RETURN PROCESSING

Continuing Delays in IRS Return Processing Are Frustrating Taxpayers and Causing Refund Delays

WHY THIS IS A SERIOUS PROBLEM FOR TAXPAYERS

The primary way hundreds of millions of Americans interact with the IRS every year is through their submission of a tax return. For this reason, Submission Processing is the "bread and butter" of the IRS; the 10,400 employees working in that function are responsible for processing returns, depositing the payments that fund our government, and issuing the refunds upon which families rely.[1] Simply put, without Submission Processing, our economy would grind to a halt. Yet, this crucial function relies on ancient technology and decades-old processes that hinder its ability to work efficiently. The IRS burdens millions of taxpayers each year with issues related to return processing. Taxpayers can experience challenges with rejections of electronically filed (e-filed) returns, slow processing of paper returns, difficulty correcting errors after filing, the glacial pace for processing of amended returns, challenges obtaining information from their online accounts, and confusion responding to notices and letters. With the notable exception of e-filed returns, many submissions still rely on manual IRS processing, which can be time-consuming and costly, and is subject to errors that can create or further exacerbate delays. These types of challenges can lead to delayed refunds and frustrating and slow processes for remedying filing issues, such as proving eligibility for credits and deductions. In addition to the negative impact delayed refunds have on taxpayers waiting to receive them, the IRS must pay interest on overpayments it does not timely refund; while that may be favorable for taxpayers, it is an additional cost to the government.[2]

---

1   Email from the Taxpayer Services Division (Nov. 13, 2024) (on file with TAS).
2   IRC § 6611.

TAS has reported on processing delays among the most serious problems facing taxpayers in the past five Annual Reports to Congress, even before the onset of the COVID-19 pandemic.[3]

EXPLANATION OF THE PROBLEM

The processes that underpin vital government functions must evolve to meet contemporary demands, and the IRS is no exception. Yet, the IRS still processes paper returns similar to past decades. Congress allocated $4.8 billion for Business Systems Modernization for the IRS to invest in customer service technology.[4] That funding represented a mandate from Congress to innovate and pursue new technologies.[5] In April 2023, the IRS published a Strategic Operating Plan outlining how it intends to spend those funds.[6]

Although it would be a huge lift, the IRS must transform its Submission Processing and Accounts Management functions to enhance efficiency, improve the taxpayer experience, and reduce errors, which would encourage compliance and reduce operational costs. It must embrace technology and transform its outdated practices into a streamlined, secure, and user-friendly tax system that serves all Americans effectively. Modernization of tax processing requires:
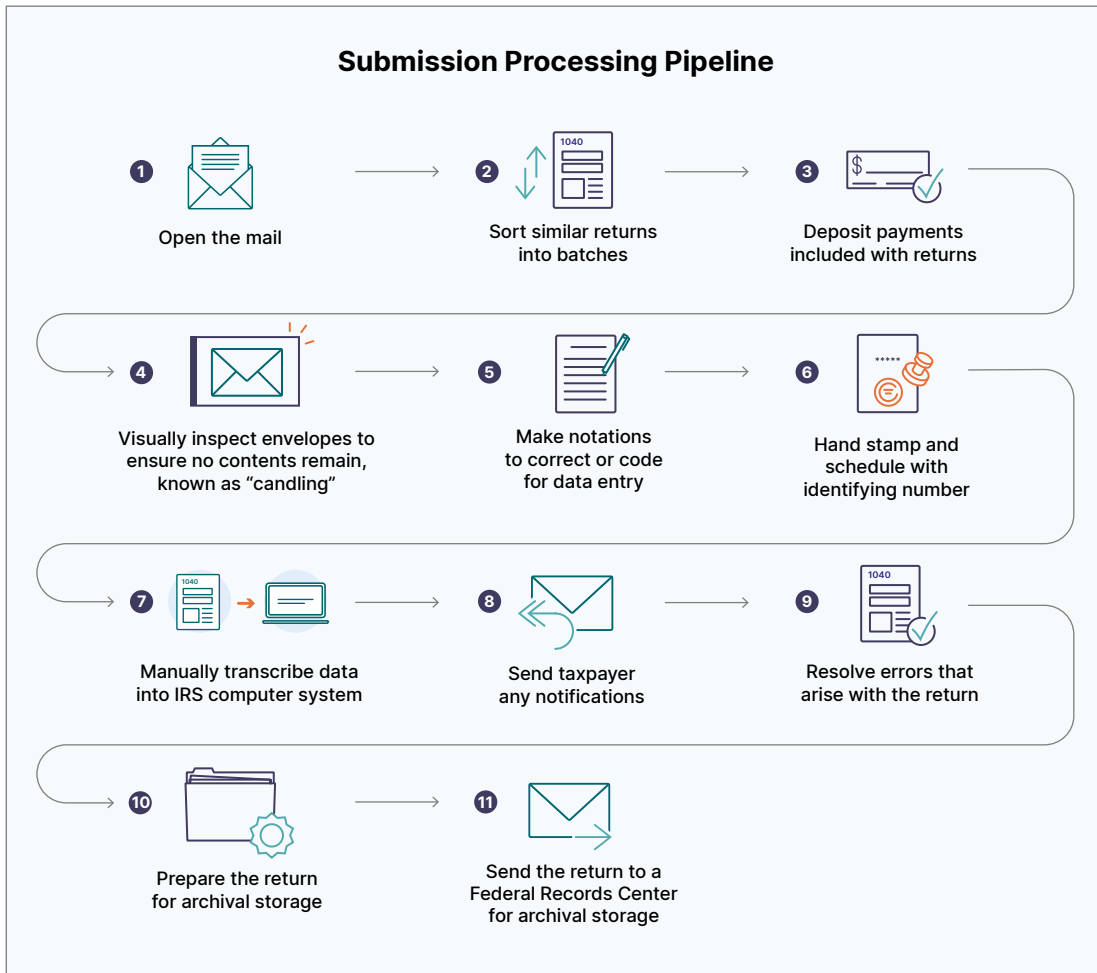
- Implementing widespread scanning of paper submissions;
- Reducing e-filing rejections for legitimate taxpayers who file legally valid returns;
- Electronic processing of paper-filed returns;
- Integrating online tools;
- Providing more options for taxpayers who want to communicate with the IRS digitally, including the ability to respond to a notice or letter or receive answers to tax questions; and
- Automating manual processes.

