

2024 National Taxpayer Advocate Annual Report to Congress
Most Serious Problems Encountered by Taxpayers:
IRS and TAS Responses

Most Serious Problem (MSP) #1: EMPLOYEE RETENTION CREDIT: IRS Processing Delays Are Resulting in Uncertainty and Are Harming and Frustrating Business Owners

PROBLEM

At the onset of the COVID-19 pandemic, Congress enacted the Employee Retention Credit (ERC) to support struggling businesses and exempt organizations impacted by government-imposed restrictions by providing a tax credit intended to keep employees on the payroll. However, the ERC statutes are complicated and difficult to administer. Bad actors have taken advantage of this complexity by misleading some taxpayers to believe they are eligible for the credit. Thus, the IRS has been inundated with ERC claims and struggled to discern which were valid or invalid.

In the summer of 2023, the IRS drastically slowed ERC processing, culminating in a moratorium on processing new claims starting September 14, 2023. This moratorium continues to aggravate processing delays and cause harm and frustration for many business owners. To make matters worse, over the past four years, taxpayers have not received adequate information from the IRS about delays or the status of their ERC claims. Thousands of business owners have reached out to TAS and/or their congressional representatives for guidance on how to proceed. More than a year from the implementation of the moratorium, the IRS still has not processed many claims filed prior to September 14, 2023. Many businesses with legitimate ERC claims are depending on the funds to aid in their recovery from the pandemic. While waiting for the IRS to process these claims, businesses have been forced to close, experienced significant financial hardship, or taken out loans that continue to accrue interest.

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| TAS Recommendation | [1-1] <i>Provide transparent training and guidance:</i> Ensure it provides internal subject matter training and guidance to all IRS employees working on processing, conducting an audit, or in Appeals considering an ERC claim, and post IRS training materials online on IRS.gov within 30 days of issuance to the employees. |
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| IRS Response | The IRS agrees to implement the TAS recommendation in part. |
| IRS Action | <p>The IRS has trained all employees who are working on Employee Retention Credit (ERC) matters, and the IRS agrees that all employees who are newly assigned to work ERC will receive timely and appropriate training to enable them to complete their duties.</p> <p>The IRS disagrees with the recommendation to post IRS ERC training materials on irs.gov. Training material is based on publicly available information, such as FAQs and Notices that are available on irs.gov.</p> |
| TAS Response | <p>The IRS's commitment to adequately train employees who work ERC cases will ensure taxpayer rights are being fully protected and taxpayers are interacting with a competent and fully informed IRS employee when trying to resolve any issues regarding their ERC claim. The IRS could reassure taxpayers that employees are adequately trained on ERC-related matters, giving them confidence in the process and that their rights are being protected by posting ERC training material on its website. Since the IRS stated their training material is developed from publicly available materials, it seems there would be no restrictions to making its ERC training material available to the public.</p> <p>Additionally, there continue to be ERC workstreams that do not have any online FAQs or Internal Revenue Manual (IRM) procedures, such as ERC streamline audits. The lack of publicly available information regarding case procedures affects both a taxpayer's ability to know how to respond and TAS's ability to advocate for these taxpayers.</p> |

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| TAS Recommendation | [1-2] Expedite claim processing: Process all ERC claims filed before January 31, 2024, by April 30, 2025, and claims pending for over six months by July 31, 2025. Processing includes paying the claim, denying the claim, or notifying the taxpayer that the claim is under audit. |
| IRS Response | The IRS agrees to implement the TAS recommendation in part. |

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| IRS Action | Processing ERC claims has been a priority within the IRS. The IRS has taken a multi-pronged approach to ERC processing including digitizing and assessing the risk of unprocessed claims, processing lower risk claims, disallowing higher risk claims, launching voluntary compliance initiatives including Withdrawal and Voluntary Disclosure Programs, and additional compliance initiatives such as audits and investigations. While we cannot commit to a specific timeframe for processing the remaining inventory, the IRS plans to continue addressing ERC claims while balancing resources and needs of taxpayers. |
| TAS Response | The IRS has resumed processing ERC claims, but taxpayers still have no firm commitment from the IRS as to when it will complete processing the claims, and some taxpayers have waited months – or even more than a year – to have their ERC claim processed by the IRS. Taxpayers deserve a firm commitment from the IRS as to when it intends to complete processing the remaining ERC claims. |

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| TAS Recommendation | [1-3] Prioritize economic hardship cases: Process claims from businesses in financial hardship first and then process the remaining claims in the order received. |
| IRS Response | The IRS agrees to implement the TAS recommendation in full. |
| IRS Action | Currently, the IRS prioritizes the transcription, review, and risk assessment of ERC claims for taxpayers who report they are experiencing financial hardships. Low risk ERC claims are processed expeditiously, and claims warranting examination are started expeditiously. |
| TAS Response | It is reassuring that the IRS understands the significance of the ERC and how it offers critical financial support for some businesses experiencing financial hardship. Many of these businesses have already waited far too long to receive their ERC. Thus, TAS is encouraged that the IRS has agreed to prioritize the ERC claims of businesses that are experiencing economic hardship. |

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| TAS Recommendation | [1-4] <i>Lift the moratorium:</i> Resume processing post-January 31, 2024, claims and process future claims within six months of receipt. |
| IRS Response | The IRS agrees to implement the TAS recommendation in part. |
| IRS Action | Absent legislative changes, the IRS plans to resume processing of ERC claims without regard to moratoria and with a focus of working cases on a first in, first out basis, while prioritizing hardship cases. |
| TAS Response | The IRS's move toward addressing ERC claims on a first in/first out basis without regard to the moratorium is an encouraging step toward the IRS fully completing its processing of ERC claims. To ensure taxpayers are fully aware of this phase of processing, the IRS should announce it is officially ending the moratorium, just as it announced when the moratorium was implemented. Without this IRS announcement, taxpayers may not be aware of IRS has resumed ERC processing and the IRS may not be fully observing the taxpayer's <i>right to be informed</i> . |
| TAS Recommendation | [1-5] <i>Enhance communication:</i> Provide regular updates on IRS.gov on the processing of outstanding ERC claims and include specific anticipated timeframes. |

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| IRS Response | <p>The IRS does not agree to implement the TAS recommendation.</p> <p>The ERC claims call for a variety of treatments including allowance, disallowance, audit, etc. Each treatment calls for different actions and requires different timeframes for completion. Reporting general timeframes broadly provides an inaccurate representation of the timing and will confuse the taxpayer and practitioner communities.</p> |
| IRS Action | N/A |
| TAS Response | <p>Since the inception of the ERC, taxpayers and practitioners have been confused and often felt in the dark about the IRS's stop/start approach to processing ERC claims. It is difficult to understand how providing taxpayers and practitioners with more information about IRS processing of ERC claims, even if just general information, could do anything other than alleviate this confusion for taxpayers. The IRS should strive to provide taxpayers and practitioners as much information as possible so they can fully understand the efforts the IRS is making to process ERC claims. Additionally, updates would serve to reduce the number of taxpayer phone calls to the IRS for information regarding the processing of their ERC. This level of transparency would reassure taxpayers and the public at large that the IRS's actions match its words, and it is moving as quickly as possible to process ERC claims while protecting taxpayer rights.</p> |

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| TAS Recommendation | <p>[1-6] Provide clear disallowance explanation: Provide a detailed factual and legal explanation in Letter 86C as to why the ERC claim disallowance is being upheld and provide the taxpayer more time to submit additional information before referring the case to Appeals.</p> |
| IRS Response | <p>The IRS agrees to implement the TAS recommendation in part.</p> |

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| <p>IRS Action</p> | <p>Responses and records provided in response to claims disallowed absent an examination will be considered by a compliance function prior to routing to the Independent Office of Appeals (Appeals). If the compliance function does not change its determination after review, the IRS will route the claim disallowance (with the response and associated documents) to Appeals. Prior to routing to Appeals, the IRS will implement an additional step where the compliance function will communicate, via correspondence, a more detailed disallowance explanation subsequent to review of the taxpayer's response.</p> <p>This correspondence will acknowledge receipt of the information provided but will advise that the disallowance stands and two-year period to file suit stated in the previously issued Letter 105-C remains the same. To protect the taxpayer's interests given the two-year refund statute expiration date limitation, Compliance will not hold the claim to await additional information, but rather will continue routing to Appeals. The taxpayer will receive the Letter 86C separate from this correspondence.</p> <p>In accordance with existing Appeals procedures, if the taxpayer provides additional information subsequent to routing to Appeals, the case will be sent back for compliance consideration as needed.</p> |
| <p>TAS Response</p> | <p>The IRS is adding additional time to the review process by not allowing taxpayers an additional opportunity to provide more information after IRS Compliance has reviewed and upheld the disallowance, and prior forwarding the case to Appeals. In fact, the IRS itself recognized in its response that if taxpayers provide additional information after they have transferred from Compliance to Appeals, the case will have to be sent back to Compliance prior to any Appeals review. This back-and-forth between Appeals and Compliance will unnecessarily add additional time to reviewing taxpayers' responses to disallowance notices, thereby risking the expiration of the statutory two-year IRC § 6532 period. Therefore, it makes the most sense for the IRS to allow taxpayers time to provide additional information if the IRS's review results in a continued disallowance due to lack of substantiation.</p> |

