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U.S. DEPARTMENT OF THE TREASURY

Remarks by Secretary of the Treasury Janet L. Yellen at the IRS facility in New Carrollton, Maryland

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As prepared for delivery

Good morning, everyone. It's great to be at the IRS today with so many remarkable colleagues.

I would first like to acknowledge the IRS leaders who are here with us today. Thank you, also, to Commissioner Rettig, who is in Memphis today celebrating the 50th anniversary of the IRS facility there. I'm grateful for his hard work and leadership.

I just finished a tour of the technology facilities at the New Carrollton Federal Building. These facilities are a model for the IT modernization that has long been needed at the IRS. Today, I want to spend some time discussing how the new IRS funding in the Inflation Reduction Act will make these types of investments possible – as well as its impact on the American economy.

But first, I want to begin by speaking about the IRS itself.

As our nation's revenue collection agency, the IRS is a foundation of our government and society. The IRS collects 96% of the revenue that funds the federal government – supporting our priorities from national security to infrastructure to social security.^[1] It also is one of the very few parts of the federal government that touches nearly every American household.

IRS employees are known for their extraordinary dedication to public service. They have always served with distinction. But over the past couple of years, the employees of the IRS have been called to step up – even further – to serve the American people. While the country sheltered in place, many of you made sure the business of government continued. You worked long hours to deliver relief to American households. This includes three rounds of Economic Impact Payments

and the monthly Child Tax Credit.^[2] The work that you did ensured families got through a once-in-a-century event. And, in the case of the expanded Child Tax Credit, your work is said to have cut child poverty in half.

You managed to deliver on these historic new programs while simultaneously fulfilling your tax administration responsibilities. But during the pandemic, even filing season was far from routine. For instance, on one day last year – March 15 – the IRS received 8.6 million phone calls.

[3] This is over 20 percent of the phone calls that the IRS received in the entire year of 2019. Many of you are now working very hard to return the pandemic backlog of unprocessed returns to normal, healthy levels by the end of the year.

You dealt with the unprecedented demand and uncertainty that came with being the nation's tax administrator over the past two years. And you did it while the pandemic was surely disrupting your personal lives and you were called to juggle more responsibilities at home.

I've heard so many stories of IRS employees who went above and beyond. During the start of the pandemic, from Andover to New Carrollton, your teams mounted an all-hands-on-deck effort to keep the IRS operational. For some facilities, this meant an extensive clean-up effort and provision of PPE to keep employees safe. For others, it meant sending hundreds of laptop bundles, including cables, power cords, and headsets, to enable employees to work remotely. I've also heard that one of your colleagues – a U.S. air force veteran – has long donated his time to provide free tax preparation services to his community. But during the pandemic, he went even further. He spent his Economic Impact Payments on additional laptops to build out the tax assistance site – so that more people could get help.

And these stories are just the beginning. Just last month, here in New Carrollton, I heard that a team of your software developers completed the conversion of more than 200,000 lines of Assembly Language Code to Java. This is widely recognized as one of the most complex modernization efforts in all of government. And your team completed it more than a month ahead of schedule. I know many of you have worked weekends and traveled across the country to provide tax filing assistance to thousands of taxpayers. These are people who would otherwise not have had any help.

So thank you. I want you to know how much I appreciate the work that you do. And I want you to hear from me: that especially amid the recent rise in deeply unfair and dangerous misinformation and threats, there is nothing more important to me than for you to be able to safely carry out your critical job for the American people.

The work of the IRS is essential to our government and our country. So I'm glad that the President and I were able to secure \$80 billion in new funding for the agency. Let me explain what this new funding will go toward – as well as how it will build a stronger and fairer economy.