ANALYSIS

The IRS currently processes paper tax returns using a series of steps it refers to as the "pipeline," which requires more than a dozen humans to physically handle each return. In simple terms, at least one employee handles each of the following steps for an individual Form 1040:

---

3   National Taxpayer Advocate 2019 Annual Report to Congress 34 (Most Serious Problem: *Processing Delays: Refund Fraud Filters Continue to Delay Taxpayer Refunds for Legitimately Filed Returns, Potentially Causing Financial Hardship*), https://www.taxpayeradvocate.irs.gov/wp-content/uploads/2020/08/ARC19_Volume1_MSP_04_PROCESSINGDELAYS.pdf; National Taxpayer Advocate 2020 Annual Report to Congress 132 (Most Serious Problem: *Amended Returns: The IRS Processes Most Amended Returns Timely But Some Linger for Months, Generating Over a Million Calls That the IRS Cannot Answer and Thousands of TAS Cases Each Year*), https://www.taxpayeradvocate.irs.gov/wp-content/uploads/2021/01/ARC20_MSP_09_AmendReturns.pdf; National Taxpayer Advocate 2021 Annual Report to Congress 37 (Most Serious Problem: *Processing and Refund Delays: Excessive Processing and Refund Delays Harm Taxpayers*), https://www.taxpayeradvocate.irs.gov/wp-content/uploads/2022/01/ARC21_MSP_01_Processing-Delays.pdf; National Taxpayer Advocate 2022 Annual Report to Congress 34 (Most Serious Problem: *Processing Delays: Paper Backlogs Caused Refund Delays for Millions of Taxpayers*), https://www.taxpayeradvocate.irs.gov/wp-content/uploads/2023/01/ARC22_MSP_01_Processing-Delays.pdf; National Taxpayer Advocate 2023 Annual Report to Congress 5 (Most Serious Problem: *Processing: Ongoing Processing Delays Burden and Frustrate Taxpayers Awaiting Refunds and Other Account Actions*), https://www.taxpayeradvocate.irs.gov/wp-content/uploads/2024/01/ARC23_MSP_01_Processing-Delays_FINAL_01292024.pdf.
4   An Act to Provide for Reconciliation Pursuant to Title II of S. Con. Res. 14 (commonly referred to as the "Inflation Reduction Act of 2022"), Pub. L. No. 117-169, 136 Stat. 1818 (2022).
5   Brendan McDermott, Cong. Rsch. Serv., IN11977, *IRS-Related Funding in the Inflation Reduction Act* 3 (2022), https://crsreports.congress.gov/product/pdf/IN/IN11977.
6   IRS, Pub. 3744, IRS Inflation Reduction Act Strategic Operating Plan (Apr. 2023), https://www.irs.gov/pub/irs-pdf/p3744.pdf.

FIGURE 2.2.1[7]

Submission Processing Pipeline

1. Open the mail
2. Sort similar returns into batches
3. Deposit payments included with returns
4. Visually inspect envelopes to ensure no contents remain, known as "candling"
5. Make notations to correct or code for data entry
6. Hand stamp and schedule with identifying number
7. Manually transcribe data into IRS computer system
8. Send taxpayer any notifications
9. Resolve errors that arise with the return
10. Prepare the return for archival storage
11. Send the return to a Federal Records Center for archival storage

Even in the best of circumstances, it takes many days for a document to move through this pipeline. Under more challenging conditions (when processing volume is at its peak and the IRS must correspond with a taxpayer to resolve errors), it can take months.

As the National Taxpayer Advocate has said before, paper is the IRS's kryptonite. It is expensive, labor-intensive, and time-consuming to process. But it does not have to be this way. Since the last time the IRS updated its processes, new technology has emerged that can transform the way Submission Processing works. The National Taxpayer Advocate wants to recognize and thank the Submission Processing employees and the work they do every day on behalf of Americans. It is not an easy job and the challenges they face are not of the employees doing, rather it is due to the challenges of the antiquated process.

The IRS Must Expand Its Use of Scanning Technology

When taxpayers send paper documents to the IRS, many of the initial processing steps in the pipeline, including scanning and sorting, take place in Submission Processing at IRS campus facilities. The IRS has introduced new equipment and is testing new technology to improve these processes, but many areas still

---

7   *See* Internal Revenue Manual (IRM) 21.2.1.6, Pipeline Processing (Paper Returns) (Oct. 1, 2006), https://www.irs.gov/irm/part21/ irm_21-002-001r.

require substantial improvement to meet the IRS's own goals. The IRS scans and digitizes forms, such as certain information returns, Affordable Care Act information returns, Schedules K-1, and Forms 940 and 941, via the Service Center Recognition/Image Processing System (SCRIPS). The IRS has begun an effort to modernize and expand SCRIPS, a decades-old system for digitally processing paper returns. During 2023 and 2024, the IRS also replaced its Service Center Automated Mail Processing System equipment that was older than five years in the highest volume locations and added more mail sorters to campus locations with lower volumes of mail. Following initial deployment, the new equipment failed to perform optimally, and the IRS addressed the performance issues by implementing post-deployment maintenance checks, regular practice runs for employees, and periodic check-ins with employees and vendors.[8]

The IRS receives about 76 million paper-filed tax forms and information returns annually and set a lofty goal of scanning 99.9 percent of paper-filed tax forms and information returns by 2025.[9] But as of October 2024, the IRS had only achieved a benchmark of 58 percent.[10] It receives annually about 125 million paper correspondence submissions, non-tax forms, and notice responses.[11] The IRS set a goal of digitally processing up to 50 percent of these paper correspondence submissions by 2025, and it is little more than halfway (53 percent) toward achieving that goal as of October 2024.[12] IRS progress toward meeting these goals is important because reducing and eventually eliminating manual data entry will reduce errors and processing delays.[13]

