

**WRITTEN STATEMENT OF**

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**HEARING ON**

**INTERNAL REVENUE SERVICE: NARROWING THE TAX GAP  
AND IMPROVING TAXPAYER SERVICES**

**BEFORE THE**

**SUBCOMMITTEE ON FINANCIAL SERVICES AND GENERAL  
GOVERNMENT**

**COMMITTEE ON APPROPRIATIONS**

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Chairman Van Hollen, Ranking Member Hyde-Smith, and distinguished Members of this Subcommittee:

Thank you for inviting me to testify about taxpayer service issues at today's hearing titled *Internal Revenue Service: Narrowing the Tax Gap and Improving Taxpayer Services*.<sup>1</sup>

Although this hearing also addresses narrowing the tax gap, my testimony will focus on improving taxpayer service, protecting taxpayer rights, and ensuring a fair and just tax system for all taxpayers.

Over the past year, taxpayer service at the IRS has been historically poor. There is no way to sugarcoat it. Refund delays have been long, telephone assistance has been poor, and taxpayers have not been receiving help with refunds, stimulus payments, or the information they need to be compliant. At the same time, IRS statistics show taxpayers with incomes below \$50,000 fail to respond to proposed adjustments in correspondence audits 45 percent of the time.<sup>2</sup> These non-responses, known as "defaults," result in the issuance of statutory notices of deficiency, requiring taxpayers to file petitions in the U.S. Tax Court or be assessed the deficiency and left to deal with collection issues. This high rate of default makes me ask: What is wrong with this system?

Today, most taxpayers are focused on the challenges associated with the current filing season. Even with IRS employees working long hours and IRS leadership making efforts to move resources around, the IRS has struggled to handle a backlog of about 30 million individual and business income tax returns requiring manual processing for most of the filing season, including several million 2019 returns that were filed in 2020. Most taxpayers receive refunds, so when the IRS falls behind in processing returns, refunds are delayed. This year's delays are unprecedented.

Even as Congress and the IRS focus on the tax gap, we cannot overlook the importance of improving taxpayer service, protecting taxpayer rights, and ensuring the IRS receives sufficient funding to achieve these critical goals. In 2015, then-Commissioner Koskinen termed the IRS's customer service "abysmal."<sup>3</sup> Yet during the 2015 filing season, return processing delays were minimal, the telephone "Level of Service" during the filing season was 37 percent, and 15 percent of callers reached an IRS telephone assistant.<sup>4</sup> If 2015 was "abysmal," I am not sure the English language has a strong enough word to describe the delays and challenges taxpayers experienced this recent filing season.

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<sup>1</sup> The views expressed herein are solely those of the National Taxpayer Advocate. The National Taxpayer Advocate is appointed by the Secretary of the Treasury and reports to the Commissioner of Internal Revenue. However, the National Taxpayer Advocate presents an independent taxpayer perspective that does not necessarily reflect the position of the IRS, the Treasury Department, or the Office of Management and Budget. Congressional testimony requested from the National Taxpayer Advocate is not submitted to the IRS, the Treasury Department, or the Office of Management and Budget for prior approval. We have provided courtesy copies of this statement to both the IRS and the Treasury Department in advance of this hearing.

<sup>2</sup> The non-response rate includes taxpayers with undelivered IRS audit notices or statutory notices of deficiency and taxpayers who did not respond to IRS audit notices.

<sup>3</sup> Remarks of Commissioner John A. Koskinen Before the National Press Club (Mar. 31, 2015) (cited in Kevin McCoy, *Report: IRS taxpayer service goes from bad to terrible*, USA TODAY (July 15, 2015), <https://www.usatoday.com/story/money/2015/07/15/irs-taxpayer-service-2015/30181465>).

<sup>4</sup> IRS, Joint Operations Center (JOC) Snapshot Reports, Accounts Management (week ending Apr. 18, 2015).

When taxpayers did not receive timely refunds, many checked the IRS's *Where's My Refund?* online tool or *IRS2Go* app to find out why. But most of the backlogged returns had not reached a stage in the processing pipeline where information was available through *Where's My Refund?* or *IRS2Go*. Largely for that reason but also for others, frustrated taxpayers are calling the IRS for help and information. The IRS had received more telephone calls by the end of April 2021 than it had ever received in a full fiscal year.<sup>5</sup> Although IRS employees have answered more calls than last year, they have not been able to manage the flood of calls. Through May 1, the IRS reported a "Level of Service" on its Accounts Management telephone lines of 14 percent, with only seven percent of taxpayer calls reaching a telephone assistor.<sup>6</sup> The most frequently called toll-free number is the "1040" line for individual income tax services. It has logged about 82 million calls, and only 2.6 percent of callers have reached a customer service representative (one out of 38).<sup>7</sup>

Despite the recent challenges, I try to focus on the positive, so I want to emphasize and acknowledge the following points:

- Most taxpayers this filing season experienced no problems. More than 90 percent of taxpayers filed their returns electronically, and most received their refunds within 21 days – many in under a week. Through April 30, the IRS had processed 110 million returns and issued 81 million refunds, totaling about \$233 billion, without a hitch.<sup>8</sup>
- Congress authorized three rounds of stimulus payments and most eligible individuals received their stimulus payments without problem. Taken together, the IRS has issued more than 470 million payments totaling about \$800 billion.<sup>9</sup>
- The primary cause of the processing backlogs and phone challenges was the COVID-19 pandemic. This was literally a once-in-a-century occurrence that caught most individuals, businesses, and government agencies off guard and presented challenges that could not easily be overcome. However, most taxpayers do not understand the reasons for the delays, causing frustration, stress and, for many, financial harm. Secondary

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<sup>5</sup> Until this year, the IRS had received its highest number of telephone calls in fiscal year (FY) 2008 when it logged about 167 million net attempts. As of May 1 – with five months still left in FY 2021 – the IRS had received 177 million calls. IRS, JOC Snapshot Reports, Enterprise Total (comparing FY ending Sept. 30, 2008, with week ending May 1, 2021).

