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The IRS Business Systems Modernization Program: An Overview

The Internal Revenue Service (IRS) collects 95% of the funds needed to operate federal government programs and agencies. In FY2022, the agency collected \$4.9 trillion in taxes, processed 263 million tax returns and other forms, and issued \$642 billion in refunds.

Critical to this output are the IRS's information technology (IT) and business systems. Many have expressed long-standing concerns that those systems are outdated, inefficient, and technically incompatible with accomplishing the main goals of the FY2022-FY2026 IRS strategic plan, such as improving in-person, telephone, and online taxpayer assistance. To varying degrees, the IRS's IT and business systems rely on core legacy computer systems from the 1960s that operate with outdated computer programming languages such as Common Business Oriented Language (COBOL) and Assembly Language Code. The Government Accountability Office (GAO) has stated in several recent reports that legacy systems like the IRS's "contribute to security risks, unmet mission needs, staffing concerns, and increased costs."

Responding to these concerns, since the late 1990s, the IRS has spent billions of dollars to modernize its IT and business systems through a program called business systems modernization (BSM). The program has focused on developing an infrastructure for undertaking a number of projects related to taxpayer services, such as online accounts and case management. A primary goal of the modernization effort has been to replace the IRS's COBOL-based Individual and Business Master Files, which are still used to process individual and business returns.

Origin and Evolution of the BSM Program

The BSM program launched several technology development initiatives between FY1999 and FY2002. Among them was the Customer Account Data Engine (CADE), which was intended to replace the Individual Master File with a faster, more efficient, and more secure data management system. In 2004 congressional testimony, Robert F. Dacey of the GAO described the project as the "linchpin modernization project" because most IRS information system applications and processes relied on output from the Individual Master File.

IRS officials initially estimated that CADE would cost \$66 million and be ready to deploy by late 2001. After a string of delivery delays and cost overruns, the IRS stopped working on CADE in 2009, after spending about \$400 million on the project. It was used to process about 40 million individual tax returns in FY2009.

The IRS began to develop a more advanced version of CADE (CADE 2) in 2010. The initial plan was to develop the technology in three phases (or "transition states"), with the first phase to be completed by January 2012 and the second phase by January 2014. The GAO has reported that the first phase was completed in January 2014, and that the deadline for the second phase was moved to 2023. According to the latest IRS projection, full deployment may not happen until FY2028 to FY2030.

The IRS repackaged and expanded the BSM program when it issued a six-year plan for upgrading its IT systems in April 2019, known as the IRS Integrated Modernization Business Plan (IMBP). The initiative was focused on improving taxpayer services and making enforcement activities more cost-effective through the deployment of certain BSM technologies. These objectives were to be accomplished through a series of projects intended to (1) expand online access to taxpayer information and other IRS services, (2) reduce call-wait and case-resolution times, (3) accelerate tax return and refund processing times, (4) simplify taxpayer identity verification, and (5) eliminate millions of lines of legacy IT code. The IRS initially projected that all IMBP projects would be completed in two phases (FY2019 to FY2021 and FY2022 to FY2024) at a cost of \$2.3 billion-\$2.7 billion.

Funding

Congress set up a special account in FY1997 (the Information Technology Investment Account) to facilitate its oversight of BSM program spending and results. From the start of the program in FY1998, BSM funds have been available only for the acquisition, development, and implementation of products and services related to modernization projects. None of the funds may be used for the maintenance and operation of the IRS's existing IT systems.

Initial BSM funding was \$295 million in FY1998. Since then, funding has fluctuated. It peaked in FY2002 at \$406 million and remained above \$300 million until FY2005, when it fell to \$203 million. Funding then remained below \$300 million until FY2012, when it rose to \$330 million. BSM appropriations stayed close to \$300 million until FY2018, when they dropped to \$110 million. Funding steadily rose again until Congress approved no BSM funding in FY2023. Enacted BSM funding has totaled \$5.9 billion from FY1998 to FY2023.

The then-National Taxpayer Advocate proposed in her *FY2018 Report to Congress* that the BSM program ought to be funded on a multiyear basis. Her rationale was that such

a schedule would enable the IRS to accelerate efforts to replace core legacy IT systems and migrate more taxpayer services to its website without the project interruptions and cancellations that single-year funding can cause. Congress gave the IRS two years (from FY2022 to FY2024) to spend the \$275 million in enacted BSM appropriations for FY2022. In its FY2024 budget request, the Biden Administration asks Congress to permit the agency to obligate BSM funds over three years.