Although the IRS has been testing scanning technology for processing individual tax returns for some time now, it has struggled to demonstrate that it can implement the technology at scale. It selected several vendors to participate in this pilot, but currently the IRS has not indicated that any can accommodate the millions of individual paper returns and schedules the IRS currently processes manually each year. For example, the Submission Processing Modernization Pilot performed the digital intake of nearly 326,000 paper Form 1040s between March and October 2024.[14] While modernizing SCRIPS to accommodate Forms 1040 and associated schedules would be an improvement over the current manual process, limitations remain. The IRS has encountered difficulties securing a vendor that can provide the necessary technical capabilities.[15] Initially the modernization project allowed Submission Processing to transcribe certain return data, but in the long-term the IRS plans to implement technology that would enable it to capture all return data through a complete scan, thereby eliminating the need to retain the original paper document. In the National Taxpayer Advocate's opinion investing in long-term benefits of capturing all the data is a better choice than going for a quick win that does not accomplish long-term results. The IRS should prioritize technology upgrades that allow it to digitize all return data for processing, compliance, and enforcement purposes. Using technology with limited functionality to scan limited data will fail to achieve the transformational change the IRS desperately needs.

---

8   IRS, Taxpayer Services Office Advisory Committee (Nov. 13, 2024) (on file with TAS).
9   IRS Fact Sheet, FS-2023-18, IRS Launches Paperless Processing Initiative (Aug. 2023), https://www.irs.gov/newsroom/irs-launches-paperless-processing-initiative.
10   IRS, Portfolio Dashboard Overview (Oct. 16, 2024) (on file with TAS).
11   IRS Fact Sheet, FS-2023-18, IRS Launches Paperless Processing Initiative (Aug. 2023), https://www.irs.gov/newsroom/irs-launches-paperless-processing-initiative.
12   IRS, Portfolio Dashboard Overview (Oct. 16, 2024) (on file with TAS).
13   See, e.g., Erin M. Collins, Are You Still Waiting on a Refund From a Deceased Taxpayer's Return?, NATIONAL TAXPAYER ADVOCATE BLOG (Aug. 13, 2024), https://www.taxpayeradvocate.irs.gov/news/nta-blog/are-you-still-waiting-on-a-refund-from-a-deceased-taxpayers-return/2024/08/.
14   IRS response to TAS fact check (Nov. 21, 2024).
15   Email from Submission Processing (Nov. 26, 2024) (on file with TAS).

The IRS Struggles to Meet Its Own Timeliness Goals in Submission Processing

Although Submission Processing has made tremendous progress in recovering from the pandemic, it is still not where it needs to be. Submission Processing uses a performance metric called Program Completion Dates (PCDs). Essentially, a PCD is a measure of whether the IRS has processed the bulk of a specified type of return within a specified period. For example, the IRS has a PCD for full-paid timely filed individual returns; to meet this PCD, it must process nearly all such returns by a certain date.

Prior to the pandemic, Submission Processing met nearly all its PCDs. In 2020 during the pandemic, the IRS was incapable of meeting PCDs since the staff that processed paper were not in the office. However, it has been several years since the majority of IRS workstreams have returned to normal operations, and Submission Processing reported that its end-of-year inventory has returned to typical levels in all but one category.[16] During fiscal year (FY) 2024, Submission Processing met 18 of its 20 Individual Master File (IMF) and 312 of its 329 Business Master File (BMF) PCDs.[17] But it continues to struggle to meet many of its other key metrics. Although the IRS defines a period upon which inventory exceeds normal processing times and becomes overage, it also sets a benchmark for the percentage of overage inventory. When the overage inventory exceeds the benchmark, the IRS refers to this as exceeding the "boiling point." IMF and BMF rejections have a boiling point of 20 percent, and nearly 21 percent of IMF and 32 percent of BMF inventory was overage in FY 2024, exceeding the established boiling point.[18] Submission Processing also fell short of its 80 percent goal for deposit timeliness, achieving only 61.5 percent in FY 2024.[19] Deposit timeliness is particularly important because the faster the IRS can deposit remittances, the faster those funds begin earning interest for the Treasury. For taxpayers, the IRS's challenges meeting these metrics means that refund issuance takes longer than expected and the IRS may not resolve return issues promptly.

Forms That Taxpayers Cannot Electronically File and Electronic Files That the IRS Rejects Create More Paper Processing Demands on the IRS

Most individual filers – over 93 percent in the 2024 filing season – choose to file their returns electronically.[20] The IRS efficiently processes e-filed returns by skipping nearly all the steps in the Submission Processing pipeline. Only e-filed returns triggering errors go through the additional steps of an error resolution process. Thus, the IRS spends most of its return processing resources on processing the relatively small number of tax returns it receives on paper.

During 2024, the IRS added 20 forms to its Modernized e-File (MeF) platform, but there are more than 100 IRS forms taxpayers still cannot e-file.[21] It should continue progressing toward including all IRS forms and schedules in MeF for automated processing and continue encouraging taxpayers to file electronically.

During FY 2024, over 151.7 million individuals filed electronic Forms 1040, and the IRS rejected the returns of nearly 18 million taxpayers.[22] Approximately 13 million taxpayers were ultimately able to achieve electronic return acceptance, while 4.9 million taxpayers either did not file a Form 1040 return or filed it on paper.[23] Figure 2.2.2 lists the top five most common e-filing rejection reasons that individual taxpayers experienced for tax year (TY) 2023.[24] MeF rules that cause the IRS to reject returns protect against fraud but can increase