<sup>6</sup> IRS, JOC Snapshot Reports, Accounts Management (week ending May 1, 2021).

<sup>7</sup> IRS, JOC Snapshot Reports, Product Line Detail: Individual Income Tax Services (week ending May 1, 2021).

<sup>8</sup> IRS, 2021 Filing Season Statistics (week ending Apr. 30, 2021), <https://www.irs.gov/newsroom/filing-season-statistics-for-week-ending-april-30-2021>.

<sup>9</sup> The IRS reports it issued 160 million payments worth \$270 billion under the Coronavirus Aid, Relief, and Economic Security (CARES) Act; 147 million payments worth \$142 billion under the COVID-related Tax Relief Act of 2020; and 164 million payments worth \$386 billion under the American Rescue Plan Act of 2021. See IRS News Release, IR-2021-38, As required by law, all first and second Economic Impact Payments issued; eligible people can claim Recovery Rebate Credit (Feb. 16, 2021), <https://www.irs.gov/newsroom/as-required-by-law-all-first-and-second-economic-impact-payments-issued-eligible-people-can-claim-recovery-rebate-credit>; IRS News Release, IR-2021-103, More than 1.1 million additional Economic Impact Payments disbursed under the American Rescue Plan; payments total approximately 164 million (May 5, 2021), <https://www.irs.gov/newsroom/more-than-1-point-1-million-additional-economic-impact-payments-disbursed-under-the-american-rescue-plan-payments-total-approximately-164-million>.

causes of the IRS's problems are the reduction in the IRS workforce over the past decade and congressional directives to issue stimulus payments and provide other financial relief to mitigate the impact of the pandemic, which substantially increased the IRS's workload and the strain on its employees.

- To reduce taxpayer burden, the IRS provided almost complete relief from enforcement actions during the early part of the pandemic. Under its "People First Initiative,"<sup>10</sup> it suspended most collection activities, including the filing of notices of federal tax lien, the issuance of summons, and levies, suits, and seizure actions. It granted extensions to respond to Collection Due Process notices and appeals of adverse offer in compromise and Collection Appeal Program decisions. It suspended installment agreement and offer in compromise payment requirements. Significant relief was provided with the Taxpayer Relief Initiative, including expanded installment agreement options and additional flexibilities for taxpayers to pay accepted offers in compromise.<sup>11</sup>
- Over the long run, the lessons learned from the pandemic are valuable in helping to identify needs for improved tax administration. The pandemic exposed weaknesses and vulnerabilities that can be strengthened, it prompted the IRS to experiment with new approaches to old problems, it led to a renewed awareness of the impact of cuts to the IRS's budget over the past decade and its need for additional funding, and it is causing the IRS and congressional overseers to collaborate on steps to improve the IRS's performance going forward.
- The IRS workforce deserves enormous praise for its work over the past year. Like all Americans, IRS employees have faced personal challenges, including childcare challenges, financial challenges for individuals out of work, and the mental health challenges of being cooped up in a house or an apartment for the year. Throughout the year, some employees worked in IRS facilities at personal risk, and unfortunately, some contracted COVID-19.

I also want to note that I could not be prouder of the employees in my own function, the Taxpayer Advocate Service, for their efforts during the past year assisting taxpayers during this difficult time. Although this year has been and continues to be challenging for many taxpayers, it is important for the public to understand the problems in tax administration over the past year have been situational and would have been worse if not for the hard work and commitment of the employees and leadership of the IRS.

In this statement, I will describe some of the challenges taxpayers have experienced during the filing season and offer my priority recommendations to improve the experience of U.S. taxpayers in their dealings with the IRS while trying to comply with their tax return filing obligations.

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<sup>10</sup> See IRS, People First Initiative – Providing Relief to Taxpayers, <https://www.irs.gov/newsroom/people-first-initiative-providing-relief-to-taxpayers>.

<sup>11</sup> See IRS, Taxpayer Relief Initiative aims to help those financially affected by COVID-19 (updated Apr. 15, 2021), <https://www.irs.gov/newsroom/taxpayer-relief-initiative-aims-to-help-those-financially-affected-by-covid-19>.

## **I. Taxpayers Are Experiencing Significant Challenges in Their Dealings with the IRS Due to the Impacts of the Pandemic and Workforce Reductions on IRS Operations.**

Between FYs 2010 and 2019, the IRS budget was cut by 20.4 percent after adjusting for inflation, and IRS staffing was reduced by 22 percent – from 94,711 to 73,554 full-time equivalent (FTE) positions.<sup>12</sup> When COVID-19 began to spread in March 2020, the IRS – like many entities in the United States and around the world – was forced to shut down many of its core operations to comply with social distancing requirements to protect the health and safety of its employees, taxpayers, and our local communities.

In March 2020, December 2020, and March 2021, Congress directed and entrusted the IRS with the responsibility to administer critical programs designed to provide financial relief to struggling families and individuals and to boost the U.S. economy generally.<sup>13</sup> While the pandemic-induced shutdowns had the largest impact on IRS operations, the combination of the shutdowns, the addition of three rounds of stimulus payments, the responsibilities of implementing new legislation, and a decade of reduced staffing have created a perfect storm, leading to an extraordinary imbalance between the IRS's workload and the resources available to manage it for its annual filing season.

The two most significant consequences have been a huge backlog in the manual processing of tax returns and an inability to keep up with the unprecedented volume of taxpayer telephone calls the IRS has received.

### **A. The IRS has struggled with a backlog of about 30 million individual and business income tax returns that require manual processing.**

The IRS has a backlog of about 30 million individual and business income tax returns that require manual processing – meaning that employee involvement is generally required before a return can advance to the next stage in the processing pipeline. Unprocessed paper tax returns account for almost half the backlog. Returns suspended during processing, meaning returns set aside because of issues that require additional review, account for just over half.