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| <p>TAS Recommendation</p> | <p>[1-7] Request supporting documentation proactively: When taxpayers have not been subject to an exam, issue a letter allowing taxpayers to send in documentation and seek an appeal prior to the notice of claim disallowance being issued for the ERC.</p> |
| <p>IRS Response</p> | <p>The IRS does not agree to implement the TAS recommendation.</p> <p>Requesting books and records to support a claim may constitute an audit/examination. As such, unless the IRS has the intent to audit a claim, it is not appropriate to request books and records. The IRS will consider taxpayer and practitioner feedback prior to expanding initial disallowance issuances absent examination.</p> |

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| IRS Action | N/A |
| TAS Response | The IRS should use the scoring of ERC claims as a starting point to work with taxpayers to identify any possible deficiencies in their ERC claims. Although the IRS's concern about requesting books and records from a taxpayer without initiating an audit is valid, it should explore the possibility of providing taxpayers an opportunity to work with the IRS and voluntarily provide the IRS with documentation to substantiate their claim prior to issuing a notice of disallowance, thereby avoiding a lengthy review process while the two-year period for the taxpayer to file suit in federal court is running. |

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| TAS Recommendation | [1-8] Track and extend statutes: In Appeals, track the two-year IRC § 6532 statute cases on ERC claims in inventory and notify taxpayers of this pending statute expiration six months prior to the two-year deadline. Also, provide taxpayers an explanation of the impact of the expiration of the statutory period to file suit and the option of executing Form 907 to extend the statute. |
| IRS Response | The IRS states this recommendation has been partially implemented. |
| IRS Action | <p>The formal claim disallowance letter notifies taxpayers of the two-year refund statute on claim cases, the impact of the expiration of the statutory period, and the date the two-year period begins. In addition, in its initial contact letter, Appeals reminds taxpayers who appealed a notice of claim disallowance that they should continue to monitor the deadline for filing suit. The initial contact letter also notifies taxpayers that Appeals' consideration of their case does not extend this time.</p> <p>This approach balances the technology constraints of Appeals' case management system and resources with taxpayers' need to be informed. Under existing procedures, Appeals may extend the period of limitations for filing suit on a disallowed claim after considering the facts and circumstances of a taxpayer's case, including whether an extension will prevent possible inequities to the taxpayer.</p> |

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| TAS Response | TAS understands that Appeals has both resource and technological constraints but considering the importance of the two-year period (<i>i.e.</i> , once it expires, taxpayers are unable to obtain a refund from the IRS), it is imperative that both the IRS and Appeals makes it a priority to better inform taxpayers of this two-year timeframe. Providing taxpayers with regular updates on the status of this two-year statute period would more fully recognize the taxpayer's <i>rights to be informed</i> and <i>to a fair and just tax system</i> . |
| TAS Recommendation | [1-9] <i>Offer Fast Track</i> : Allow ERC taxpayers to utilize the Fast Track process. |
| IRS Response | The IRS states this recommendation has been partially implemented. |
| IRS Action | <p>The IRS agrees that ERC taxpayers could be allowed to utilize Fast Track Settlement processes on a case-by-case basis. However, Fast Track should not be offered in all situations.</p> <p>There are multiple exclusions from Fast Track in Section 4.02 in Rev. Proc. 2017-25 that must be considered. See also IRM 8.26.2.6 and Publication 5022 for more on the exclusions. For example, cases worked in Field Exam are eligible for and considered on a case-by-case basis for the Fast Track Settlement process, but correspondence examination cases worked solely at a Campus are specifically excluded from the Fast Track Settlement process. There may also be cases where allowing Fast Track would not be consistent with sound tax administration.</p> <p>If Field Exam and the taxpayer agree to pursue Fast Track Settlement, Appeals will consider the application on a case-by-case basis and generally will agree to serve as mediator in the Fast Track proceeding provided that the issue is fully developed and that the issue is not subject to the exclusions set forth in Rev. Proc. 2017-25, Section 4.02, and IRM 8.26.2.6.</p> |

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| TAS Response | TAS recognizes that Fast Track is not available to all taxpayers, and that certain exclusions apply. However, it would benefit both the IRS and the taxpayer to allow Fast Track on ERC claims where possible and to take a broad view of making Fast Track available to taxpayers and practitioners in ERC cases. Considering the IRS's lengthy ERC review process, Fast Track could be a beneficial option to ensure taxpayers' cases are heard by Appeals within the statutory two-year period. Additionally, resolution of the ERC dispute via Fast Track would eliminate the use of further resources by both the IRS and the taxpayer to resolve the issue. Appeals' Fast Track comes with a myriad of benefits to both the IRS and the taxpayer, and the IRS should make it broadly available in the context of ERC whenever possible. |
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| TAS Recommendation | [1-10] <i>Enable direct deposit for replacement checks:</i> Partner with BFS to provide taxpayers an option to elect to have funds deposited electronically in lieu of receiving a replacement paper check. |
| IRS Response | The IRS agrees to implement the TAS recommendation in part. |
| IRS Action | The IRS's internal stakeholders are collaborating to develop intake and storage capabilities for direct deposit information. This will provide the capability to issue and reissue refunds or future advance payments. We will partner with the Bureau of the Fiscal Service (BFS) to develop additional programming allowing all taxpayers to opt in for direct deposit refunds. The IRS, and the BFS, will need to develop new processes to accommodate taxpayer requests including notifications, frozen accounts, and online account updates. The IRS will deliver these capabilities iteratively. Additionally, we are pursuing functionality allowing taxpayers to update direct deposit information using Individual Online Account, to allow the BFS to verify the account information and issue direct deposit refunds to the updated account. Implementation is contingent on available funding. |
| TAS Response | As the IRS continues to embrace a more electronic and efficient environment, it needs to provide taxpayers with more opportunities to have checks directly deposited, which reduces the risk of a bad actor stealing the refund. The IRS is taking positive steps in this direction but must work quickly with BFS to ensure taxpayers can easily opt in to a direct deposit option when requesting that a stolen check be replaced. IRS and BFS enhancement of direct deposit options will better protect both taxpayers and the government fisc. |

MSP #2: RETURN PROCESSING: Continuing Delays in IRS Return Processing Are Frustrating Taxpayers and Causing Refund Delays

PROBLEM

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. 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.

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| TAS Recommendation | [2-1] 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. |
| IRS Response | The IRS agrees to implement the TAS recommendation in part. |
| IRS Action | We will incorporate the same data elements on scanned paper returns as those captured from e-filed returns. We expect to complete implementation of this recommendation by the end of Calendar Year (CY) 2027. Any improvements or changes made will be dependent on resource availability and funding. |

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| TAS Response | TAS commends the IRS's willingness to adopt this important recommendation. Completing implementation of this recommendation by the end of Calendar Year (CY) 2027 will help ensure the success of the Paperless Processing Initiative. |
| TAS Recommendation | [2-2] 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. |
| IRS Response | The IRS agrees to implement the TAS recommendation in full. |
| IRS Action | We will conduct an analysis to identify the root causes of missed Program Completion Dates and other business measure goals for Filing Seasons 2023 and 2024. Based on the findings, we will develop an action plan to improve performance in the upcoming filing season. |
| TAS Response | TAS commends the IRS's willingness to fully adopt this important recommendation. We look forward to reviewing the IRS's action plan to improve performance in the upcoming filing season and will provide assistance as needed to implement the plan. |