---

16   IRS, Miscellaneous Monitoring Report (MMR) (Oct. 25, 2024; Oct. 27, 2023; Oct. 28, 2022; Oct. 25, 2019). The unpostables workstream has not yet returned to pre-2020 levels. IRS response to TAS fact check (Nov. 21, 2024).
17   Email from Submission Processing, Program Management/Process Assurance (Nov. 5, 2024) (on file with TAS).
18   IRS, MMR (Oct. 25, 2024).
19   Email from Program Management/Process Assurance Monitoring (Nov. 26, 2024) (on file with TAS).
20   IRS, Filing Season Statistics for Week Ending Oct. 18, 2024 (Oct. 25, 2024), https://www.irs.gov/newsroom/filing-season-statistics-for-week-ending-oct-18-2024.
21   IRS responses to TAS information requests (Oct. 8, 2024; Aug. 10, 2023).
22   IRS, Compliance Data Warehouse (CDW), Electronic Tax Administration Research and Analysis System (ETARAS) (Oct. 2024).
23   IRS, CDW, ETARAS (Oct. 2024).
24   *Id.*

taxpayer burden. Noting that the IRS rejects a significant volume of valid returns solely based on e-filing criteria, the National Taxpayer Advocate continues to advocate that the IRS accept these electronic returns and direct them to an appropriate treatment stream for resolving discrepancies.[25]

FIGURE 2.2.2, Top Five Most Common E-Filing Rejects for Individual Taxpayers, TY 2023[26]

Rank	Reject Reason	Taxpayers Impacted
1	Primary prior year PIN or primary prior year adjusted gross income amount does not match the e-File database	3,463,276
2	Missing Form 8962, Premium Tax Credit, or written explanation	2,945,119
3	Invalid primary taxpayer Identity Protection PIN	2,031,540
4	The primary Taxpayer Identification Number is the same as the Taxpayer Identification Number of a previously accepted electronic individual return filed for the same tax period	2,011,610
5	Primary name does not match e-File database	1,172,304

Tax practitioners have raised concerns about whether it is legally permissible for the IRS to reject e-filed returns under many of the current rejection scenarios. The National Taxpayer Advocate shares these concerns. The Tax Court's four-part test (the *Beard* test) for determining whether a document is sufficient for statute of limitations purposes should be the standard for e-filed returns.[27] In other words, did the document constitute a "return"? To be a valid return, the document must: 1) provide sufficient data to calculate tax liability; 2) purport to be a return; 3) be an honest and reasonable attempt to satisfy the requirements of the tax law; and 4) be executed by the taxpayer under penalties of perjury.[28] Though the need to perfect a return may still result in delays, the taxpayer would receive an acknowledgment of receipt and avoid the additional burden and delays associated with filing a paper return. The IRS can accept the e-filed return, assign it for issue resolution, determine if it can process the return, or determine if the return is potentially fraudulent.

Although the National Taxpayer Advocate applauds the IRS's efforts to decrease fraud and correct errors on original electronic submissions, she thinks there are multiple options to accomplish that goal without the IRS rejecting valid e-filed returns, especially returns requesting refunds. Because filing a tax return is also a significant trigger for determining whether the taxpayer filed the return timely, the application of penalties, and the start of assessment and refund statutes, this is an important issue. Unfortunately, the rejection of valid tax returns for e-filing purposes has been a topic of controversy for some time.

Allowing Taxpayers to Address Return Errors to Prevent Rejection Benefits Both Taxpayers and the IRS

One common reason the IRS rejects a taxpayer's e-filed return attempt is because the return claims a dependent already claimed for the same tax year on a different taxpayer's return. Historically, the IRS would reject any subsequent e-filed returns claiming the same dependent, and the taxpayer would have to file a paper return instead. This occurred regardless of whether the taxpayer filing the first accepted e-file return was entitled to claim the dependent. In circumstances where the subsequent filer was rightly claiming the duplicate dependent, the IRS penalized the taxpayer by requiring them to file on paper and delaying their refund. Two taxpayers who both believed they had the right to claim the same dependent would need to race to file their return first in this scenario to avoid having to file a paper return to resolve the situation.

---

25   National Taxpayer Advocate 2021 Annual Report to Congress 139 (Most Serious Problem: *E-Filing Barriers: Electronic Filing Barriers Increase Taxpayer Burden, Cause Processing Delays, and Waste IRS Resources*), https://www.taxpayeradvocate.irs.gov/wp-content/uploads/2022/01/ARC21_MSP_08_Efiling.pdf.

26   IRS, CDW, ETARAS (Oct. 2024).

27   *Beard v. Comm'r*, 82 T.C. 766, 777 (1984), *aff'd per curiam*, 793 F.2d 139 (6th Cir. 1986).

28   *Beard*, 82 T.C. at 777.

In a positive step for these taxpayers, the IRS is changing the way it processes electronically filed returns claiming the same dependent, as long as the return contains an Identity Protection PIN (IP PIN), a six-digit number that once issued to a taxpayer must be included on their tax return prior to filing electronically. Beginning in the 2025 filing season for TY 2024 returns, taxpayers who claim duplicate dependents electronically on originally filed TY 2024 Forms 1040, 1040-NR, and 1040-SS will not trigger an electronic rejection. The returns will be electronically accepted but worked post-filing. This includes duplicate dependents claimed on forms such as Forms 2441, Child and Dependent Care Expenses; 1040 Schedule EIC, Earned Income Credit Qualifying Child Information; and 8863, Education Credits (American Opportunity and Lifetime Learning Credits).[29] The IRS will send a notice to taxpayers and preparers who e-file with a duplicate dependent to inform them of the issue and request that they check their return to ensure the information is correct. If the dependent was claimed incorrectly, the notice advises the taxpayer to amend their return for the tax year referenced in the notice.[30] This change will provide taxpayers an opportunity to receive their refund faster than having to file a paper return. Taxpayers attempting to e-file with a duplicate dependent will need to obtain an IP PIN if they do not already have one, which can be obtained quickly through their Individual Online Account (IOLA) but takes four to six weeks to receive through the mail.[31] Since IOLA's launch in November 2016, nearly 18 million unique users have accessed their IOLA (as of September 2024), but if taxpayers are unsuccessful completing the identity authentication procedures they are unable to access their account.[32] The IRS must continue to educate taxpayers about the benefits, such as this, of having an IP PIN. Over 10.4 million taxpayers have taken the steps to obtain an IP PIN, which has been promoted as a protection against identity theft, rather than a tool to facilitate e-filing.[33]

The new procedures for processing an e-filed return claiming a duplicate dependent could potentially benefit more than a half million taxpayers each year and reduce the number of paper returns, as duplicate dependents was the ninth most common reason for e-file rejections in TYs 2022, affecting over 711,000 taxpayers, and 2023, affecting about 543,000 taxpayers.[34] Congress intended several tax credits with a dependent requirement to provide financial relief for some of the most financially vulnerable taxpayers, and the IRS should do more to assist these taxpayers in claiming their entitled credits. The IRS must assist taxpayers who need help determining their eligibility or understanding why they do not qualify. The National Taxpayer Advocate recommends the IRS apply similar processes to accept rather than reject e-filed returns that otherwise satisfy the *Beard* test.