These processing backlogs matter greatly because most taxpayers overpay their tax during the year and are entitled to receive refunds when they file their returns. In addition to repaying overpayments of tax, refunds may include Earned Income Tax Credit (EITC) benefits that can be worth up to \$6,660,<sup>14</sup> Additional Child Tax Credit benefits that can be worth up to \$1,400 per qualifying child<sup>15</sup> and, this year, Recovery Rebate Credits (RRCs).<sup>16</sup> The IRS's backlog of 30

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<sup>12</sup> Budget data provided by the IRS Office of Chief Financial Officer (Oct. 2, 2019). FTE data published in IRS, 2019 Data Book 74, Table 31: Collections, Costs, Personnel, and U.S. Population, FYs 1990-2019 (2020), <https://www.irs.gov/pub/irs-pdf/p55b.pdf>.

<sup>13</sup> See CARES Act, Pub. L. No. 116-136, 134 Stat. 281 (2020); COVID-related Tax Relief Act of 2020, enacted in Division N of Title II of the Consolidated Appropriations Act, 2021, Pub. L. No. 116-260, 134 Stat. 1182, 1965-71 (2020); and American Rescue Plan Act of 2021 (ARPA), Pub. L. No. 117-2, 135 Stat. 4 (2021).

<sup>14</sup> See IRC § 32.

<sup>15</sup> See IRC § 24(d)(1).

<sup>16</sup> See IRC §§ 6428, 6428A.

million income tax returns means that most individual taxpayers in this group and many business taxpayers will not receive their refunds until the IRS eventually processes their returns.

After the pandemic forced IRS office closures last March, the IRS over time was able to make a significant amount of its work portable, and it instructed its field examination and collection employees to postpone the start of examinations, liens, and levies. Most employees could perform their jobs from home. To protect the confidentiality and security of tax return information, however, the IRS could not allow employees who open and enter data from paper tax returns to take them home, requiring employees to work in the IRS campuses and only when necessary gather information from local offices.

The IRS received approximately 17 million individual income tax returns<sup>17</sup> and an estimated 50 million other tax returns on paper last year,<sup>18</sup> in addition to more than 13 million pieces of correspondence.<sup>19</sup> The shutdown of processing operations meant these returns and letters sat unopened on trucks for months. When IRS employees slowly returned to their jobs, the backlogs were overwhelming.

As of May 1, the IRS has a backlog of about 12.9 million paper tax returns waiting to be processed. The backlog includes 2.5 million tax returns received in 2020 and 10.4 million returns received in 2021. They are split about evenly between individual returns and business returns.

In addition, there is a second group of about 15.1 million returns suspended during processing. These returns generally require employee review to verify the legitimacy of some aspect of the return. There are also about 2.5 million amended returns awaiting processing.

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<sup>17</sup> IRS, 2020 Filing Season Statistics (week ending Dec. 11, 2020), <https://www.irs.gov/newsroom/filing-season-statistics-for-week-ending-december-11-2020> (reporting that 152.8 million of 169.7 million individual income tax returns received had been filed electronically).

<sup>18</sup> IRS Pub. 6186, Calendar Year Projections for the United States and IRS Campuses: 2027-2027 (2020 Update) 7, Table 2 (Nov. 2020), <https://www.irs.gov/pub/irs-pdf/p6186.pdf>.

<sup>19</sup> IRS, Customer Account Services Accounts Management Paper Inventory Reports, Receipt Comparison Report (FY 2020).

The breakdown of the processing backlog is as follows:

**Figure 1: Status of Inventory Requiring Manual Processing (as of May 1, 2021)<sup>20</sup>**

	Individual	Business	Not Specified	Total
<b>Paper Returns Awaiting Processing</b>				
Calendar Year 2020	1,000,000	1,500,000		2,500,000
Calendar Year 2021	4,900,000	3,700,000	1,800,000	10,400,000
<b>Total Paper Returns Awaiting Processing</b>	<b>5,900,000</b>	<b>5,200,000</b>	<b>1,800,000</b>	<b>12,900,000</b>
<b>Paper and Electronic Returns – Processing Suspended</b>	<b>13,200,000</b>	<b>1,900,000</b>		<b>15,100,000</b>
<b>Amended Returns Inventory</b>	<b>1,900,000</b>	<b>500,000</b>		<b>2,500,000</b>
<b>Total Unprocessed Returns</b>	<b>21,000,000</b>	<b>7,600,000</b>	<b>1,800,000</b>	<b>30,500,000</b>

The returns suspended during processing consist mostly of e-filed returns but include some paper returns. The bulk of the suspended returns have been sent to the IRS’s “Error Resolution System” (ERS) for review. This year, the issues that have caused the largest number of returns to be sent to ERS have been RRC claims that do not match IRS records and taxpayer elections to use 2019 incomes rather than 2020 incomes to compute the EITC. To date, more than four million returns contained RRC errors. These have included dependents listed on multiple returns, missing or invalid Social Security numbers or Individual Taxpayer Identification Numbers without a military indicator, individuals who were deceased prior to the tax period, dependents who exceeded the age limitation, and RRC amounts computed incorrectly.

Beside ERS cases, returns may be suspended if identify theft is suspected (*e.g.*, if a return comes in with a missing or incorrect Identity Protection Personal Identification Number), if a return is rejected for processing (*e.g.*, if a schedule or required signature on a paper return is missing), or if a return is classified as “unpostable” (*e.g.*, if the IRS has a date of death on file that precedes the current tax year).

Now that the filing season has ended, the good news is that the stream of new returns entering the processing pipeline will slow dramatically, at least until we approach the extended filing deadline of October 15. The bad news is that it will take considerable time for IRS employees to work through the backlog of about 30 million individual and business income tax returns. Commissioner Rettig recently testified that the IRS anticipates completing the processing of the backlog sometime this summer. But it is a heavy lift to accomplish this high volume of manual reviews. Moreover, even with a possible summer completion date, taxpayers will continue to be frustrated and, in some cases, will experience financial hardships because they will not receive the refunds to which they are entitled until the processing of their returns is complete.