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| TAS Recommendation | [2-3] Broaden business rules for e-filed returns to accept submissions where they satisfy the <i>Beard</i> test and direct them to an appropriate treatment stream for resolving discrepancies by FY 2027. |
| IRS Response | <p>The IRS does not agree to implement the TAS recommendation.</p> <p>We continuously review and evaluate solutions to assist taxpayers in filing complete electronic returns to alleviate delays in processing and issuance of correspondence. The e-file system rejects fraudulent or duplicate returns as agreed upon through the Security Summit. This is a collaboration between the IRS and members of private industries, the states, and financial institutions, to prevent fraud from occurring and to protect taxpayers. Additionally, the IRS works with external partners to educate them on the top error rejection codes during various industry calls. We will continue to assess specific scenarios that force taxpayers to file by paper and analyze whether we can allow them in electronically while mitigating the risk of fraudulent activity. As an example, we expanded electronic filing capabilities with a programming solution to allow Duplicate Dependent returns with an Identity Protection Personal Identification Number (IP PIN) for Filing Season 2025.</p> |
| IRS Action | N/A |
| TAS Response | TAS appreciates the IRS's need to mitigate the risk of fraudulent activity; however, there are multiple options to accomplish that goal without 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. TAS will continue to gather recommendations and feedback from taxpayers and tax practitioners about potential changes that would have the greatest impact on reducing taxpayer burden. |

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| TAS Recommendation | [2-4] 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. |
| IRS Response | The IRS agrees to implement the TAS recommendation in part. |
| IRS Action | The IRS plans to include Adjusted Gross Income and IP PIN into the e-file software in the Taxpayer Disclosure Authorization deployment in July 2025. We are planning to include Form W-2, Wage and Tax Statement, and Form 1099 information in the future. Implementation is contingent on available funding. |
| TAS Response | TAS commends the IRS's willingness to partially adopt this important recommendation. Including adjusted gross income and IP PIN into the e-file software in the Taxpayer Disclosure Authorization will be a positive step for taxpayers. The IRS should prioritize further upgrades that include Form W-2 and Form 1099 information as soon as funding becomes available. |

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| TAS Recommendation | [2-5] 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. |
| IRS Response | The IRS agrees to implement the TAS recommendation in part. |

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| <p>IRS Action</p> | <p>In February 2025, we deployed the ability in Individual Online Account (IOLA) for some taxpayers to respond to CP2000 notices with messaging and document upload. Also planned later in FY 2025 is the capability for taxpayers to upload documents for certain digital notices in IOLA. In FY 2026, we are working on expanding these messaging and document upload capabilities to more taxpayers and additional notice types. Notably, it should not be assumed that improving the ability for taxpayers to respond to notices and letters online will have a direct, short-term, positive impact on return processing timelines or refund delays. However, it is a good idea to improve the user experience for responding to notices online because it is likely that this will save taxpayers time and frustration.</p> <p>The IRS cannot commit to the proposed timeline, due to the complexities of existing foundational technology systems and business processes that need to be modified in order to scale this feature across all possible notice and document types. However, we do intend to design a scalable document ingestion/storage/routing platform for digital document upload in relation to taxpayer notices (may or may not be online account(s)). We will provide updates, including a realistic time-based roadmap, as that design becomes available.</p> |
| <p>TAS Response</p> | <p>TAS commends the IRS's willingness to partially adopt this important recommendation. The IRS notes that improving the ability for taxpayers to respond to notices and letters online will not have a direct, short-term, positive impact on return processing timelines or refund delays; however, the resources required to process paper correspondence diminish the resources that could be devoted to processing paper returns. Allowing taxpayers to receive and respond to all notices online will place the IRS on par with major tax administrations worldwide.</p> |

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| <p>TAS Recommendation</p> | <p>[2-6] Upgrade the Where's My Amended Return? tool to allow international taxpayers to use it for any pending amended returns by FY 2026.</p> |
| <p>IRS Response</p> | <p>The IRS agrees to implement the TAS recommendation in part.</p> |

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| IRS Action | The IRS intends to implement this tool enhancement but is unable to commit to the FY 2026 timeframe. The IRS continues to consider this request among all prioritized enhancement and critical maintenance resource needs -- dependent on resources and funding. |
| TAS Response | TAS commends the IRS's willingness to adopt this important recommendation. International taxpayers face barriers to compliance and need access to the same tools enjoyed by domestic taxpayers. |

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| TAS Recommendation | [2-7] Revise Form 1040 to add a box indicating it is an amended return and allow taxpayers to file it electronically by FY 2027. |
| IRS Response | The IRS agrees to implement the TAS recommendation in part. |
| IRS Action | We are currently evaluating an option to streamline the form-based intake of individual returns using a Form 1040 with an amendment checkbox rather than using or including a Form 1040X. Implementation is contingent on findings and available funding. |
| TAS Response | TAS commends the IRS's willingness to partially adopt this important recommendation. Streamlining the form-based intake of individual returns using a Form 1040 with an amendment checkbox would revolutionize amended return processing, reduce taxpayer burden, and allow the IRS to dedicate more resources to improving telephone service, as many employees must currently split their time between working amended return inventory and answering calls for customer service. |

MSP #3: IDENTITY THEFT: Processing and Refund Delays Are Harming Victims of Tax-Related Identity Theft

PROBLEM

Once again, we are highlighting the challenges for victims of tax-related identity theft as a most serious problem impacting taxpayers. These victims are still experiencing unconscionable delays waiting for the IRS to process their returns and pay their refunds with no immediate resolution in sight. In the 2023 Annual Report to Congress, we pointed out that the IRS’s processing times for resolving Identity Theft Victim Assistance (IDTVA) cases as of the end of fiscal year (FY) 2023 was 556 days, nearly 19 months. At the end of FY 2024, the average processing time to resolve IDTVA cases for many victims jumped to **676 days, or over 22 months** – *almost two years!* Although the IRS is taking steps to try to reduce processing times and appears to have closed more IDTVA cases, those steps have not yet affected the average processing time, which increased by 120 days from FY 2023 to FY 2024. Tax-related identity theft has been more prevalent, but the IRS’s outdated practices and prioritization of other service areas are contributing factors to the unprecedented delays victims experience. Until the IRS prioritizes providing timely resolution in identity theft cases, it will continue to burden victims with significant delays that have real financial consequences.

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| TAS Recommendation | [3-1] Prioritize keeping all IDTVA employees working identity theft cases until the average cycle time for resolving IDTVA cases is less than 90 days. |
| IRS Response | The IRS states this recommendation has been partially implemented. |

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| <p>IRS Action</p> | <p>The IRS is keenly aware of the impact identity theft (IDT) has on taxpayers and places a high priority on working the Identity Theft Victim Assistance (IDTVA) inventory accurately and efficiently. Limiting the scope of IDTVA employees as suggested would have a negative impact on the overall taxpayer experience. Further, there are certain IDT cases that inherently require more than 90 days to resolve.</p> <p>While we cannot limit all IDTVA employees' work assignments, the IRS is committed to implementing multiple strategies to reduce the identity theft inventory and average cycle time by:</p> <ul style="list-style-type: none"> • Limiting IDTVA Customer Service Representatives' (CSRs) toll-free phone assignments. These assisters are the last ones assigned to phone work and the first ones removed, when call volume warrants. • Adding employees skilled in the full scope of IDTVA work to address increases in inventory. During the 1st quarter of FY 2025, we delivered full scope training to approximately 300 additional IDTVA employees. • Allocating overtime funding to the IDTVA program to increase case resolution volumes. • Screening IDT cases to determine if they can be closed systemically, as quick closures, can be resolved by non-IDT skilled employees, or were referred to IDTVA in error. • Providing additional guidance on the necessity of filing Form 14039, Identity Theft Affidavit, to reduce the number of Forms 14039 received by avoiding unnecessary filings. • Collaborating with Research Applied Analytics Statistics to identify IDTVA cases that fit within identified scheme criteria to pre-identify the fraudulent return for the IDTVA caseworker, reducing the amount of research needed while improving efficiency. • Leveraging IRS Lean Six Sigma capabilities to identify improvement opportunities within our current work processes. |
| <p>TAS Response</p> | <p>Many IDTVA cases in the inventory backlog are aged and victims are experiencing excessive processing and refund delays. Despite the other IRS strategies, average IDTVA case cycle time is currently 592 days, only 84 days shorter than previously reported. The IRS reasons that keeping IDTVA CSRs on only IDTVA cases would negatively impact the overall taxpayer experience yet ignores the negative experiences that many victims have endured for years. While TAS recognizes the IRS balances competing priorities, TAS encourages the IRS to prioritize resources in support of expediently reducing the IDTVA backlog and delays that are weakening the rights of IDT victims.</p> |