Modernizing Self-Service Tools Will Empower Taxpayers With Information About Their Accounts and Reduce Demands on IRS Submission Processing and Accounts Management

In an era characterized by rapid technological advancements and a growing emphasis on convenience, the IRS has significantly enhanced its service delivery through various self-service tools, such as IOLA, Direct File, Where's My Refund?, and Where's My Amended Return? These tools empower taxpayers by providing them with immediate access to crucial information and services that enhance the taxpayer experience and efficiency.

---

29   IRS response to TAS information request (Oct. 8, 2024).

30   *See* IRM 21.5.10.4.2, Exam Soft Notices CP 87A, CP 87B, CP 87C, and CP 87D (Nov. 13, 2024), https://www.irs.gov/irm/part21/irm_21-005-010r.

31   IRS, Get an Identity Protection PIN (IP PIN), https://www.irs.gov/identity-theft-fraud-scams/get-an-identity-protection-pin (last updated Nov. 25, 2024).

32   *See* IRS, Individual Online Account (IOLA) & Tax Pro Account Status Briefing (Sept. 25, 2024) (on file with TAS); National Taxpayer Advocate 2023 Annual Report to Congress 34 (Most Serious Problem: *Online Account Access for Taxpayers and Tax Professionals: Digital Services Remain Inadequate, Impeding Efficient Case Resolution and Forcing Millions of Taxpayers to Call or Send Correspondence to the IRS*), https://www.taxpayeradvocate.irs.gov/wp-content/uploads/2024/01/ARC23_MSP_07_Online-Accounts.pdf.

33   IRS News Release, IR-2024-200, Security Summit: Identity Protection PINs, IRS Online Account Protect Against Tax-Related Identity Theft (July 30, 2024) https://www.irs.gov/newsroom/security-summit-identity-protection-pins-irs-online-account-protect-against-tax-related-identity-theft.

34   IRS, CDW, ETARAS (Oct. 2024).

However, to date, some of these tools, like the Where's My Refund? tool, do not provide information with sufficient detail to truly help taxpayers understand where they are in the process. These tools do not provide real-time data or estimates on when taxpayers can expect the IRS to process their return.

A 2022 TAS research report compared online accounts and the digital services available for individuals on IRS.gov to the taxing authorities of 41 U.S. states, the District of Columbia, Puerto Rico, and three foreign countries.[35] The report identified three areas where the IRS website lacked features commonly found on other taxing authority websites:

1. Filing options on the taxing authority's own website;[36]

2. The ability to receive and respond to most notices online; and

3. Robust in-person and digital contact options.

The absence of a robust suite of digital tools available from the IRS online results in taxpayers using more resource-intensive and time-consuming methods to engage with the IRS on processing and accounts management issues. While it has made progress toward getting these capabilities, the IRS's digital services still lag behind industry standards. It must make robust and fully integrated digital services a central component of the suite of options a taxpayer can use to file their return and resolve filing issues.

The IRS Must Leverage Features in Individual Online Account

TAS concluded in prior reports that integrating online self-help tools encourages more taxpayers to use them.[37] Leveraging the capabilities of IOLA with e-filing software would allow the IRS to create a powerful tool that would revolutionize the e-filing experience for taxpayers and substantially decrease taxpayer burden. The IRS projected nearly 6.2 billion information and withholding documents were sent to taxpayers and the IRS in calendar year 2024, including nearly 284 million Forms W-2, Wage and Tax Statement, and over 58 million Forms 1099-NEC, Nonemployee Compensation.[38] In 2025, the IRS plans to add the capability for taxpayers to download, print, and digitally access certain information returns via IOLA to make it easier to file tax returns and reduce the likelihood of inaccurate filings.[39]

Information returns and withholding documents are generally due to the IRS no later than March 31 of each calendar year (depending on the document type and filing method). However, to provide the best experience, the IRS must update IOLA with Forms W-2 and 1099 data earlier in the filing season. The IRS is still finalizing the

---

35 National Taxpayer Advocate 2022 Annual Report to Congress 222 (TAS Research Report: *A Review of Online Accounts and Web Services Offered by U.S. State and Foreign Country Taxing Authorities*), https://www.taxpayeradvocate.irs.gov/wp-content/uploads/2023/01/ARC22_CA_Online-Accounts.pdf. These foreign countries are the United Kingdom, Australia, and Canada.

36 For purposes of the study, online filing did not include those websites that simply referred visitors to third-party filing options, such as Free File or commercial service providers. National Taxpayer Advocate 2022 Annual Report to Congress 229 (TAS Research Report: *A Review of Online Accounts and Web Services Offered by U.S. State and Foreign Country Taxing Authorities*), https://www.taxpayeradvocate.irs.gov/wp-content/uploads/2023/01/ARC22_CA_Online-Accounts.pdf. The IRS conducted a Direct File pilot during the 2024 filing season and has announced that Direct File will be available for taxpayers in 24 participating states for the 2025 filing season. IRS, Pub. 5788, Inflation Reduction Act § 10301(1)(B) IRS-run Direct e-File Tax Return System (May 2023), https://www.irs.gov/pub/irs-pdf/p5788.pdf; IRS, IRS Direct File: File Taxes Online Directly With IRS For Free (last updated Nov. 6, 2024), https://www.irs.gov/filing/irs-direct-file.

