

## MODERNIZATION OF THE INTERNAL REVENUE SERVICE

The Inflation Reduction Act offers a generational opportunity to transform the relationship between Americans and the one federal agency that touches nearly all of them: the Internal Revenue Service (IRS).

A modernized IRS could be deployed to dramatically simplify the process for filing taxes, hold wealthy individuals and corporations accountable for the taxes they owe, realize the billions in additional federal revenue needed to pay for 73% of the recently enacted climate agenda and provide new evidence that government can work smoothly and efficiently for its people. If successful, the modernization of the IRS increases Americans' trust in governing institutions and bolsters the ability of the agency to equitably enforce tax law and provide benefits.

Strategic investments by philanthropy already have and will continue to leverage the Inflation Reduction Act's infusion of \$80 billion over 10 years into the modernization of the IRS so the agency has the talent, technological sophistication and trust necessary to effectively collect taxes and provide benefits.

Taking advantage of this opportunity is important for four reasons:

- **Faith in Government:** Modernizing IRS operations and improving its effectiveness is the clearest touch point for Americans to understand the importance of governing institutions to our democracy. Continuing to allow the IRS to weaken erodes public confidence in government at all levels, increases the ability of the wealthy to avoid paying their fair share, and undermines the agency's ability to combat climate change or reduce poverty.
- **Paying for Priorities:** Improving the effectiveness of tax enforcement [addresses](#) "discrimination in the computer algorithms the [IRS] uses to determine who is selected for an audit" with better technology that should reduce the inequities in the system. Furthermore, modernization of IRS services is [expected](#) to generate \$530b in additional revenue, that will partially finance \$430 billion in climate, energy and healthcare provisions. In other words, a modernized IRS fairly and equitably secures the revenue necessary to advance a range of policies and programs.
- **Reducing Poverty:** Modernizing the IRS through the technology behind a free e-filing system and improved benefits functions makes it easier for regular Americans to pay their taxes and ramp up the agency's ability to reach the people eligible for tax credits like the Earned Income Tax Credit or the Child Tax Credit (CTC).
- **A Large-Scale Change:** On top of ensuring infrastructure, climate technology and other programs are serving rural and suburban communities, the modernization of the IRS can transform the way Americans interact with the agency. Making this possible is a ripe field of public interest technologists, developing over the last 10 years, who are ready to step forward. We need skilled people who know how to do a turnaround, and we already have them in place. There will never be a better time to change government for the better at this scale.

## What Philanthropy Can Do

The Hewlett Foundation believes that modernization of the IRS is a powerful fulcrum to strengthen the core foundations of democracy. In partnership with other foundations, we have aligned the following goal: **To ensure the Internal Revenue Service has the talent, technological sophistication and trust necessary to effectively collect taxes and provide benefits.**

Over the course of developing this strategy, we sought to create an approach that balanced long- and short-term opportunities, focused on high-leverage tactics and offered lessons to apply to other executive branch agencies in the future.

## Progress to Date

Over the course of the last year, we have supported work that is not only bipartisan and nimble, but also a template for how we might advance the narrative (and show the public) that government and, most importantly, democracy can deliver for them. Below are some highlights from the work so far:

- **Developed a three-pillar strategy** focused on communications and advocacy, technology and delivery, and talent and leadership. This strategy enabled the creation of a [proposal bank](#) with 15 investment-ready organizations advancing IRS modernization across each pillar – including an emphasis on ideologically diverse communications and advocacy efforts.
- **Collectively invested over \$10 million** in the proposal bank’s organizations to date. Special thanks to the Gates Foundation, Schusterman Family Philanthropies, Ballmer Group, Rockefeller Foundation, Arnold Ventures, Packard Foundation, and others for their continued support for this work. Moreover, working group members are already considering or investing at least \$2.9M in a time-sensitive initiative led by the Economic Security Project, Code for America, and Groundwork Collaborative to support the IRS’s Direct File Pilot this year.
- **Ensured close coordination and regular information sharing** throughout the year, beginning with a critical in-person working session in May, and followed by 6 funder discussions and 4 implementation table meetings. Not to mention a slew of sidebar conversations to align our respective funding strategies.
- **Built relationships with partners at Treasury and the IRS**, who provided updates on important efforts like the Direct File Pilot and built dialogue between philanthropy and government about need and opportunities throughout 2023.

Often supported or enabled by work we’ve invested in, the IRS itself has made incredible strides in implementing its Inflation Reduction Act funding for modernization and enforcement -- along the way, becoming an exemplar of effective government. As [Don Moynihan](#) points out in a new piece, the IRS’s transformation brings lessons on how to build the state capacity needed to solve a wide range of contemporary challenges.