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| TAS Recommendation | [3-2] Develop and implement an initial screening process for IDTVA cases to timely review tax account information, categorize and prioritize refund cases for assignment to appropriately trained employees, send timely acknowledgment letters, and quickly forward misrouted cases to the correct IRS Business Operating Division/Function when necessary. |
| IRS Response | The IRS states this recommendation has been partially implemented. |
| IRS Action | <p>The IRS is unable to implement an upfront screening process as recommended because of limited IDTVA resources and systemic case assignments. However, a screening process was implemented to identify cases meeting pre-determined criteria to classify cases based on potential systemic closures, quick closures, work that can be completed by non-IDT trained employee, assignments based on skill set, or the impact to the taxpayer (<i>e.g.</i>, potential refund). Cases identified by the query are reviewed for validity. In addition to the data queries, the following are the ongoing and proposed initiatives designed to help reduce IDT cycle time through this screening process:</p> <ul style="list-style-type: none"> • Systemic Closures – we continuously review our inventories to identify systemic case closure opportunities. • Specialized Skills – assigning IDTVA cases to employees based on skill sets and training. • High Taxpayer Impact – identifying identity theft cases that have a potentially high impact on the victims. <p>The IRS will continue to review additional segments of the IDTVA inventory to identify more potential systemic closures, quick closures, or work that may be completed by non-IDT trained IDTVA Accounts Management employees. In addition to reviewing the inventory, we continue to solicit employee feedback about the issues they are seeing and encourage their recommendations for reducing the IDTVA inventory.</p> |
| TAS Response | TAS acknowledges that the IRS conducts some screening of its IDTVA inventory to identify and organize certain types of cases, especially for cases that potentially have high victim impact. However, screening IDTVA cases earlier in the process would enable the IRS to timely categorize cases and identify those that need to be worked in a different part of the IRS, that can be quickly resolved and closed, or where there is a potential refund. Earlier screening would position the IRS to better manage its IDTVA inventory and allow for fewer cases to become aged unnecessarily. |

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| TAS Recommendation | [3-3] Upon receipt of a taxpayer's Form 14039, Identity Theft Affidavit, timely acknowledge receipt of the form and communicate estimated timeframes for case resolution. Consider procedures for providing updates while cases are pending under review. |
| IRS Response | The IRS states this recommendation has been partially implemented. |
| IRS Action | An acknowledgement letter is systemically sent to taxpayers if the Form 14039, Identity Theft Affidavit, is attached to their return. The case is reviewed to exercise caution when corresponding with the taxpayer and determination made prior to disclosing any account information to the claimant. The closing contact acknowledges receipt of the taxpayer's documents and explains the closing resolution. |
| TAS Response | The IRS sends systemic acknowledgment letters when taxpayers submit identity theft affidavits with their tax returns, but its acknowledgment of affidavits not submitted with tax returns is inconsistent. Not all identity theft is discovered during the filing season when taxpayers prepare and file their tax returns. For taxpayers who file identity theft affidavits independent of their returns, the IRS may not acknowledge receipt or provide any updates until it resolves the IDTVA case, which often takes several months and possibly years. Taxpayers who file their identity theft affidavits independent of their returns have a reasonable <i>right to be informed</i> . |
| TAS Recommendation | [3-4] Explore technologies, such as automation or artificial intelligence, and develop tools to improve research capabilities and efficiency for IDTVA employees. |

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| IRS Response | The IRS agrees to implement the TAS recommendation in full. |
| IRS Action | The IRS continually explores technologies to automate and develop tools that improve research capabilities and efficiency for IDTVA employees working the identity theft inventory and helping victims of identity theft. We developed research tools to help IDTVA employees to determine the case resolution path. The Dependent Related IDT Case tool was released on July 30, 2024. The IDT streamline tool and an Integrated Automation Technologies (IAT) Form 9409, IRS/SSA Wage Worksheet, tool are currently under development. We are continually working to develop and enhance tools to increase efficiencies for processing identity theft cases. |
| TAS Response | TAS encourages the IRS to continuously explore upgrading its technologies and tools to improve its IDTVA efficiencies. Improved technologies and tools would reduce tedious and time-consuming research and analysis that must be manually completed for IDTVA cases. Tax-related identity theft is an evolving and complex issue that the IRS must keep pace with to provide accurate and timely resolution. |

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| TAS Recommendation | [3-5] Establish hardship criteria for expediting IDTVA cases and provide a reliable way for identity theft victims with significant hardships who meet the criteria to notify the IRS to prioritize work assignment. |
| IRS Response | The IRS states this recommendation has been partially implemented. |
| IRS Action | The National Taxpayer Advocate has well established hardship criteria for referring taxpayers to TAS, including identity theft victims. Identity theft victims have the right to receive assistance from TAS if experiencing economic harm or seeking help in resolving tax problems that have not been resolved through normal channels. Employees refer IDT taxpayer cases to TAS when the case criteria are met. |

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| <p>TAS Response</p> | <p>TAS is quite mindful of its own hardship criteria. The recommendation proposes the IRS develop its own criteria so it may expedite cases for victims that are experiencing the greatest economic hardship. By adopting its own hardship criteria for IDTVA cases, the IRS would be eliminating the need for taxpayers to submit their case to TAS and to then have TAS work the case with the IRS – thereby developing a more direct and less burdensome way for taxpayers who are experiencing significant hardship to have their IDTVA cases resolved more promptly. Considering the delays in resolving IDTVA cases, it seems advantageous for all that the IRS fully embrace a more direct method by which it can expedite cases where taxpayers are experiencing significant economic hardship, thus eliminating the need to add any unnecessary back-and-forth between TAS and IDTVA operations.</p> |
| <p>TAS Recommendation</p> | <p>[3-6] Conduct an analysis of the accuracy of TPP filters and models and establish a plan to consistently achieve an FDR of 50 percent or less.</p> |

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| IRS Response | <p>The IRS appreciates the support for detecting and mitigating refund fraud while working to decrease burden on taxpayers who have filed legitimate returns and continually evaluates the filters to address this balance. The filters are used to protect taxpayers that had their tax related data compromised due to data breaches/losses. Also included are schemes due to social media promotions that were originally identified as potential IDT. These cases were not treated as IDT; however, these cases were referred for other non-IDT compliance treatments including Frivolous Filer, audits, and/or Automated Questionable Credits. The IRS continues to collaborate with internal and external partners, including TAS, to refine and automate refund fraud filters where appropriate. Each year several factors are considered to make the most efficient selections and improve performance while continuing to achieve a continued high level of protection.</p> <p>Roughly 98% of refund returns are not selected by fraud filters. The remaining 2% often have reported information that may not adhere to known patterns and may not have the information returns needed to validate reported amounts. Without proper validation, the IRS risks issuing improper refunds. The IRS strives to properly balance fraud detection and minimizing improper payments against the taxpayer experience and desire for fast return processing.</p> <p>When a return is selected for pre-refund review, the goal is to validate the tax return and issue a refund as quickly as possible. Taxpayers can authenticate their identity by phone, on the web, or in person at a Taxpayer Assistance Center. Once the authentication is successful, the processing of the taxpayer's return is completed and the refund is quickly released, generally within 21 days. A positive taxpayer experience is critical, but the risks are too high in the current environment to modify the pre-refund return selection criteria to arbitrarily set the false detection rate at a certain percentage.</p> |
| IRS Action | <p>N/A</p> |
| TAS Response | <p>TAS encourages the IRS to frequently evaluate its Taxpayer Protection Program (TPP) filters to ensure it is mitigating the percentage of taxpayers who filed legitimate returns and get ensnared in the TPP filters in error. Following selection to the TPP, taxpayers who filed legitimate returns must then successfully authenticate their identity with the IRS for it to complete return processing and issue any refunds. The IRS plays a critical security role in tax administration and its efforts to combat fraud should continuously strive to achieve a balance that results in the most minimal impact on taxpayer rights as possible.</p> |

MSP #4: IRS SERVICE: Taxpayer Service Is Often Not Timely or Adequate

PROBLEM

When taxpayers need assistance from the IRS to meet their filing and payment obligations, many do not receive the quality service that taxpayers and tax professionals need, leading to delays, frustration, and unnecessary costs. Generally, taxpayers obtain service through IRS phone lines, Taxpayer Assistance Centers (TACs), and IRS online accounts and digital services. When taxpayers and tax professionals cannot get answers to their questions, they experience additional burdens or an inability to resolve their issues, violating their *rights to quality service* and *to be informed*.