37 *See, e.g.*, National Taxpayer Advocate 2017 Annual Report to Congress 22 (Most Serious Problem: *Telephones: The IRS Needs to Modernize the Way It Serves Taxpayers Over the Telephone, Which Should Become an Essential Part of an Omnichannel Customer Service Environment*), https://www.taxpayeradvocate.irs.gov/wp-content/uploads/2020/08/ARC17_Volume1_MSP_02_Telephones.pdf; National Taxpayer Advocate 2022 Annual Report to Congress 90 (Most Serious Problem: *Online Access for Taxpayers and Tax Professionals: Inadequate Digital Services Impede Efficient Case Resolution and Force Millions of Taxpayers to Call or Send Correspondence to the IRS*), https://www.taxpayeradvocate.irs.gov/wp-content/uploads/2023/01/ARC22_MSP_05_Online-Access.pdf.

38 IRS, Pub. 6961, Calendar Year Projections of Information and Reporting Documents for the United States and IRS Campuses: 2024 Update, at 6 (Sept. 2024), https://www.irs.gov/pub/irs-pdf/p6961.pdf. The FY 2024 figure is a projected number. The IRS only publishes information and withholding document volumes on a calendar year basis; however, these documents are generally due to the IRS no later than March 31 of each calendar year (depending on document type and filing method).

39 IRS response to TAS information request (Oct. 8, 2024).

specific information return documents that will be available with the initial upgrade and subsequent releases as well as tentative deployment dates.[40] It must turn its attention next to integrating information return documents available in IOLA into e-filing software programs. To accomplish this feat, the IRS must coordinate its efforts with the Social Security Administration. This capability would launch the next generation of e-filing tools, reduce filing errors, save IRS resources, and substantially improve the taxpayer experience.

In addition to reducing barriers to e-filing and the accompanying benefits of faster processing and reduced errors, integrating information returns with commercial e-filing software would reduce the number of underserved taxpayers.[41] Challenges with filing or proving eligibility for a claimed credit or deduction may cause some taxpayers to give up rather than navigate burdensome processes to prove their claims are legitimate.

The IRS has added capabilities for taxpayers to receive many notices in IOLA, yet taxpayers cannot respond to all notices electronically, which has become standard practice for many state and large national tax authorities.[42] Taxpayers must use the IRS's Document Upload Tool (DUT) or send paper correspondence through the mail. Replies sent through the mail or through the DUT require some amount of manual effort on the part of IRS employees to route the correspondence and associate it with the correct taxpayer account. It is commendable that as of September 1, 2024, taxpayers could view 216 notices and letters within IOLA.[43] The IRS plans to add an additional 45 notices in calendar year (CY) 2024 and 16 notices in CY 2025, bringing the total number of notices and letters available in IOLA to 277.[44]

To establish parity with other taxing authorities, the IRS should add capabilities that allow taxpayers to respond to these notices and letters, including uploading documents within IOLA, within Business Online Account for business taxpayers, and within TaxPro Account for tax professionals. It is the National Taxpayer Advocate's opinion that increasing online account functionality by providing robust self-help options will eliminate paper, speed up correspondence processing, and ultimately decrease telephone demand freeing up customer service representatives to assist taxpayers who need additional assistance.[45]

The IRS Must Expand Access to the Where's My Amended Return? Tool for Overseas Taxpayers

During 2024, the IRS made enhancements to the Where's My Amended Return? tool, such as providing amended return status in IOLA. However, the Where's My Amended Return? tool is still not available for overseas taxpayers.[46] The approximately nine million individuals with a U.S. tax filing obligation living abroad face additional burdens at virtually every step of the process to comply with their U.S. tax obligations.[47] As the IRS acknowledged in its Taxpayer First Act Report to Congress, individuals living abroad have minimal access to IRS services by phone, online, or in person; their e-file rates are significantly lower, and they have limited

---

40 IRS response to TAS information request (Oct. 8, 2024).

41 Exec. Order No. 13,985, 86 Fed. Reg. 7009, *Advancing Racial Equity and Support for Underserved Communities Through the Federal Government* (Jan. 20, 2021), https://www.regulations.gov/document/EPA-HQ-OPPT-2021-0202-0010 (stating that the term underserved communities "refers to populations sharing a particular characteristic, as well as geographic communities, that have been systematically denied a full opportunity to participate in aspects of economic, social, and civic life.").

42 *See* National Taxpayer Advocate 2022 Annual Report to Congress 222 (TAS Research Report: *A Review of Online Accounts and Web Services Offered by U.S. State and Foreign Country Taxing Authorities*), https://www.taxpayeradvocate.irs.gov/wp-content/uploads/2023/01/ARC22_CA_Online-Accounts.pdf. The TAS research report compared online accounts and the digital services available for individuals on IRS.gov to the taxing authorities of 41 U.S. states, the District of Columbia, Puerto Rico, and the United Kingdom, Australia, and Canada.

43 IRS response to TAS information request (Oct. 8, 2024).

44 *Id.*

45 *See* Most Serious Problem: *IRS Service: Taxpayer Service Is Often Not Timely or Adequate, infra*.

46 IRS Response to TAS Information Request (Oct. 8, 2024).

47 *See* National Taxpayer Advocate 2022 Annual Report to Congress 157 (Most Serious Problem: *Overseas Taxpayers: Taxpayers Outside of the United States Face Significant Barriers to Meeting Their U.S. Tax Obligations*), https://www.taxpayeradvocate.irs.gov/wp-content/uploads/2023/01/ARC22_MSP_10_Overseas.pdf.

availability of tax products in languages other than English, all of which hamper their ability to understand their complex tax obligations.[48] The IRS should prioritize expanding services and accessibility to improve the taxpayer experience for overseas taxpayers.