<sup>20</sup> Data from IRS systems and Wage & Investment Division. Totals are not necessarily exact due to rounding.



**B. IRS telephone service this year has been historically poor.**

The IRS received more telephone calls during this year's filing season than it has ever received in a previous filing season. Taxpayers whose returns are caught up in processing backlogs called, and I suspect many called multiple times, trying to get an answer and to understand the reason for the delays and what, if anything, they need to do. Taxpayers who did not receive their stimulus payments when they expected also called, and most likely called often. The IRS received more than 150 million calls during the filing season (through May 1). Employees answered 13.3 million – just nine percent.

The IRS staffs dozens of telephone lines, and some fared better than others. About 90 percent of calls came in on lines that fit under the "Accounts Management" umbrella. On those lines, fewer than seven percent of taxpayers reached a telephone assistor. The largest Accounts Management line is the "1040" number. The IRS received about 82 million calls on the 1040 number, and only about 2.6 percent of callers got through to an employee (one out of 38).<sup>21</sup>

By contrast, the IRS did a better job answering calls from taxpayers to whom it had sent notices. For example, about five million taxpayers called the Automated Collection System toll-free lines, and employees answered about 40 percent of their calls.

Because the IRS toll-free telephone lines were shut down and then slowly reopened during 2020, a comparison of the current filing season with the 2019 filing season will provide better context. Overall, the IRS has received more than three times as many calls this year. It has answered slightly more calls, but it could not keep pace with the volume. Figure 2 compares telephone service in the current filing season with the 2019 filing season.

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<sup>21</sup> IRS, JOC Snapshot Reports, Product Line Detail: Individual Income Tax Services (week ending May 1, 2021).

**Figure 2: IRS Telephone Results (2021 and 2019 Filing Seasons)<sup>22</sup>**

	Calls Received	Primary Abandons	Calls Not Directed to CSRs <sup>23</sup>	Calls Directed to CSRs	Calls Answered by CSRs	% of Calls Answered by CSRs	“CSR Level of Service”	Time on Hold (in minutes)
<b>Enterprise 2021</b>	151 mil	48 mil	28 mil	75 mil	13 mil	9%	18%	20
<b>Enterprise 2019</b>	46 mil	12 mil	14 mil	20 mil	11 mil	25%	59%	14
<b>Accounts Management 2021</b>	137 mil	46 mil	26 mil	65 mil	9 mil	7%	14%	19
<b>Accounts Management 2019</b>	38 mil	11 mil	13 mil	14 mil	9 mil	24%	67%	9
<b>1040 Line 2021</b>	82 mil	35 mil	9 mil	38 mil	2 mil	2.6%	5.6%	20
<b>1040 Line 2019</b>	8 mil	4 mil	0 mil	0 mil	2 mil	27%	67%	9
<b>Automated Collection System 2021</b>	5 mil	0 mil	0 mil	5 mil	2 mil	40%	43%	22
<b>Automated Collection System 2019</b>	4 mil	0 mil	0 mil	4 mil	1 mil	30%	33%	41

As Figure 2 shows, the challenges taxpayers have experienced while navigating this difficult filing season show up in the surge of calls the IRS has received. Because the IRS does not yet offer robust online accounts and mail processing is significantly delayed, the toll-free lines remain the best or only option for most taxpayers who need to communicate with the IRS or are seeking answers regarding delays in their refunds or stimulus payments.

While there are no magic bullets to improve telephone service this year, it is anticipated that the volume of calls will decrease now that the filing season has ended and substantially all of the third round of stimulus payments have been issued. However, with the much-anticipated start of Advance Child Tax Credit payments in July and the opening of the associated portal, I have concerns about the likely increase in calls from affected taxpayers searching for advice and answers. I strongly recommend the IRS provide complete guidance on its website and through its outreach programs. I further recommend the IRS leverage its many partnerships with tax organizations, particularly those in underserved communities, and even encourage Members of Congress to provide relevant information on their webpages. I would also remind taxpayers of the standard advice the IRS provides: Call early or call late – the IRS toll-free lines are open Monday through Friday from 7 a.m. to 7 p.m. in each time zone – and it’s best to call midweek. Even so, there is no guarantee that taxpayers will be successful in reaching a customer service representative or that wait times will not be long.

<sup>22</sup> Data for 2021 is through May 1 and data for 2019 is through May 4 and has been rounded to the nearest million (mil). “Primary abandons” reflect taxpayer hang-ups before they respond to all prompts presented by the phone tree – typically within the first five minutes of a call. “Percentage of Calls Answered by CSRs” reflects the number of calls answered by CSRs divided by the number of calls received. “CSR Level of Service” is an IRS performance measure that reflects the number of calls answered by CSRs divided by the number of calls directed to CSRs (*i.e.*, it excludes primary abandons, taxpayers who encounter busy signals or are disconnected, and calls routed for automated responses).

### C. Taxpayers have faced an array of other challenges this filing season.

While the processing backlog and phone service difficulties have affected the largest number of taxpayers, numerous other challenges have arisen. A few examples:

- **Additional effects of unprocessed tax year (TY) 2019 individual income tax returns.** The adverse impact of the IRS's failure to process TY 2019 paper tax returns extends beyond refund delays. Taxpayers seeking to e-file their TY 2020 tax returns generally must verify their identities by providing either (i) their TY 2019 adjusted gross income (AGI) or (ii) a prior year Self-Select PIN. If a taxpayer used the same commercial software to prepare the prior year return, the software will typically populate the prior-year AGI. Otherwise, taxpayers enter the information themselves.<sup>24</sup> The AGI amount the taxpayer enters must match the AGI amount reflected on the IRS's systems.