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| TAS Recommendation | [4-1] Adopt an alternate measure of service for phones that measures the taxpayer experience, including metrics related to the quality of service provided and whether the IRS resolved the taxpayer's issue, and balance its resources to provide quality service more efficiently by the end of FY 2025. |
| IRS Response | The IRS agrees to implement the TAS recommendation in full. |
| IRS Action | The IRS started working in 2023 to create an improved measure of service for the taxpayer's experience. The team recommended a new measure <i>Service Completion Rate</i> (SCR). The SCR demonstrates a holistic view of the live assistance services provided to taxpayers across the Enterprise, including those provided by new technology such as chatbots. Historically, the IRS used a suite of performance metrics to assess the taxpayer experience. The suite of measures includes well established quality, satisfaction, and trust metrics. Once approved, the SCR will be added to the suite of measures. |
| TAS Response | The IRS's planned actions will fully implement the recommendation. |

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| TAS Recommendation | [4-2] Prioritize staffing and answering phone lines that service the most vulnerable taxpayers, including the Installment Agreement/Balance Due, Taxpayer Protection Program, and Automated Collection System lines. |
| IRS Response | The IRS states this recommendation has been implemented. |
| IRS Action | <p>The IRS prioritizes Accounts Management staffing on telephone product lines based on customer demand. The Taxpayer Protection Program line is staffed based on the funding available. We adjust staffing based on resources and demand.</p> <p>The IRS prioritizes SB/SE Campus Collection staffing on telephone product lines based on customer demand. SB/SE continues to monitor all product lines in real time and will shift employees on a daily basis as needed. In addition, all SB/SE Automated Collection System and Balance Due phone numbers are first routed through bots that provide more direct responses to questions and specific routing of calls to the proper phone assistor, thereby improving taxpayer service.</p> |
| TAS Response | While the IRS has stated it implemented this recommendation, the Installment Agreement/Balance Due and Taxpayer Protection Program lines still had a low level of service during the 2025 filing season. We support the IRS's increased level of service on the Automated Collection System line during the 2025 filing season. While TAS agrees that staffing should be a key factor in allocating resources among phone lines, the IRS should also consider which lines are likely to be used by taxpayers experiencing a hardship or other urgent circumstances. |
| TAS Recommendation | [4-3] Prioritize the implementation of Taxpayer 360 so CSRs can provide faster, more comprehensive service to taxpayers. |

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| IRS Response | The IRS agrees to implement the TAS recommendation in part. |
| IRS Action | Taxpayer 360 remains a priority for both taxpayer and employee experience. Its status is under review as the IRS reassesses its IT Modernization strategy. Implementation is contingent on available funding. |
| TAS Response | The IRS agrees to implement the recommendation in part. However, TAS understands that the IRS paused Taxpayer 360 development and has yet to make a final decision on the future of Taxpayer 360. TAS encourages the IRS to continue developing a solution that provides CSRs with a holistic view of taxpayer accounts in real time. |

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| TAS Recommendation | [4-4] Offer expanded access to fully staffed TACs via extended and Saturday hours during the entire year, with more locations, virtual options, and additional CAVs. |
| IRS Response | The IRS agrees to implement the TAS recommendation in part. |

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| <p>IRS Action</p> | <p>The IRS plans to implement increases to the Taxpayer Assistance Centers (TACs) extended hours to 15,000 hours and added two additional weeks to the extended weekend hours schedule starting on January 21, 2025, and continuing through May 1, 2025. The IRS will be tracking progress weekly. As of February 14, 2025, the IRS provided extended weekday hours service of 4,600 hours and serviced almost 6,000 taxpayers.</p> <p>In 2024, the IRS offered Saturday service at certain TACs one Saturday a month during the filing season to allow taxpayers to receive assistance outside of normal Monday thru Friday work hours. A total of 111 TAC locations held 250 Saturday events, serving over 21,000 taxpayers.</p> <p>During FY 2025, the IRS expanded the number of Saturday events from four to six, with the Saturday events starting in February, two events in March, and continuing through June. There are 103 TAC locations anticipated to participate in an expected 354 events. The monthly events are expected to continue with further growth expansion for FY 2026.</p> <p>The Extended Virtual Delivery pilot (EVD) was implemented in FY 2024 to increase taxpayer assistance by leveraging Individual Taxpayer Advisory Specialist (ITAS) availability across the nation to provide service to taxpayers who do not have a scheduled appointment (walk-in taxpayers). Facilitated laptops were placed at 14 locations across the country, allowing walk-in taxpayers to participate in a virtual assistance video chat with an ITAS in a different TAC location. Taxpayers are assisted remotely on 11 topics. In FY 2025, the EVD pilot is expanding with an additional 12 taxpayer facing locations to increase the number of walk-in taxpayers served in FY 2025.</p> |
| <p>TAS Response</p> | <p>The IRS needs to continue building on this work beyond the 2025 filing season. TAS encourages the IRS to continue expanding the available TAC assistance hours and service methods, including offering Community Assistance Visits again.</p> |
| <p>TAS Recommendation</p> | <p>[4-5] Continue to expand capabilities and functionality of online accounts using stakeholder feedback to provide taxpayers and tax professionals with robust self-service options.</p> |

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| IRS Response | <p>The IRS agrees to implement the TAS recommendation in full.</p> |
| IRS Action | <p>The IRS is committed to expanding the capabilities and functionality of Individual Online Account (IOLA), Business Tax Account (BTA), and Tax Pro Account and to providing taxpayers and tax professionals robust self-service options. We are actively engaged with key external stakeholders, including the Electronic Tax Administration Advisory Committee and the Internal Revenue Service Advisory Council. In FY 2025, IOLA plans the following capabilities to increase online access and services, contingent on available funding:</p> <p>IOLA:</p> <ul style="list-style-type: none"> • Integrating amended return tracking. • Adding more payment options. • To further improve the customer experience, the IRS plans to enhance the IOLA functionality for determining refund status and the information and the saved bank account feature, as well as redesign the Tax Records and Profile site pages. <p>BTA:</p> <ul style="list-style-type: none"> • Controls protecting business taxpayers from fraudulent activity. • Expanded payment options. • Integration support for business tax professionals requesting Power of Attorney (POA) or Taxpayer Information Authorization (TIA) and expanded business account access to additional business entity types and their designated officials. <p>Tax Pro Account:</p> <ul style="list-style-type: none"> • Add functionality to support tax professionals when requesting a POA or TIA. • For individual clients, add the ability to create pre-assessed payment plans, view audit status, perform an offer in compromise eligibility check, and provide a lien payoff calculator. • For business clients, link their Centralized Authorization File number to view and manage multiple business client authorizations and enable viewing of business taxpayer information. |

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| TAS Response | The IRS continues to work on expanding the capabilities and functionalities available within online accounts. However, the IRS needs to continue building on this work beyond fiscal year 2025 to improve the taxpayer experience. |
| TAS Recommendation | [4-6] On all phone lines, provide useful information during phone wait periods including advertising the availability and benefits of online accounts. |
| IRS Response | The IRS states this recommendation has been implemented. |
| IRS Action | <p>The IRS phone lines leverage the wait time availability to deliver concise, in-queue messaging within system parameters (<i>e.g.</i>, the number of messages and the length of each message). Our phone lines provide current messaging that includes the promotion of the IRS website and the benefit of online accounts; however, the messaging for each phone application is established independently. SB/SE phone lines serving taxpayers with a balance due promote the IRS website as well as the availability and benefits of online payment plans, including installment agreements, and payment options. SB/SE phone lines serving taxpayers who are under examination also promote the IRS website as well as online resources explaining the audit process and making available relevant forms and instructions.</p> <p>We will continue to evaluate opportunities to encourage online account usage during customer wait times whenever appropriate.</p> |
| TAS Response | The IRS's planned actions will fully implement the recommendation. |

MSP #5: TAX-RELATED SCAMS: More Taxpayers Are Falling Victim to Tax-Related Scams

PROBLEM

Taxpayers face a growing threat. Every year, people from all walks of life fall victim to increasingly complex tax-related scams that are both sophisticated and financially devastating. Scammers use tactics like phishing, IRS impersonation, and promotion of incorrect tax credit claims. Victims often experience shattered financial security, indefinitely frozen IRS refunds, and confusion due to lack of understanding of the process and consequences. The growing sophistication and reach of tax-related scams demands an increasingly robust response from the IRS.

