finance Committee Democrats, said the agency could have instead released longer-term estimates and noted they were subject to change.

"Preliminary plans may have helped to address concerns about hiring 87,000 new agents focused on enforcement rather than services and operations," she said in an email to Bloomberg Tax.

A 2021 Treasury Department document estimated the IRS would hire 87,000 employees if it received more funds.

That figure referred to all employees, not just enforcement staff, but Republicans misleadingly say the IRS plans to hire 87,000 "agents."

## Hiring

The plan calls for hiring in a number of areas, including for audits of high-income individuals and large businesses, providing guidance to taxpayers, and strengthening the agency's data expertise.

A section on employee recruitment and retention proposes to revamp the hiring process, including creating student pipelines, as well as mentorship and coaching programs for employees.

But tax professionals expressed skepticism the IRS will be able to hire all the employees they need, and those best fit for the agency.

Strauss said the agency is going to run into problems competing with big accounting firms vying for the best talent in a tight labor market.

"If you're trying to rebuild an agency that's way down, and it's facing this retirement cliff, you know, you got to have a human resources office that is really focused on selling," Strauss said.

He added that if the IRS wants to accomplish its goal of increasing enforcement of high-wealth individuals and companies, it's going to need to invest.

"Congress may get offended that the starting salary for a good CPA could be \$130,000, \$140,000 a year," Strauss said. "But if you don't get good people auditing, you're not going to get good audit results."

Pete Sepp, president of the National Taxpayers Union, a right-leaning advocacy organization, said the IRS also needs to focus on hiring mid-to-senior level managers, an area where the agency has faced retention challenges.

"They're going to need to staff up in those areas, more so than the flashy ones like the auditors and the customer-service operators," Sepp said.

## Technology

One key goal is a technology overhaul to move away from outdated, manual processes currently used. Software and application updates, IT infrastructure modernization, data analytics, a cloud network, and online taxpayer services are among the elements.

Mark Everson, IRS commissioner from 2003 to 2007 and now vice chairman of Alliantgroup, noted concerns about how the IRS will safeguard all the data it obtains and analyzes.

Federal agencies still have not provided an explanation of how wealthy taxpayers' confidential tax information was obtained by ProPublica, which first started publishing articles about the data in June 2021, he noted. That's been a top target of Republican lawmakers seeking answers.

It will be important for the IRS to explain how "all this new data capability will be secure," he said.

(ProPublica's reporting has included the tax information of Bloomberg LP founder Michael Bloomberg. Bloomberg Tax is operated by entities controlled by Michael Bloomberg.)

Tax professionals also said the IRS needs to ensure it does not create or use algorithms that inadvertently target specific types of taxpayers. These concerns come after a recent Stanford University study found that Black taxpayers are audited at higher rates than non-Black taxpayers.

"A rogue IRS algorithm will destroy more lives than 87,000 revenue agents ever could," said Rob Kovacev, a partner at Miller & Chevalier.

## Congress

Hovering above these challenges will be Republicans hostile to the agency, all of whom voted against the Biden administration's Inflation Reduction Act that allocated the \$80 billion. The agency will have to be careful it does not engage in any mismanagement or improper spending of the funds, since Congress and various watchdog organizations will be keeping a close eye on the agency.

Chris Armstrong, a partner at Holland & Knight and a former Republican staffer on the House Ways and Means and Senate Finance Committees, said Congress members in both chambers and parties are likely to focus on the plan, but from different angles.

Finance Chair Ron Wyden (D-Ore.) likely will target tax avoidance by wealthy taxpayers, while the Ways and Means Republicans will be looking at how exactly each dollar is spent, Armstrong said. Spending on outside contractors and the increased audits likely will be on the agenda for Republicans, he said.

"It would be hard to design a Congress that's more prone to oversight than this one," Armstrong said, adding that he expects an abundance of hearings. "There's not going to be a lot of legislation happening."

Congress won't be the only body conducting oversight of the \$80 billion. The IRS should also expect scrutiny from the National Taxpayer Advocate's office, the Treasury Inspector General for Tax Administration, and the Government Accountability Office.

GAO's James McTigue Jr. said last month the office has eight planned or ongoing Inflation Reduction Act-related audits that are focused on the IRS.

—With assistance from Samantha Handler and Erin Slowey.

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