Where the IRS has not processed a TY 2019 return, a taxpayer entering his or her TY 2019 AGI will be prevented from e-filing a TY 2020 return. Although the IRS provided guidance that taxpayers with unprocessed returns could enter "0" as their TY 2019 AGI, many practitioners and taxpayers were unaware of the guidance and ended up filing TY 2020 paper returns. The processing of paper returns will take considerably longer. Similarly, mortgage and other lenders generally require applicants to supply prior-year tax returns to evaluate their creditworthiness. We understand some taxpayers whose TY 2019 returns have not yet been processed have encountered difficulties qualifying for mortgages and other needed loans.

- **Effects of mid-filing season change to Advance Premium Tax Credit repayment requirement.** Taxpayers with household incomes between 100 percent and 400 percent of the Federal Poverty Level are entitled to receive tax credits if they purchase health insurance through a federal or state Health Insurance Marketplace.<sup>25</sup> Eligible taxpayers may choose to receive these "advance premium tax credits" in monthly installments paid directly to the taxpayer's insurance provider. At the end of the year, taxpayers are required to "reconcile" the amount of advance premium tax credits they received with the amounts to which they are ultimately entitled, as computed on their tax returns. Taxpayers who received a larger advance credit than the allowable amount generally must pay back the excess. ARPA suspended the repayment requirement for TY 2020. However, the Act was signed into law on March 17 – after almost half of all taxpayers had filed their returns. Therefore, some taxpayers had already filed returns including a repayment of excess credit amounts. This has caused confusion and concern for taxpayers. The good news is that the IRS will automatically reimburse taxpayers who have already made a repayment.<sup>26</sup>

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<sup>24</sup> IRS, Validating Your Electronically Filed Tax Return, <https://www.irs.gov/individuals/electronic-filing-pin-request> (last visited May 12, 2021).

<sup>25</sup> See IRC § 36B.

<sup>26</sup> See IRS News Release, IR-2021-106, IRS offers overview of tax provisions in American Rescue Plan; retroactive tax benefits help many people now preparing 2020 returns (May 11, 2021), <https://www.irs.gov/newsroom/irs-offers-overview-of-tax-provisions-in-american-rescue-plan-retroactive-tax-benefits-help-many-people-now-preparing-2020-returns>.

- **Effects of mid-filing season change to taxation of unemployment insurance benefits.** Unemployment insurance benefits are generally taxable, as they are viewed as a replacement for wages. ARPA contained a provision that excludes up to \$10,200 in benefits from FY 2020 taxation (\$20,400 for joint filers when each receives benefits) if the taxpayer's modified AGI is less than \$150,000. Clearly, this was a welcome change for millions of taxpayers who otherwise would have had a larger tax bill due to their increased unemployment benefits. As with the advance premium tax credit repayment relief provision, however, this relief was not enacted until March 17.

Understandably, this change caused confusion and concern that potentially ten million taxpayers or more might have to file amended tax returns to claim the exclusion. Fortunately, the IRS has been able to program its systems to recalculate the AGI, reducing the tax due or increasing the refund owed to taxpayers in most cases. The IRS anticipates it will begin issuing refunds of overpayments by the end of May and will continue until all payments are made.<sup>27</sup>

If the IRS has the taxpayer's banking information, the overpayment will be made by direct deposit. This will expedite the additional refunds and is notable because IRS systems historically have been programmed to make subsequent refund payments via check. In rare circumstances, the reduction in income may make a taxpayer eligible for a credit that was not claimed on the filed tax return. Any taxpayer who falls into this bucket must file an amended tax return to claim the credit except for the childless worker EITC, for which the IRS has said an election will be made on the taxpayer's behalf.<sup>28</sup>

- **Potential impact of unemployment insurance fraud on victims.** Sadly, when Congress authorized higher unemployment insurance benefits as part of the CARES Act, fraud "exploded,"<sup>29</sup> and many innocent taxpayers are now bearing the brunt of this fraud. As states must report unemployment insurance benefit amounts to the IRS and the recipients on a Form 1099-G, Certain Government Payments, many individuals received Forms 1099-G in January reporting unemployment insurance benefits they had neither claimed nor received. Even though these individuals generally were victims of fraud perpetrated by identity thieves who were able to falsely claim and receive benefits in their names, they will now have to persuade their state unemployment divisions to issue corrected Forms 1099-G.

If they do not, the IRS is likely to send them notices seeking tax and interest (and potentially penalties) on the purportedly unreported amounts. Starting in late summer, fall, or early winter, taxpayers will begin to receive IRS notices proposing tax adjustments based on inconsistencies between Forms 1099-G and their filed returns. My office is continuing to work with the IRS and recommending that it delay the issuance of

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<sup>27</sup> *Id.*

<sup>28</sup> Erin M. Collins, 2021 Filing Season Bumps in the Road: Part II, NATIONAL TAXPAYER ADVOCATE BLOG (Apr. 27, 2021), <https://www.taxpayeradvocate.irs.gov/news/nta-blog-2021-filing-season-bumps-in-the-road-part-ii>.

<sup>29</sup> Office of Inspector General, Department of Labor, *DOL-OIG Oversight of the Unemployment Insurance Program* (updated Mar. 31, 2021).

notices to provide taxpayers and the states with additional time to correct inaccurate Forms 1099-G.

- **Impact of mistaken enforcement actions.** In general, the IRS has substantially scaled back its enforcement activities during the pandemic. Initially, it announced its “People First Initiative” under which it provided almost complete relief from enforcement actions during the early part of the pandemic. While examination and collection activity has resumed since that time, the IRS is continuing to show forbearance in several areas. Due to the mail processing backlog, for example, it has temporarily waived any requirements to secure 2019 tax returns to qualify for an installment agreement, an offer in compromise, or currently-not-collectible-hardship status.<sup>30</sup> However, the IRS has sent taxpayers collection and other notices with response dates that have passed. In addition, although the IRS granted relief by offering filing extensions, programming errors caused it to incorrectly assess and collect the failure-to-pay penalty in some cases.<sup>31</sup>

These are just a sampling of the additional challenges taxpayers have faced during this unprecedented filing season. I do not believe there are quick fixes this year. But there are steps the IRS can take over the next few years that will improve the taxpayer experience, protect taxpayer rights, and provide more cushioning if a disaster of this nature strikes in the future.