Recent Developments

In July 2022, according to a GAO report, the IRS was working on 21 IMBP projects. Of these, 9 were targeted at retiring legacy computer systems, and the other 12 were seeking to develop new digital pathways for assisting taxpayers. As of September 2022, the IRS had suspended work on 6 of the 21 projects, including CADE 2 and the retirement of the Individual Master File. The report noted that it was unclear when these projects might resume.

In a 2022 report, the Treasury Inspector General for Tax Administration (TIGTA) clarified that these suspensions were needed to allow the IRS to reallocate \$400 million of the \$1 billion in funds for technology modernization projects it received in the American Rescue Plan Act (P.L. 117-2). The transferred funds were used to pay for an urgent effort to eliminate the large backlog of paper tax returns and taxpayer correspondence from FY2021 and FY2022.

In August 2022, Congress passed P.L. 117-115, known as the Inflation Reduction Act (IRA). Among other things, the act provided the IRS with nearly \$79 billion in 10-year mandatory funding. Of that amount, \$4.8 billion was designated for the BSM program. These funds were in addition to any BSM funding included in annual appropriations laws. The IRS has until the end of FY2031 to obligate the IRA money. Critics of this funding have complained that too much of it is allocated to tax law enforcement (\$46 billion) and not enough to taxpayer services and business systems modernization. TIGTA has reported that the IRS had obligated \$436 million of the IRA BSM funds by June 30, 2023.

In June 2023, Congress passed the Fiscal Responsibility Act of 2023 (P.L. 118-5). Among other things, the act immediately rescinded \$1.4 billion of the IRA funding. It also included an unwritten agreement between the Biden Administration and House leaders to repurpose another \$20 billion through future appropriations. It is unclear how these reductions might affect IRA's BSM funding.

In April 2023, the IRS issued a strategic plan for spending the \$79 billion in IRA funding. The plan offered some details on how the agency intends to invest the \$4.8 billion for BSM projects, without providing specific cost estimates. One of the plan's priorities is the retirement of the Business Master File by FY2027 and the Individual Master File by FY2028.

Another priority is to invest some IRA funds in consolidating the IRS's multiple case management systems on a single digital platform called the Enterprise Case

Management system. Taxpayers and IRS employees currently use hundreds of applications, requiring employees to use multiple systems to perform similar tasks.

The IRS also plans to integrate dozens of core applications on secure, cloud-based platforms to speed up the delivery of taxpayer services.

Congressional Oversight

The fluctuations in BSM program funding partly reflect congressional concerns about the IRS's difficulties managing complicated and risky IT modernization projects without repeated cost overruns, schedule delays, and project failures.

Congress has several ways of overseeing BSM program spending. To obtain funding for a project, the IRS first must submit a request to the House and Senate Appropriations Committees for approval. Before the IRS submits a request, it has to be reviewed by TIGTA, the Office of Management and Budget, and the GAO.

Congressional oversight of the BSM program also includes mandatory quarterly reports by the IRS to the House and Senate Appropriations Committees on the cost, status, and projected delivery dates of current and near-future BSM projects. These reports are supplemented by annual mandated evaluations of the program by the GAO and TIGTA.

Policy Issues

A recurring concern regarding the BSM program, many contend, is the IRS's periodic difficulties delivering specific technology improvements on schedule and within budget and setting reasonable goals and strategies for achieving them.

These difficulties, some argue, have been apparent in the ongoing effort to replace the Individual Master File with CADE 2, a project that began in FY2012. In a 2016 report, the GAO recommended that the IRS develop a plan to finish the project with a timeline and key steps to be performed. No such plan was issued. The IRS's FY2023-FY2031 strategic plan for investing IRA funds sets a FY2028 completion date for replacing the Individual Master File but provides no details on the steps that need to be taken to finish the project. According to a recent GAO report, in July 2022, the IRS had suspended CADE 2 and another key project intended to replace the Individual Master File. The report noted that after 10 years of trying, it was still unclear when the IRS would replace the file. TIGTA noted in its latest assessment (FY2022) of the IRS's IT systems that the IRS revised or rebased the delivery schedule, cost, and scope of CADE 2 seven times between FY2016 and FY2019.

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