Key outcomes for our strategy's **Technology and Delivery** pillar include:

- The IRS **launched the Direct File Pilot** in [12 states](#) during the 2024 tax season in a [phased process](#). The **New America New Practice Lab** conducted the IRA-mandated [third party study](#) exploring Direct File's feasibility. **Code for America** has been supporting New York and Arizona with building cohesive state file tools to work in tandem with Direct File, and is partnering with **Economic Security Project** and **Groundwork Collaborative** on a [joint proposal](#) focused on supporting Direct File pilot outreach, communications, and implementation during the 2024 tax season. A recent [New York Times video](#) highlights this critical milestone in a decades-long push for a free federal tax filing tool.
- The Treasury and IRS **developed mechanisms to promote access to tax credits**, including the recent IRA & CHIPS [Pre-Filing Registration Tool](#) and the [Simple Notice Initiative](#). **New America New Practice Lab** has been executing sprint partnerships with the IRS to improve delivery of taxes such as CTC and EITC.
- The IRS **improved efficacy and equity in tax enforcement** [including](#) an AI-enabled pilot examining complex partnership returns, prioritization of high-income taxpayers, and revisions to audit algorithms to protect those claiming the EITC. **Stanford RegLab** has adapted advances in [AI and Machine Learning](#) to support audit selection and accuracy. A recent Wall Street Journal piece [shared](#) how tax enforcement has a positive return-on-investment for Americans.

Under **Talent and Leadership**, we saw that:

- The IRS **released a Strategic Operating Plan (SOP)** with five clear and data-driven [objectives](#) and a process for IRA funding implementation and accountability. The IRS also hired Chief Transformation and Strategy Officer David Padrino to guide the agency's modernization efforts. **The Partnership for Public Service** led two retreats and a cross-sector discussion for IRS and Treasury leaders on the SOP and has been supporting an accountant recruiting pilot amongst other hiring efforts. Additionally, **American Action Forum** has been an advisory member to the IRS for modernization covering issues like the tax gap, metrics, and immediate priorities.
- The IRS **ramped up hiring** with the goal to hire [20,000 people](#) in 2024 alone, largely for taxpayer services and enforcement. As part of this goal, **Tech Talent Project** connected 100 diverse technologists to the IRS last July – with at least four people hired – and convened 11 national tech leaders with the federal government in January to discuss product delivery.

Finally, external communications and storytelling are essential to amplifying public awareness of and support for the IRS's transformation, and investments under our **Communications and Advocacy** pillar are helping shape widespread coverage accordingly. The Coalition for Free and Fair Filing – co-led by **Code for America, Economic Security Project, Groundwork Collaborative, Public Citizen**, and more – has sparked significant action to advance Direct File, and each group has led its own supplementary efforts as well. Essential thought leadership, communications, and advocacy efforts across IRS modernization have come from **Center for Budget and Policy Priorities, Humanity Forward, Roosevelt Institute, Community for a Responsible Federal Budget, Americans for Tax Fairness, Public Private Strategies, American Action Forum**, and others.

Due at least partly to these efforts, there have been too many positive press clips over the past year to share here, but the following clips show positive Direct File coverage in the past few weeks alone:

- **Fortune** published an [op-ed](#) penned by former Intuit CEO Bill Harris voicing support for Direct File, saying that it's "a great thing," and "that's what [the IRS] should be doing."
- **Business Insider** published an [editorial](#) calling it "the most important tech product of 2024."
- **The Hill** and many other national media outlets have been publishing [explainers](#) on Direct File following the Department of Treasury hosting a media-only event in late January.
- **Local publications** from [Alaska](#), [Arizona](#), [California](#), [Florida](#), [Iowa](#), [Illinois](#), [Michigan](#), [New York](#), [Nevada](#), [Oregon](#), [South Carolina](#), [Texas](#), [Wisconsin](#), [New Jersey](#), and more states continue to promote the tool in their tax season coverage.

## Conclusion

There are surprisingly few opportunities for the public to directly engage with the federal government. As a result, there is a distance between everyday life and national governing institutions. Since power abhors a vacuum, forces opposing effective government have stepped into this space to undermine the reputation and effectiveness of the federal government. For decades, the IRS, as the one agency that directly serves nearly every American, has been the subject of their ire.

Modernizing the IRS is a generational opportunity to turn the tides of this narrative and ensure the agency effectively and equitably enforces the tax code and provides benefits. There is no governance issue more important to governing institutions that make up our democracy – much less the ability of Americans to reach their fullest potential.

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