## **II. Recommendations to Improve the Taxpayer Experience.**

We have recommended several steps Congress and the IRS can take to improve the taxpayer experience and enhance tax administration. Key recommendations are as follows:

### **A. Provide sufficient funding for the IRS to meet taxpayers’ needs.**

There has been considerable discussion in recent months about increasing IRS funding over a sustained period to help close the tax gap. While the goal of requiring taxpayers to pay their fair share is laudable, I want to emphasize that more funding is also needed to improve taxpayer service and ensure the protection of taxpayer rights.

In FY 2020, the IRS received 100.5 million telephone calls. Its employees answered only 24 percent of those calls, with hold times averaging 18 minutes.<sup>32</sup> In FY 2019, before the pandemic struck, the results were similar. The IRS received 99.4 million calls and employees answered 29 percent.<sup>33</sup>

The President’s Management Agenda emphasizes the importance of high-quality customer service as measured by the American Customer Satisfaction Index (ACSI) and the Forrester U.S.

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<sup>30</sup> See IRM 5.19.1.4.4.1(4) (Mar. 19, 2021) (granting an exception to secure an installment agreement without a 2019 tax return through June 30, 2021); IRM 5.16.1.2.9(12) (Apr. 13, 2021) (granting authorization to place accounts into CNC status even with one or more unfiled tax returns).

<sup>31</sup> See IRC § 6651(a)(2).

<sup>32</sup> IRS, JOC Snapshot Reports: Enterprise Total (FY ending Sept. 30, 2020).

<sup>33</sup> IRS, JOC Snapshot Reports: Enterprise Total (FY ending Sept. 30, 2019).

Federal Customer Experience Index.<sup>TM34</sup> By these measures, the IRS performs poorly. The ACSI report for 2019 ranked the Treasury Department 11th out of 12 federal departments and said that “[m]ost IRS programs score ... in line with the overall rating for the Treasury Department.”<sup>35</sup> The 2019 Forrester report ranked the IRS 13th out of 15 federal agencies and characterized the IRS’s score as “very poor”<sup>36</sup> – and that was before the pandemic.

To underscore its concerns about taxpayer service, Congress enacted the Taxpayer First Act (TFA) in 2019 but did not provide additional funding to implement changes.<sup>37</sup> The TFA directed the IRS to develop comprehensive multiyear plans to improve taxpayer services and modernize its information technology (IT) systems.<sup>38</sup> The IRS submitted its TFA plans in January 2021.<sup>39</sup> These plans will require significant additional funding to implement. In the National Taxpayer Advocate 2021 Purple Book, I made the following specific recommendations:

- Provide multiyear sustained funding for the IRS to finalize implementation of its Integrated Modernization Business Plan so it can replace its 1960s IT systems, create an integrated case management system, and offer robust online accounts for taxpayers and practitioners.<sup>40</sup>
- Provide sufficient funding for the IRS to implement the TFA, which will change how the IRS engages with taxpayers and increase digital interactions.<sup>41</sup>
- Replace the IRS budget structure with a new structure that better reflects how the IRS operates and gives the IRS more flexibility to move funds among its accounts so it can pay for the full costs associated with its programs and initiatives (e.g., the overhead and downstream taxpayer service costs associated with compliance initiatives).
- If Congress retains the current budget structure, ensure the IRS receives balanced funding by considering the interactive effects of changing the funding level for one IRS account

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<sup>34</sup> Office of Management and Budget, *President’s Management Agenda* 7, 28 (2018), [https://www.performance.gov/PMA/Presidents\\_Management\\_Agenda.pdf](https://www.performance.gov/PMA/Presidents_Management_Agenda.pdf).

<sup>35</sup> American Customer Satisfaction Index, *ACSI Federal Government Report 2019*, at 4 (2020).

<sup>36</sup> Forrester Research, Inc., *The US Federal Customer Experience Index, 2019*, at 15-16 (June 11, 2019).

<sup>37</sup> Pub. L. No. 116-25, 133 Stat. 981 (2019).

<sup>38</sup> *Id.* at §§ 1101 & 2101(a), 133 Stat. at 985, 1008.

<sup>39</sup> IRS Pub. 5426, Taxpayer First Act Report to Congress (Jan. 2021), <https://www.irs.gov/pub/irs-pdf/p5426.pdf>.

<sup>40</sup> The IRS’s IT challenges are discussed in more detail in the Most Serious Problems section of the National Taxpayer Advocate 2020 Annual Report to Congress. See Most Serious Problem: *Information Technology Modernization: Antiquated Technology Jeopardizes Current and Future Tax Administration, Impairing Both Taxpayer Service and Enforcement Efforts*; Most Serious Problem: *Online Records Access: Lack of Electronic Access to Taxpayer Records Through an Online Account Makes Problem Resolution Difficult for Taxpayers and Results in Inefficient Tax Administration*; Most Serious Problem: *Refund Delays: Taxpayers Whose Legitimate Returns Are Flagged by IRS Fraud Filters Experience Excessive Delays and Frustration in Receiving Their Refunds*.

<sup>41</sup> The IRS’s funding needs to implement the TFA are discussed in more detail in the Most Serious Problems section of the National Taxpayer Advocate 2020 Annual Report to Congress. See Most Serious Problem: *Digital Communications: Limited Digital Communications With the IRS Make Problem Resolution Unnecessarily Difficult for Taxpayers*.

on other IRS accounts, including the downstream increase in telephone calls and TAS cases likely to result from increased enforcement funding.<sup>42</sup>

The recent increase in customer service representatives will begin to help later this year, but I also urge Congress to provide additional funding for the IRS to continue to increase staffing on its toll-free telephone lines. Ideally, I would like to see the IRS answer every taxpayer's call. One hundred percent of calls answered in a timely fashion is a worthy goal and one to which taxpayers are entitled. Given that call volumes wax and wane, I understand that funding the IRS to answer every call would mean that customer service representatives would sometimes be underutilized. For that reason, my recommendation is that the IRS be staffed to answer at least 85 percent of taxpayer calls. As discussed below, customer callback technology could be utilized to ensure the needs of all taxpayers are met, even during peak call periods.