For decades, the IRS has been severely underfunded. Since 2010, the agency's budget has declined by 18 percent in real terms.^[4] This has had a severe impact on the size of the IRS workforce. Even though the filing population has grown significantly, the workforce is now the same size as it was in the 1970s – with fewer auditors than at any time since World War II.^[5]

Because of this, the IRS has had to scrape to get by. The IRS remains, in large part, a paper-based agency. Employees still open, and in some cases, transcribe paper returns by hand. Because of budget shortfalls, long-term modernization often must be cast aside to give employees bandwidth to address more immediate and urgent projects. Facing uncertain budgets year after year, the IRS is often forced to freeze external hiring or otherwise face risks that they cannot pay who they hire. This leads to delays for the American people and a reduced level of service.

The American public – and you – deserve an IRS that meets its expectations in a modern society. That includes getting phone calls answered, solving problems online, and receiving refunds more expeditiously. America deserves an IRS that has first-rate technology instead of a half-century-old programming language as the backbone of its systems.

And tax filing should be simple: I recently came across a statistic that it takes an average American 13 hours to file a tax return.^[6] Compare that with Sweden. There, some taxpayers can file simply by replying to a text message. We can and must do better.

The Inflation Reduction Act finally provides the funding to transform the IRS into a 21st century agency. While all the improvements won't be done overnight, taxpayers can expect to feel real differences during the next filing season. Today, I'm announcing specific progress we'll deliver on.

First, it's critical that all Americans – especially those in the working and middle class – can get tax help at an in-person location when they need it. For too long, IRS Tax Assistance Centers have been massively understaffed and under-resourced. No longer. By next year, every single center will be fully staffed. As a result, we will triple the number of Americans served at these centers. Last year, the IRS served around 900,000 Americans face-to-face. In the coming filing season, the IRS is projected to serve at least 2.7 million Americans.

Second, due to chronic understaffing and high call volume, the IRS has been unable to provide the level of phone service that taxpayers deserve. During the most recent filing season, the IRS averaged a 10-15% level of service, meaning that it answered less than 2 of every 10 calls. In this

coming filing season, we are committing the IRS to an 85% level of service. That means that over five times the number of calls will be answered. By hiring 5,000 additional customer service representatives, we will also cut phone wait times in half – from an average wait of nearly 30 minutes during the 2022 filing season to less than 15 minutes.^[7] We will dedicate a team to resolving issues that arise when processing returns for taxpayers.

Third, the IRS will firmly move into the digital age. Today, employees at the IRS still manually transcribe many paper returns. In this coming filing season, the IRS will automate the scanning of millions of individual paper returns into a native digital copy. For taxpayers, this means faster processing and faster refunds. The IRS will also build online capabilities to enable taxpayers to fully interact with the agency digitally. Currently, when taxpayers receive a notice from the IRS, they generally must respond via mail.^[8] During this coming filing season, millions of taxpayers will be able to receive and respond to notices online.

Fourth, to lay the groundwork for the future, I'll convene industry-leading customer service experts from the private sector to make sure we hear their perspectives on the IRS modernization effort. We recognize that customer service in the future will look differently than customer service today. Consulting these experts – and employees at the IRS – will help us sketch out our vision of what the IRS of the next decade looks like.

These are bold commitments that the IRS will deliver in just the next six months. And there's more to come in the months and years beyond.

In addition to an IRS that can finally serve the American people, we will also have an IRS that makes sure that everyone pays their fair share.

The world has become more complex. Enforcing tax laws is not as simple as it was a few decades ago. Average tax returns for large corporations now reach 6,000 pages. And more complicated partnerships have skyrocketed from less than 5% of total income in 1990 to over a third today.^[9]

As a result, the tax gap – the amount of unpaid taxes – has grown to enormous levels. It's estimated at \$7 trillion over the next decade.^[10] And since the IRS has lacked the resources to effectively audit high earners – whose audits are more complex and take more time – these high earners are responsible for a disproportionate share of unpaid taxes.

To illustrate: In 2019, the top one percent of Americans was estimated to owe over a fifth of unpaid taxes – totaling around \$160 billion.^[11] Data shows that less than half of all taxes from more complex sources of income are paid. Yet nearly all taxes due from wages and salaries – which are earned by ordinary Americans – are paid.^[12]

In sum, high earners are paying far less than they owe. This means that working families are shouldering a disproportionate burden of investing in our roads, schools, military, and more.