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| TAS Recommendation | [5-1] Enhance transparency by creating an online dashboard that provides up-to-date information to taxpayers regarding their tax returns, amended returns, the estimated date on which a taxpayer can expect to receive a refund, and the reason why the IRS suspended its processing of a refund. |
| IRS Response | <p>The IRS does not agree to implement the TAS recommendation.</p> <p>The types of inquiries and forms filed within the IRS are varied, with multiple processing times creating a different timeline for completion. Aggregate timeframes provided broadly would be misleading for individual filers. Some information on individual processing is already included in the Individual Online Account application for review, showing the receipt of forms, payments and completed processing information; however, anything more than the general timeframe for the actual processing is not available due to the volume of inquiries, forms, and correspondence that must be completed by limited resources.</p> |
| IRS Action | N/A |
| TAS Response | While TAS recognizes the IRS’s concerns about varying processing times, the IRS could still provide a dashboard feature that tracks the average processing times of common refund delay categories, such as Form 4136 (Fuel Tax Credit) claims. Transparency about extended timelines — like the fact that Fuel Tax Credit claims can take up to 18 months to process — could prompt more taxpayers to voluntarily withdraw or amend improper claims, reducing Exam’s workload and improving overall compliance. |

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| TAS Recommendation | [5-2] Implement a policy to promptly mail meaningful plain language written notices to taxpayers affected by refund freezes or delays that clearly explain the problem and the next steps taxpayers must take to resolve the issue. |
| IRS Response | The IRS states this recommendation has been implemented. |
| IRS Action | Taxpayer Correspondence Services (TCS) standards include developing meaningful language using plain language principles, which ensures taxpayers affected by refund freezes or delays receive written notices that clearly explain the problem as well as the next steps that must be taken to resolve tax issues. The IRS continues to evaluate written products for clarity and substance. |
| TAS Response | TAS commends the IRS's stated commitment to meaningful, plain-language correspondence. However, in practice, most taxpayers with frozen refunds do not receive timely explanations. Often, the first substantive notices taxpayers receive are audit letters sent more than a year after filing. The IRS should send taxpayers earlier notices explaining that their refund is being held due to a questionable credit and instructing them to have supporting documentation ready when their case is examined. The same notice can also give the taxpayer an opportunity to amend their original return. Such transparency would allow taxpayers to self-correct their claims earlier in the process, reducing Exam's resource burden. |
| TAS Recommendation | [5-3] Provide guidance to scam victims on how to treat losses, whether they had a profit motive or not, similar to guidance provided to Ponzi scheme victims. |

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| IRS Response | The IRS states this recommendation has been implemented. |
| IRS Action | The IRS Office of Chief Counsel posted the following guidance memo, Allowance of Theft Losses for Victims of Scams Under I.R.C. Section 165, on March 14, 2025, to provide guidance on certain losses: https://www.irs.gov/pub/irs-wd/202511015.pdf . |
| TAS Response | While TAS acknowledges the IRS Chief Counsel memorandum addressing theft loss deductions for victims with a profit motive, the memo is not readily accessible through a standard IRS.gov search. Taxpayers are unlikely to benefit from this guidance if they cannot find it. To make the guidance effective, the IRS should promote the Chief Counsel memo through various media, such as a dedicated theft loss webpage, inclusion in relevant publications (<i>e.g.</i> , Pub. 547), and improved search engine optimization within IRS.gov. |
| TAS Recommendation | [5-4] Develop an interactive online tool to help victims correctly report tax-related scams to the IRS. |
| IRS Response | The IRS agrees to implement the TAS recommendation in full. |

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| IRS Action | <p>A centralized landing page within IRS.gov is currently being developed. This landing page will be easy to find/access and will provide guidance for identifying and reporting scams/schemes. In addition, it will include the steps to submit referrals about suspected tax noncompliance or fraud that the IRS is authorized to administer, enforce, or investigate.</p> <p>The first phase, which includes the basic build out of the centralized landing page for scams/schemes and referrals, will be placed on IRS.gov by September 2025.</p> <p>The second phase will optimize the centralized scams/schemes and referrals landing page experience to provide enhanced customer service to the public while also enabling the IRS to leverage Artificial Intelligence (AI), automation, and predictive data analytics to improve efficiencies.</p> |
| TAS Response | <p>TAS appreciates the IRS's phased approach to developing a centralized landing page for scams and schemes and will monitor progress toward the September 2025 deadline. To maximize taxpayer benefit, this tool must be highly visible, accessible from the homepage, and updated frequently (as close to real time as possible). TAS also urges the IRS to engage stakeholders, including TAS, in user testing and content design to make sure the tool meets taxpayer needs.</p> |

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| TAS Recommendation | <p>[5-5] Evaluate whether the IRS can implement appropriate security measures to eliminate concerns regarding access to TikTok or similar websites on federal devices for activities related to scam detection, outreach, and enforcement.</p> |
| IRS Response | <p>The IRS states this recommendation has been implemented.</p> |

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| IRS Action | <p>The IRS has addressed this recommendation based on its recent actions in this area. For instance, the IRS identified and implemented rigorous controls on its Government Furnished Equipment (GFE) devices to eliminate threat and scam concerns and, in 2023, implemented security controls to block access to TikTok, associated URLs, and prevented the installation of the TikTok application to ensure alignment with the No TikTok on Government Devices Act per the guidance outlined in the Act and the Office of Management and Budget Memorandum (M-23-13). Instagram (and all social media apps) and YouTube apps are also blocked on mobile GFE devices; however, although Instagram is blocked in the browser, YouTube.com is accessible via the GFE browsers (Edge/Safari) due to the IRS leveraging YouTube as a channel to educate and support taxpayers.</p> <p>M365 applications and social media sites accessed on mobile devices under the “bring your own device” (BYOD) program are placed in a secured container preventing and disabling the ability to copy, paste, or screen-capture IRS data from the IRS container to the personal container. Finally, IT continues to identify and deploy security measures to eliminate risks that align with GFE and BYOD devices as an ongoing process.</p> |
| TAS Response | <p>While the IRS has taken commendable steps to block TikTok and similar apps on government-furnished equipment, TAS’s recommendation was for the IRS to evaluate whether certain limited access (perhaps non-networked “clean room” review stations) could be allowed for scam monitoring and enforcement purposes. TAS encourages the IRS to reassess whether current restrictions inadvertently hinder enforcement or outreach efforts in the evolving tax scam/scheme landscape.</p> |
| TAS Recommendation | <p>[5-6] Create a specialized Scam Prevention and Victim Assistance Office staffed with employees trained to address issues specific to scam victim assistance and provide administrative remedies within the IRS.</p> |

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| IRS Response | <p>The IRS does not agree to implement the TAS recommendation.</p> <p>The IRS is currently on hold for all organizational changes. Many scams and schemes are not tax related so any information for providing assistance by the IRS is limited. Identity theft and individual scam reporting and guidance is already provided by the Federal Trade Commission.</p> <p>Currently, the IRS already works in collaboration with members of private industries, the states, and financial institutions, to protect taxpayers by identifying schemes and preventing fraud from occurring (i.e., the Security Summit). Tax preparers are also encouraged to know their customers and are regularly sent reminders to protect their own systems containing taxpayer data. The IRS has teams specifically assigned to IDTVA and has procedures in place to address victim assistance.</p> |
| IRS Action | <p>N/A</p> |
| TAS Response | <p>While TAS understands the IRS is currently under a freeze on organizational changes, the need for a centralized Scam Prevention and Victim Assistance Office or single point of contact remains paramount. Taxpayers affected by scams are often directed to various parts of the IRS or other agencies such as the Federal Trade Commission with no clear guidance on who handles what. A single, IRS-coordinated office or point of contact would reduce confusion, improve taxpayer outcomes, and help the IRS collect more consistent data on scam trends.</p> |

MSP #6: HIRING: The IRS’s Continuing Challenges in Employee Recruitment, Hiring, Training, and Retention Are Hindering Its Ability to Achieve Transformational Change in Taxpayer Service and Tax Administration

PROBLEM

Taxpayers are entitled to quality service and a fair and just tax system under the Taxpayer Bill of Rights (TBOR). However, due to underinvestment in the IRS and critically low staffing levels over the past decade, taxpayers have faced:

- Prolonged wait times for assistance;
- Delays in processing returns and refunds;
- Reduced access to knowledgeable IRS employees; and
- Inconsistent application of tax laws and increasing errors.

Although Congress provided multiyear funding in 2022 to address these issues, IRS success hinges on its ability to recruit, hire, train, and retain a skilled workforce. With high attrition rates in key divisions, taxpayers’ risk ongoing poor service and tax administration inefficiencies if these challenges persist. If the IRS fails to strengthen its recruitment, hiring, training, and retention practices, taxpayers may continue to face inadequate service, inefficient tax processing, limited access to knowledgeable IRS representatives, and potential errors in tax administration, resulting in potential harm to filing season services and collection of tax dollars.