**B. Prioritize the development of accessible, robust, and functional online taxpayer accounts.**

The IRS offers an online account option for individual taxpayers, but its usefulness is limited in two respects. First, most taxpayers who try to establish online accounts cannot do so because they cannot pass the e-authentication requirements.<sup>43</sup> Second, the functionality of the accounts is very limited.

For the majority of taxpayers who have been doing their banking online for two decades or more, the contrast between their online bank accounts and an online IRS account is stark. Most bank customers can pay their bills online, deposit checks online, and withdraw cash from the nearest ATM. They rarely need to speak with a bank representative. Because online accounts substantially reduce call volumes, customers who require personal service typically experience short hold times.

Taxpayers who manage to establish online accounts on IRS.gov can view only limited information. They cannot view most relevant account information, including correspondence and account status, and they cannot conduct numerous transactions online. With the existing online account, for example, taxpayers cannot view images of the tax returns they have filed or information returns filed by third parties; view most notices (including the statutory notice of deficiency, the collection due process notice, and the notice of claim disallowance); update their contact information; file documents; submit an offer in compromise; access employee contact information for open examination, collection, or Appeals cases; view the status of compliance actions; or utilize secure messaging to communicate with an IRS employee. This functionality should not be considered a luxury for taxpayers; rather, these should be standard services the IRS provides for all taxpayers.

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<sup>42</sup> The importance of balanced funding among the IRS's budget accounts is discussed in more detail in the Most Serious Problems section of the National Taxpayer Advocate 2020 Annual Report to Congress. *See Most Serious Problem: Information Technology Modernization: Antiquated Technology Jeopardizes Current and Future Tax Administration, Impairing Both Taxpayer Service and Enforcement Efforts.*

<sup>43</sup> IRS, Office of Privacy, Governmental Liaison and Disclosure response to TAS information request (Oct. 13, 2020) (stating that the authentication rate for IRS online applications requiring the highest level of assurance authentication, including online taxpayer accounts, was 42 percent in FY 2020).

Of the IRS's many technology needs, the development of robust, secure online accounts should be at the top of the list. This tool would be a game changer in how practitioners and taxpayers can communicate and work with the IRS. My version of a robust online account would allow taxpayers the ability to view all relevant information and conduct transactions through their online accounts, with strong security using two-factor authentication or similar safeguards. This would be the single most significant step the IRS can take to improve the taxpayer experience for the vast majority of taxpayers. Another key benefit of a robust online account would be the ability to free up IRS employees to assist taxpayers who are not able or not comfortable utilizing online accounts. This portion of the taxpayer population would greatly benefit from having immediate access to IRS employees through phone service or in person at Taxpayer Assistance Centers (TACs). Over time, robust online accounts will produce cost savings for the IRS, as the demand for IRS telephone service will substantially decline.<sup>44</sup>

**C. Expand customer callback technology to all IRS toll-free telephone lines.**

Many large businesses and federal agencies with telephone call centers offer customers the option of receiving a callback when the wait time to speak with a customer service representative is long. The IRS offers this option on a few of its telephone lines, but the option is not yet offered on most lines, including the high-volume lines. Providing that option would reduce the time taxpayers spend waiting on hold and serve as a workload management tool for the IRS. When call volumes are low, telephone assistants can answer calls quickly. When call volumes are high, telephone assistants can call back taxpayers in the order in which their calls are received.<sup>45</sup>

**D. Reduce barriers to e-filing tax returns.**

One of the biggest challenges the IRS has faced over the past year has been processing paper returns. Although more than 90 percent of individual taxpayers now e-file their returns, about ten percent still mail them in on paper. Many of these taxpayers would prefer to file electronically but are prevented from doing so by IRS e-filing limitations. There are three principal limitations: (i) taxpayers sometimes are required to submit statements or other substantiation with their returns, and these attachments generally cannot be e-filed; (ii) some tax forms used by limited numbers of taxpayers are not accepted electronically; and (iii) taxpayers sometimes need to override default entries when preparing their returns with tax software, and some of these overrides make returns ineligible for e-filing. The IRS should address these limitations to allow all taxpayers the option of e-filing their returns.<sup>46</sup>

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<sup>44</sup> For additional background, see National Taxpayer Advocate 2020 Annual Report to Congress 44-59 (Most Serious Problem: *Online Records Access: Limited Electronic Access to Taxpayer Records Through an Online Account Makes Problem Resolution Difficult for Taxpayers and Results in Inefficient Tax Administration*).

<sup>45</sup> For additional background, see National Taxpayer 2020 Annual Report to Congress 28-43 (Most Serious Problem: *Telephone and In-Person Service: Taxpayers Face Significant Difficulty Reaching IRS Representatives Due to Outdated Information Technology and Insufficient Staffing*).

<sup>46</sup> For additional background, see National Taxpayer 2020 Annual Report to Congress 75-83 (Most Serious Problem: *E-Filing and Digitalization Technology: Failure to Expand Digitalization Technology Leaves Millions of Taxpayers Without Access to Electronic Filing and Wastes IRS Resources*).



**E. Utilize scanning technology for individual income tax returns prepared electronically but submitted on paper.**

When taxpayers file returns on paper, IRS employees must manually transcribe the data line-by-line into IRS systems. Manually entering data from 17 million individual income tax returns is an enormous task, and transcription errors are common, particularly on longer returns. Transcription errors result in notices to taxpayers, taxpayer telephone calls, and taxpayer correspondence that must be reviewed and evaluated.