This inequity is unacceptable. As leaders and employees at the IRS have warned for years now, enforcement of the law is not only a means to raise revenue. It is also a matter of fundamental fairness. It is important for honest taxpayers to know that, when they file their taxes accurately with the IRS, other people are doing the same.

With your help, funding from the Inflation Reduction Act will go toward correcting this two-tiered tax system, where high earners play by different rules than working and middle-class families. Specifically, funding will go toward auditing more high earners who have not paid their full bill. With it, we are estimated to raise hundreds of billions of dollars in revenue.

Importantly, I've directed that enforcement resources will not be used to raise audit rates for households making under \$400,000 a year relative to historical levels. In fact, we expect audit rates for honest taxpayers to decline, once the IRS has the right technological infrastructure in place. This means a simpler tax filing season for taxpayers who are doing everything right.

Last week, I gave an economic speech discussing how our administration's plan will create a stronger, more resilient economy with greater fairness for all. I believe that adequately funding the IRS is core to our success. It raises the revenue for us to make important investments in our economic strength. It makes sure that all Americans are playing by the same rules. It avoids misallocation of resources in the economy at large. And it does so by deterring taxpayers from shifting their activities toward more opaque sources or engaging in tax evasion.

In all, a strong IRS is critical to the economic success of this country – and I am heartened that we are finally reflecting that in our funding decisions.

I want to close by returning to where I started.

Over the coming weeks and months, you will be asked, yet again, to meet the moment. As with all big things, it will be difficult – but I hope it will be mostly exciting.

You will help create a modernized IRS that serves people efficiently, collects taxes that are owed, and delivers credits and benefits to those who are entitled to them. You will be called to implement the Inflation Reduction Act's new corporate tax reforms and the green tax credits, which are the largest investment in fighting climate change in our nation's history. Soon enough, you will begin gearing up for the next tax filing season, with a mandate – and finally, resources – to properly serve the American people the way they deserve.

I know that this is a day that many of you have worked toward, for so long.

So thank you. I will do whatever I can to support you. And today, like every day, I am proud to be your colleague.

Thank you.

[1] <https://www.irs.gov/newsroom/written-testimony-of-charles-p-rettig-commissioner-internal-revenue-service-before-the-senate-finance-committee-on-the-filing-season-and-the-irs-budget>

[2] <https://www.irs.gov/newsroom/written-testimony-of-charles-p-rettig-commissioner-internal-revenue-service-before-the-senate-finance-committee-on-the-filing-season-and-the-irs-budget>

[3] <https://www.irs.gov/newsroom/written-testimony-of-charles-p-rettig-commissioner-internal-revenue-service-before-the-senate-finance-committee-on-the-filing-season-and-the-irs-budget>

[4] <https://home.treasury.gov/system/files/136/The-American-Families-Plan-Tax-Compliance-Agenda.pdf>

[5] <https://home.treasury.gov/system/files/136/The-American-Families-Plan-Tax-Compliance-Agenda.pdf>

[6] <https://home.treasury.gov/news/featured-stories/the-irs-doesnt-have-what-they-need-to-serve-americans-well-congress-can-help>

[7] <https://www.irs.gov/newsroom/national-taxpayer-advocate-issues-midyear-report-to-congress-expresses-concern-about-continued-refund-delays-and-poor-taxpayer-service>

[8] <https://www.irs.gov/newsroom/national-taxpayer-advocate-issues-midyear-report-to-congress-expresses-concern-about-continued-refund-delays-and-poor-taxpayer-service>

[9]

<https://home.treasury.gov/system/files/136/The-American-Families-Plan-Tax-Compliance-Agenda.pdf>

[10]

<https://home.treasury.gov/system/files/136/The-American-Families-Plan-Tax-Compliance-Agenda.pdf>

[11]

<https://home.treasury.gov/news/featured-stories/the-case-for-a-robust-attack-on-the-tax-gap>

[12]

<https://home.treasury.gov/system/files/136/The-American-Families-Plan-Tax-Compliance-Agenda.pdf>