Automated Processing in Accounts Management Would Reduce Burdensome Delays

After Submission Processing processes returns, related documents, and payments, the Accounts Management function is responsible for responding to taxpayer inquiries on a variety of tax law and procedural questions, account inquiries and adjustments, and responses to notices the IRS receives via telephone, correspondence, and email at 25 Accounts Management sites.[49]

As shown in Figure 2.2.3, at about the end of October 2024, the IRS had over four million pieces of correspondence requiring manual processing. Although the IRS is taking steps to be current with its processing inventory by the 2025 filing season, over 72 percent of its inventory in Accounts Management exceeded normal processing timeframes (which classifies it as overage) as of October 26, 2024. Among individual returns, unprocessed international amended returns and carryback claims totaled 223,000, with 68 percent of the inventory at least 120 days old.[50] Among business returns, 76 percent of the over 1.7 million unprocessed amended returns in inventory were at least 120 days old.[51]

A significant portion of the Total Unprocessed Accounts Management Inventory from 2021 forward result from Employee Retention Credit (ERC) claims that business taxpayers primarily claimed on amended Forms 941. The backlog of ERC claims is also a significant factor in the percentage classified as overage. As of October 26, 2024, the IRS still had nearly 1.2 million ERC claims in its Accounts Management inventory, as it implemented a moratorium on processing ERC claims on September 14, 2023 that nearly halted ERC processing for a year – and about 98 percent of these claims were over 120 days old.[52]

FIGURE 2.2.3, Unprocessed Amended Returns, Correspondence, and Accounts Management Cases, CYs 2020-2024 Through October 26, 2024[53]

Inventory Type	12/26/2020	12/25/2021	12/31/2022	12/30/2023	10/26/2024
Unprocessed Correspondence and Accounts Management Cases (Requests for Account Adjustments)	3.2 mil	5.5 mil	4.9 mil	5.0 mil	4.1 mil
Unprocessed Accounts Management Amended Returns (Individual and Business)	0.8 mil	2.5 mil	1.3 mil	2.0 mil	2.3 mil
Total Unprocessed Accounts Management Inventory	**4.0 mil**	**8.0 mil**	**6.2 mil**	**7.0 mil**	**6.4 mil**
Percentage of Unprocessed Inventory Classified as Overage	44.6%	60.3%	49.7%	63.2%	72.2%

---

48   IRS, Pub. 5426, Taxpayer First Act Report to Congress (Jan. 2021), https://www.irs.gov/pub/irs-pdf/p5426.pdf.
49   IRS, Taxpayer Services At-a-Glance (June 25, 2024), https://www.irs.gov/about-irs/taxpayer-services-at-a-glance.
50   IRS, AMIR, National Inventory Age Report (week ending Oct. 26, 2024).
51   *Id.*
52   IRS, Accounts Management, Research, Analysis and Data Reports, COVID Business Credits (week ending Oct. 26, 2024). For more information on the ERC, see Most Serious Problem: *Employee Retention Credit: IRS Processing Delays Are Resulting in Uncertainty and Are Harming and Frustrating Business Owners*, *supra*.
53   IRS, Accounts Management Inventory Report (AMIR), National Inventory Age Report (weeks ending Dec. 26, 2020; Dec. 25, 2021; Dec. 31, 2022; Dec. 30, 2023; Oct. 26, 2024). Amended returns in this table include Forms 940-X, 941-X, 1120-X, 1040-X, and carryback claims on Forms 1139 and 1045.
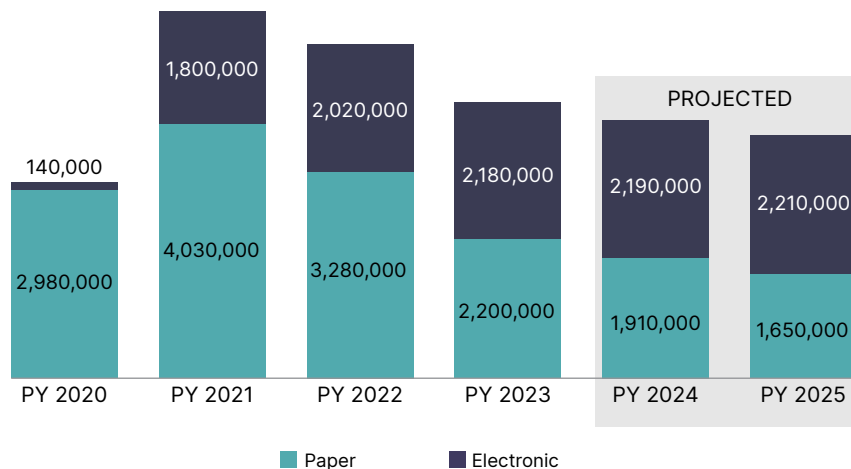
Automated Processing of Amended Returns Would Dramatically Reduce Processing Delays and Simplify Amendments for Taxpayers

When new tax information becomes available or tax law changes require a change to a tax position (or provide a path to a more advantageous position), the IRS expects taxpayers to recognize this and potentially file an amended return. As shown in Figure 2.2.4, taxpayers filed nearly 4.4 million Form 1040-X amended returns in processing year (PY) 2023.[54] Of those amended returns, taxpayers e-filed 2.2 million.[55] However, unlike e-filing an original Form 1040, the IRS does not automate the processing of an amended return. It digitizes those returns filed on paper via scanning, but it does not capture the data systemically. Whether taxpayers file Form 1040-X on paper or electronically, processing amended returns requires manual screening, research, and adjustment processes through the IRS Integrated Data Retrieval System. Employees must follow Internal Revenue Manual guidance and perform numerous manual steps before making any necessary adjustments to the taxpayer's account. Additionally, handoffs between business functions create redundant reviews of case information and further delays in processing. This is not a transparent process, leaving taxpayers wondering why amended returns take so long and where their amended return is in the process.