Technology is available that would allow the IRS to machine read paper returns and avoid the need for manual data entry. One option is 2-D barcoding. To utilize it, tax software companies would generate and imprint a horizontal or vertical barcode containing all the information on the return, and an IRS machine would read the barcode. (This is similar to the barcodes on items in supermarkets and other retail stores.) Many states have been using 2-D barcoding for paper-based income tax returns for more than a decade. A second option is optical character recognition software. This software has the advantage of reading handwritten returns as well as returns prepared with software, so it could eliminate the need to transcribe any individual income tax returns. With handwritten returns, however, sloppy handwriting could lead to errors.

We understand the IRS is exploring the implementation of one of these forms of scanning technology. I encourage the IRS to move quickly. Scanning technology will improve accuracy and reduce costs, and it should be relatively easy to implement.<sup>47</sup>

**F. Expand digital acceptance and transmission of documents and digital signatures.**

The March 2020 closure of IRS offices and mail facilities made it impossible for IRS employees to receive paper documents from taxpayers. As a workaround, the IRS issued temporary guidance that authorizes employees to accept and transmit documents related to the determination or collection of a tax liability by email using an established secured messaging system.<sup>48</sup> Employees are also permitted to accept images of signatures (scanned or photographed) and digital signatures on documents related to the determination or collection of a tax liability. I strongly recommend the IRS make these temporary solutions permanent. In addition, the TFA requires the IRS to develop guidance to establish uniform standards and procedures for the acceptance of taxpayers' electronic signatures for powers of attorney (Form 2848) and tax information authorizations

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<sup>47</sup> For additional background, see National Taxpayer Advocate 2021 Purple Book 14 (Legislative Recommendation: *Require the IRS to Work with Tax Software Companies to Incorporate Scanning Technology for Individual Income Tax Returns Prepared Electronically But Filed on Paper*).

<sup>48</sup> See Memorandum from Sunita B. Lough, Deputy Commissioner, Services and Enforcement, for All Services and Enforcement Employees, Control Number: NHQ-01-1120-0004, (1) Approval to Accept Images of Signatures and Digital Signatures [and] (2) Approval to Receive Documents and Transmit Encrypted Documents by Email (Dec. 1, 2020), <https://www.irs.gov/pub/irs-utl/approval-to-accept-images-of-signatures-and-digital-signatures.pdf>; Memorandum from Sunita B. Lough, Deputy Commissioner, Services and Enforcement, for All Services and Enforcement Employees, Control Number: NHQ-01-0620-0002, (1) Approval to Accept Images of Signatures and Digital Signatures [and] (2) Approval to Receive Documents and Transmit Encrypted Documents by Email (June 12, 2020), <https://www.irs.gov/pub/foia/ig/spder/nhq-01-0620-0002.pdf>.

(Form 8821).<sup>49</sup> It is my understanding that the first version of this tool is anticipated to go live this summer, and I hope the IRS will stick to that schedule.

All of these changes are beneficial for taxpayers and practitioners and improve tax administration. I recommend that the IRS continue to move forward into the 21<sup>st</sup> century with additional digital taxpayer services.

**G. Offer videoconferencing options to taxpayers.**

Videoconference technology allows taxpayers and their authorized representatives to be both seen and heard and to share documents without being physically present. The IRS Independent Office of Appeals offers WebEx technology for virtual face-to-face conferences between taxpayers, representatives, and Appeals Officers. The IRS Office of Chief Counsel and the U.S. Tax Court are also conducting video communications and virtual trials using ZoomGov.com. Although videoconferencing should not replace in-person or telephone conference options, it adds a digital option to communicate with taxpayers when appropriate and may provide options for those with difficulty traveling or the inability to take extended time off from work.

I recommend that the IRS evaluate the feasibility of expanding use of these technologies to as many taxpayer-facing functions as possible, without removing the in-person options for taxpayers. Unfortunately, existing bandwidth has been too limited to handle extensive use of these technologies. It is only recently that the IRS has permitted limited internal videoconferencing during COVID-19 closures. Videoconferencing should continue to be expanded and offered as an option to taxpayers because it can help fill current or future voids in face-to-face service at TACs and in dealing with revenue agents or revenue officers.

In addition, taxpayers who are geographically remote from a TAC and taxpayers with mobility or transportation challenges may find videoconferencing technology more helpful and economical than traveling for an in-person conference. Even taxpayers who are not geographically remote may prefer the convenience of a virtual meeting. The IRS has utilized Virtual Service Delivery (VSD) in the past, but it should modernize its VSD capabilities to allow taxpayers to use neighborhood facilities such as local post offices, community centers, Volunteer Income Tax Assistance sites, and other partner locations to log onto secure IRS applications. It is my understanding that the IRS is exploring the feasibility of this option for remote locations. We encourage the agency to continue down this path.

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<sup>49</sup> Pub. L. No. 116-25, § 2302, 133 Stat. 981, 1013 (2019). For additional background, see National Taxpayer 2020 Annual Report to Congress 75-83 (Most Serious Problem: *E-Filing and Digitalization Technology: Failure to Expand Digitalization Technology Leaves Millions of Taxpayers Without Access to Electronic Filing and Wastes IRS Resources*).

### **III. Conclusion**

The 2021 filing season has presented unprecedented challenges for taxpayers and the IRS. The pandemic created some of these challenges and highlighted others. The challenges the IRS faced this year were heightened by its reliance on outdated technology and a workforce that has shrunk by more than 20 percent over the past decade.

Taxpayer service must improve, and our citizens deserve a responsive and respectful tax administration that serves all taxpayers fairly. Closing the tax gap should neither result in reduced taxpayer service nor undermine taxpayer rights. To the contrary, voluntary compliance should be rewarded and not become a victim of increased enforcement. Congress and the IRS should ensure that efforts to narrow the tax gap are consistent with taxpayers' fundamental rights and encourage a fair and just tax system.

I believe adversity creates opportunities, and the pandemic helped focus attention on areas where improvements are necessary and achievable. With congressional support and creativity, the IRS can capitalize on its "lessons learned" and improve its processes. I look forward to continuing to work with the IRS and Congress to help improve the taxpayer experience.