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| TAS Recommendation | [6-1] Revise job descriptions to better reflect the roles and responsibilities of positions. |
| IRS Response | The IRS agrees to implement the TAS recommendation in full. |

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| IRS Action | All employee position descriptions will be reviewed, and updated when required, in accordance with the Office of Personnel Management (OPM) and Office of Management and Budget (OMB) Guidance on Agency RIF and Reorganization Plans Requested by Implementing The President’s “Department of Government Efficiency” Workforce Optimization Initiative. The IRS is currently on an indefinite hiring freeze. When permitted, the IRS will use the updated position descriptions to announce vacant positions. |
| TAS Response | TAS appreciates the IRS’s agreement to revise employee position descriptions in accordance with OPM and OMB guidance. While we understand that current hiring limitations might delay full implementation, TAS urges the IRS to prioritize the standardization and clarity of job descriptions so that prospective applicants – especially those outside the IRS – can easily understand whether they meet the qualifications and if the role aligns with their skills and interests. Clearer, more accessible job descriptions will improve applicant quality and increase interest in critical positions once hiring begins again. Position descriptions that are understandable to everyone better attract the right candidates, clarify expectations for employees, improve performance management, ensure legal compliance, and facilitate career development. |

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| TAS Recommendation | [6-2] Explore alternative recruitment platforms beyond USAJobs. |
| IRS Response | The IRS does not agree to implement the TAS recommendation. USAJobs is the official government platform for posting vacant positions. When permitted, IRS also advertised on other recruitment platforms such as Indeed and Linkedin as well as a variety of niche platforms. IRS is currently under an indefinite hiring freeze and is not posting jobs on any recruitment platforms. |
| IRS Action | N/A |

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| TAS Response | TAS acknowledges that the IRS has used alternative platforms such as LinkedIn and other niche job listing sites when permitted. However, the IRS's response suggests a misunderstanding of the intent behind this recommendation. TAS is not suggesting a replacement for USAJobs, but rather advocating for expanded, strategic, and optimized use of supplementary platforms to reach a broader talent pool. Once IRS hiring authority resumes, the IRS should prioritize making postings more visible and easier to understand, using plain language and leveraging tools like search optimization and AI-enhanced targeting that these platforms offer. Merely duplicating USAJobs text on other platforms, without providing any additional explanations or a strategy to reach a wider audience of potential candidates or professional networks with skills that match the position requirements, is insufficient to meet modern recruitment needs. |
| TAS Recommendation | [6-3] Study and report on the other pay systems utilized in the executive branch of the federal government and consider whether to petition Congress and OPM to grant the IRS flexibility to operate outside the GS pay scale to offer more competitive salaries for highly specialized positions. |
| IRS Response | The IRS does not agree to implement the TAS recommendation. Currently, the IRS is under several new Presidential Executive Orders limiting hiring and funding and downsizing the government. To align with the current administration, it would not be prudent to expend funds on studies and petitions to Congress for more competitive salaries. |
| IRS Action | N/A |
| TAS Response | TAS recognizes the existence of current HR constraints, but the IRS's response misses a key strategic opportunity. This is an ideal time to assess long-term recruitment and retention needs, particularly for hard-to-fill, high-skill positions in IT and cybersecurity where the General Schedule system often lags behind market rates. Investing now in a review of alternative pay structures and outreach methods aimed at connecting with potential future candidates proactively would place the IRS in a stronger position to act swiftly when hiring authority recommences. Without such planning, the agency risks being unable to compete effectively for talent once hiring resumes. |

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| TAS Recommendation | <p>[6-4] Analyze the issue and come up with a plan to reduce the number of acting or vacant IRS senior leader positions, especially in compliance operations.</p> |
| IRS Response | <p>The IRS agrees to implement the TAS recommendation in full.</p> |
| IRS Action | <p>IRS will analyze and develop a plan to reduce the number of vacant or acting IRS Senior Executive Service (SES) positions in compliance operations. While IRS analyzes its SES footprint and forecasts future executive resource needs annually, we will commit to developing strategies to attack this issue more aggressively. Such strategies may include, but are not limited to, executing more frequent SES Candidate Development Program (CDP) cohorts, collaborating with Operating Division leadership</p> <p>to prioritize critical vacancies to fill via external merit staffing recruitment activities, and completing succession planning review more frequently.</p> <p>It is important to note a critical component of the SES CDP requires participants to partake in developmental assignments, outside of their position of record, for a period of at least 120 days. These developmental assignments must be leadership orientated and require the participant to oversee SES-level program duties. These requirements are most frequently met through developmental assignments in vacant SES positions. As a result, it is critical IRS have some vacant SES positions available Servicewide for the purpose of employee development and succession planning.</p> <p>IRS workforce restructuring efforts must be completed and a new organizational structure established before a meaningful plan can be developed for reducing the number of acting or vacant SES positions in compliance operations.</p> |

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| TAS Response | TAS commends the IRS for agreeing to implement this recommendation and for providing a thorough explanation of its SES succession planning strategy. We agree that maintaining a limited number of vacant SES positions is necessary for leadership development, mentorship, and opportunities for skill development. We also believe that the current environment presents a unique opportunity for the IRS to reassess and improve its leadership pipeline and reduce unnecessary acting roles that can undermine accountability and continuity. TAS supports the IRS's stated commitment to prioritize critical SES vacancies in compliance operations. |
| TAS Recommendation | [6-5] Collect and analyze data from exit and stay interviews to learn why people are leaving or staying and use that data to implement additional retention strategies to address the attrition problem. |
| IRS Response | <p>The IRS does not agree to implement the TAS recommendation.</p> <p>The Treasury and IRS Exit Surveys have proven to be effective tools in capturing employee feedback in an efficient and systematic manner. The IRS is under several new Presidential Executive Orders limiting hiring and funding and downsizing the government. To align with the current administration, it would not be prudent to expend funds on a formalized stay interview program with the goal of reducing attrition.</p> |
| IRS Action | N/A |
| TAS Response | TAS disagrees with the IRS's assertion that current Treasury and IRS exit surveys are sufficient. These surveys are brief, inconsistently completed, and fail to provide the actionable insight needed to understand and reduce attrition. Also, the IRS's response does not address the value of stay interviews, which are widely recognized as a workforce management best practice. Stay interviews serve as an early warning system for preventable attrition and can help the IRS retain valuable staff, especially during periods when new hiring is restricted. Even if formal implementation is delayed, now is the time to design and pilot enhanced stay interview strategies for future deployment. Proactive planning aimed at a data-driven approach to understanding and addressing employee needs and concerns will allow the IRS to identify and address issues proactively, build trust, foster a more productive work environment, and retain skilled talent. |

MSP #7: INDIVIDUAL TAXPAYER IDENTIFICATION NUMBER PROCESSING IRS Dependence on Paper Forms and Manual Document Review Is Causing Delays, Mistakes, and Potential Security Risks

PROBLEM

From fiscal years 2020 through 2023, taxpayers filed over a million Individual Taxpayer Identification Number (ITIN) applications each year, asking the IRS to verify their identity and provide them with an ITIN that they need to file their federal tax return.¹ Citing concerns about potential fraud, the IRS has long rejected recommendations to digitalize the ITIN application process, insisting on the use of paper applications and the manual verification of identification documents. The results for taxpayers are long delays in processing times, inconsistent treatment of applications, mistakes by tax examiners that may permanently deprive taxpayers of benefits they qualify for under law, and sometimes the loss or destruction of taxpayer identification documents. The irony for the IRS is that by not modernizing its identity verification processes, the agency risks falling behind in its capacity to detect fraud, as scammers have increasingly greater access to sophisticated image-generating and document-forging technology.