Since 2022, the IRS has begun each filing season with an inventory of over one million unprocessed amended returns and ended each filing season with over two million unprocessed amended returns.[56] Forms 1040-X and 941-X represent more than 99 percent of the amended returns workload. Of the millions of amended returns processed annually, Forms 1040-X can range from 70-90 percent of that population, with Forms 941-X the remaining 10-30 percent.[57] As shown in Figure 2.2.4, taxpayers filed more than half of Forms 1040-X on paper in PYs 2020 to 2023. Taxpayers filing these amended returns typically wait extended periods for the IRS to process their refunds, with the average refund processing time going beyond 120 days. For instance, the IRS took an average of 132 days to process refunds on Form 1040-X amended returns filed in CY 2023.[58]

FIGURE 2.2.4[59]

Form 1040 Amended Return Volumes, PYs 2020-2025

PROJECTED

	PY 2020	PY 2021	PY 2022	PY 2023	PY 2024	PY 2025
Electronic	140,000	1,800,000	2,020,000	2,180,000	2,190,000	2,210,000
Paper	2,980,000	4,030,000	3,280,000	2,200,000	1,910,000	1,650,000

■ Paper   ■ Electronic

54   IRS, Return Modifications Enterprise Strategy Commissioner Briefing (July 15, 2024) (on file with TAS).
55   *Id.*
56   IRS, AMIR, National Inventory Age Report (weeks ending Dec. 25, 2021; Dec. 31, 2022; Dec. 30, 2023); IRS, AMIR, National Inventory Age Report (weeks ending Apr. 23, 2022; Apr. 22, 2023; Apr. 20, 2024).
57   IRS, Return Modifications Enterprise Strategy Commissioner Briefing (July 15, 2024) (on file with TAS).
58   IRS, CDW, IMF (Oct. 2024).
59   IRS, Return Modifications Enterprise Strategy Commissioner Briefing (July 15, 2024) (on file with TAS).

Delays in processing amended returns and associated refunds can impact individual taxpayers who rely on refunds to pay necessary living expenses and lead to financial difficulties for businesses relying on refunds for the payment of operating expenses, affecting their *rights to be informed, to finality,* and *to quality service*.[60]

As shown in Figure 2.2.5, refund delays have a costly ramification for the government. Based on average processing timeframes and refund amounts, delays in processing amended Forms 1040, 1120, and 941 filed in CY 2023 resulted in the IRS paying an estimated $573 million in additional interest.[61]

FIGURE 2.2.5, Refund Processing and Interest for Forms 1040-X, 941-X, and 1120-X Filed in CY 2023[62]

Return Type	Volume of Returns Processed	Volume of Refunds Issued	Processing Timeframe in Days (Mean)	Total Refund Amount	Estimated Interest Due to Processing Delays
Form 1040-X	3.7 mil	1.9 mil	132	$9.6 bil	$150.4 mil
Form 941-X	2.4 mil	1.0 mil	147	$53.9 bil	$394.9 mil
Form 1120-X	.12 mil	.02 mil	189	$6.9 bil	$27.9 mil
Total	**6.3 mil**	**3.0 mil**	**-**	**$70.4 bil**	**$573.2 mil**

In 2025, the IRS will begin automating the processing of simple amendments, which should allow it to process amendments in four to five days, although issuing a refund may take additional time.[63] This will mark a major step forward and an improvement in the service the IRS provides to taxpayers. The IRS will focus the automation of processing amended returns on three areas over Filing Seasons 2025-2027: improving processing times during Filing Season 2025; expanding digitalization and electronic processing during Filing Season 2026; and enabling return modifications through online accounts in Filing Season 2027.[64]

As part of the project to modernize the processing of amended returns, the IRS has considered leveraging existing e-filing automation. In lieu of filing a Form 1040-X, the IRS could allow a taxpayer to amend their return by simply adding a box to Form 1040 that the taxpayer could check to indicate it is an amended return. The taxpayer would prepare the return as they would an original Form 1040, but with the corrected entries, and file it electronically. The IRS could then process it systemically, eliminating many of the time-consuming processes currently involved in processing a Form 1040-X. This would dramatically reduce processing delays and simplify amendments for taxpayers.

CONCLUSION AND RECOMMENDATIONS

The modernization and automation of the IRS's tax processing system is not just an opportunity; it is an imperative to improve tax administration, protect taxpayer rights and provide quality service. By enhancing processing efficiency, improving taxpayer experiences, reducing errors, encouraging compliance, and reducing operational costs, the IRS can position itself as a forward-thinking agency ready to meet the needs of a digital age. The time has come for the IRS to utilize technology to transform its outdated practices into a streamlined, secure, and user-friendly tax system that serves all Americans effectively. The future of tax administration depends on this critical evolution in a safe and secure environment.

---

60   *See* Taxpayer Bill of Rights (TBOR), https://www.taxpayeradvocate.irs.gov/taxpayer-rights (last visited Nov. 27, 2024). The rights contained in TBOR are also codified in IRC § 7803(a)(3).
61   IRS, CDW, IMF and BMF (Oct. 2024).
62   *Id.* For more information on the ERC, which taxpayers primarily claimed on amended Form 941, see Most Serious Problem: *Employee Retention Credit: IRS Processing Delays Are Resulting in Uncertainty and Are Harming and Frustrating Business Owners, supra.*
63   IRS response to TAS information request (Oct. 8, 2024).
64   IRS, Return Modifications Enterprise Strategy Commissioner Briefing (July 15, 2024) (on file with TAS).

Administrative Recommendations to the IRS

The National Taxpayer Advocate recommends that the IRS:

1. By the end of FY 2025, ensure Submission Processing's scanning technology captures the same data elements on paper returns as from e-filed returns.

2. Conduct an analysis by the end of FY 2025 to identify the root causes of the missed PCDs and other business measure targets from Filing Seasons 2023 and 2024 and develop an action plan to meet them for the upcoming filing season.

3. Broaden business rules for e-filed returns to accept submissions where they satisfy the *Beard* test and direct them to an appropriate treatment stream for resolving discrepancies by FY 2027.

4. Work with the Social Security Administration to integrate information return documents available in IOLA with e-filing software by FY 2027 and post it by March 1 each year.

5. Add capabilities that allow taxpayers to respond to notices and letters, including uploading documents within IOLA by (or in) FY 2026, and within TaxPro Account and Business Online Account by FY 2027.

6. Upgrade the Where's My Amended Return? tool to allow international taxpayers to use it for any pending amended returns by FY 2026.

7. Revise Form 1040 to add a box indicating it is an amended return and allow taxpayers to file it electronically by FY 2027.

RESPONSIBLE OFFICIALS

Kenneth Corbin, Chief, Taxpayer Services

David Padrino, Chief Transformation and Strategy Officer

Fumi Tamaki, Chief Taxpayer Experience Officer

Rajiv Uppal, Chief Information Officer

Joseph Dianto, Director, Customer Account Services

James Fish, Director, Submission Processing