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| TAS Recommendation | [7-1] Incorporate a method to verify government-issued identification documents electronically as part of the ITIN application process. |
| IRS Response | The IRS agrees to implement the TAS recommendation in part. |
| IRS Action | The IRS is currently evaluating an option to verify government-issued passports electronically as part of the Individual Taxpayer Identification Number (ITIN) application process. Notably, 70% of documents submitted in support of an ITIN application are passports. The technology would allow for digital ID verification and authentication of taxpayer’s identity and Foreign Status in real-time. Implementation is contingent on findings and available funding. |

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| TAS Response | TAS supports this approach. Although the technology the IRS is evaluating would not apply to all government-issued identification documents, it would be a significant step in the right direction. Providing real-time identity authentication for 70 percent of submitted documents would free up ITIN staff resources for the review of the remaining 30 percent. Additionally, this technology could provide a blueprint for later introducing additional tools to authenticate other forms of government-issued documents. |
| TAS Recommendation | [7-2] As an incremental step toward allowing e-filing for both ITIN applications and accompanying tax returns, develop a multilingual online tool that guides taxpayers through the ITIN application process and helps them verify whether their supporting documentation will meet IRS requirements. |
| IRS Response | The IRS agrees to implement the TAS recommendation in part. |
| IRS Action | As a part of overall efforts to support ITIN Modernization, the IRS is replicating the Form W-7, Application for IRS Individual Taxpayer Identification Number, application experience in Digital and Mobile Adaptive Forms, with validation fields. After the digital Form W-7 is completed online it can be printed, signed, and mailed, the same as the current unassisted application process. The target user group for this phase is primarily tax filers who do not get assistance through a TAC office or Voluntary Income Tax Assistance Center, and who do not use these third-party tax software preparation tools. |
| TAS Response | TAS supports this development. TAS's understanding is that the digital Form W-7 walks taxpayers through the application requirements by using clear, interview-style prompts and then produces a completed Form W-7 that taxpayers can print, sign, and mail. This fits with what TAS envisioned for this recommendation and could eventually be expanded to include e-filing or digital submission. |

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| TAS Recommendation | [7-3] Allow ITIN applications to be processed year-round with proof of a federal tax need, including but not limited to the submission of a federal tax return. |
| IRS Response | <p>The IRS does not agree to implement the TAS recommendation.</p> <p>The IRS processes ITIN applications year-round if the taxpayer meets at least one of the five exceptions to the tax return filing requirement. The federal tax return requirement protects the integrity of the ITIN program by ensuring ITINs are only procured for the purpose of the federal tax administration for which it is intended.</p> |
| IRS Action | N/A |
| TAS Response | The IRS allows year-round processing of ITIN applications only in limited circumstances that do not apply to most applicants. As discussed in the annual report, TAS disagrees that the federal tax return requirement is the only method or even the most reliable method to ensure that applicants are not committing fraud and need an ITIN. Limiting the processing of most ITIN applications to filing season, generally the IRS's busiest period, creates additional burdens for both the IRS and ITIN applicants. |
| TAS Recommendation | [7-4] Create a systemic fix to prevent ITINs from being deactivated if taxpayers have used them on a federal tax return within the three prior years. |

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| IRS Response | The IRS agrees to implement the TAS recommendation in full. |
| IRS Action | The IRS agrees to implement programming changes to prevent ITINs from deactivation if taxpayers have used them on a federal tax return within the three preceding consecutive taxable years. |
| TAS Response | TAS appreciates the IRS's commitment to fix this issue. |

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| TAS Recommendation | [7-5] Modernize the Real-Time System the IRS uses to process ITIN applications to enhance data quality and management, including a process for logging documents upon receipt. |
| IRS Response | The IRS agrees to implement the TAS recommendation in part. |
| IRS Action | We are currently reviewing the potential for ITIN modernization efforts, including efforts to facilitate digital submission of Forms W-7, Application for IRS Individual Taxpayer Identification Number, for processing through the ITIN Real-Time System. Any improvements or changes made will be dependent on resource availability and funding. |

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| TAS Response | Digitalizing the submission of applications and allowing for processing through the Real-Time System could be transformational for ITIN processing. Nonetheless, many applicants would still likely need to submit ITIN applications or supporting documentation on paper. Thus, it remains important for the IRS to also modernize the Real-Time System with respect to how the IRS uses it to process and track the paper applications and documents that the IRS receives. |
| TAS Recommendation | [7-6] Develop a system for tracking original identification documents, responses to missing document requests, and the actions the IRS has taken to address missing documents. |
| IRS Response | The IRS agrees to implement the TAS recommendation in part. |
| IRS Action | As a part of current process improvement, the IRS implemented a new document authentication process that allows for the return of authenticated original documents earlier in application processing. This improvement has already yielded positive results for the taxpayer and the IRS by mitigating the risk of incorrectly routing original identification documents and reducing the time required to retain the documents. The results include a reduction in ITIN mail containing original identification documents returned by the United States Postal Service as undeliverable. The IRS will continue to explore options for additional process improvements that allow us to build on past success. Any improvements or changes made will be dependent on resource availability and funding. |
| TAS Response | Returning documents more quickly to taxpayers is a positive change and helps reduce the chance that documents get misplaced. Tracking documents would be another positive step toward ensuring that no documents are permanently lost. Additionally, when documents do get misplaced, the IRS should develop a system to track its responses to missing document requests and the actions the IRS takes to address those requests. Such efforts could begin as simply as notating requests and follow-up actions and may not require significant additional resources or funding. |

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| TAS Recommendation | [7-7] Expand high-quality CAA services, with particular emphasis on communities with high concentrations of ITIN filers who have little access to TACs or other forms of ITIN application assistance. |
| IRS Response | <p>The IRS does not agree to implement the TAS recommendation.</p> <p>The IRS has paused existing efforts to expand Certifying Acceptance Agent services and conduct other ITIN-related activities.</p> |
| IRS Action | N/A |
| TAS Response | Certifying Acceptance Agents (CAAs) are third parties who help taxpayers prepare ITIN applications, conduct the initial authentication of identification documents, and work with taxpayers and the IRS to resolve and correct any issues with applications. If not for the CAA program, the IRS would have to spend more resources and employee time resolving issues with taxpayer ITIN applications to make up for what CAAs now provide at essentially no cost to the government. Taxpayer advocacy groups have indicated there has been greater demand for CAA services than what is available. Thus, expanding CAA services should save the IRS resources, in addition to providing better outcomes for ITIN applicants. |

MSP #8: TAX AND FINANCIAL LITERACY: Limited Tax and Financial Knowledge Is Causing Serious Consequences for Taxpayers

PROBLEM

Insufficient knowledge about taxes leads to serious consequences for taxpayers. It can cause taxpayers to make mistakes on their taxes, which can have significant costs for those who fail to claim benefits for which they are eligible and for those who claim benefits they should not. Limited tax literacy imposes a variety of other costs that burden taxpayers, resulting in compliance costs and lost revenue for the government. Further, the consequences are not just tax related. Tax literacy is a key component of financial literacy, and insufficient tax knowledge can lead to a range of financial and related consequences that negatively affect individuals, families, and small businesses.

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| TAS Recommendation | <p>[8-1] Develop a strategic plan to improve tax literacy among U.S. taxpayers, which should include the establishment of a task force with public and private stakeholders. The plan should include:</p> <ul style="list-style-type: none">a) Developing standardized metrics for measuring tax literacy and regularly conducting surveys to evaluate tax literacy among specific types of taxpayers.b) Identifying metrics to gauge the success of tax literacy outreach efforts.c) Identifying opportunities to seek input from stakeholders and the public.d) Creating customized tax literacy outreach, including for platforms inside and outside IRS.gov, for specific types of taxpayers and their individual circumstances.e) Identifying and implementing strategies to partner with state agencies (including state departments of revenue, secretaries of state, and state treasurers) to develop and provide accessible tax education at key moments during the lives of individuals and families and the lifecycles of businesses.f) Developing accessible tax education materials in consultation with tax preparer communities, including enrolled agents, VITA/TCE programs, and software providers, to integrate into their existing communications with taxpayers.g) Developing tax education materials targeted to vulnerable populations including the elderly, immigrants, individuals with disabilities, and low-income taxpayers. |
| IRS Response | <p>The IRS agrees to implement the TAS recommendation in part.</p> |

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| <p>IRS Action</p> | <p>The IRS already seeks input from our stakeholders and the taxpayers they serve by connecting with our stakeholders and the public, conducting partner and site visits, and administering the Stakeholder Partner Survey and Volunteer Experience Survey. On certain platforms, the IRS can develop metrics that gauge the success of tax literacy outreach efforts within the limited population addressed by our partnership services.</p> <p>The volunteer tax preparation programs (Volunteer Income Tax Assistance (VITA) and Tax Counseling for the Elderly (TCE)) provide free tax services to various communities, including low-to-moderate income taxpayers, the elderly, immigrants, and individuals with disabilities at churches, schools, libraries, senior centers and other locations. The IRS has customized tax literacy outreach and education materials (including platforms inside and outside IRS.gov), for specific types of taxpayers and their individual circumstances. The IRS consistently highlights important information available on IRS.gov, such as, Get Free Tax Prep Help (https://www.irs.gov/individuals/free-tax-return-preparation-for-qualifying-taxpayers), VITA/TCE Locator Tool (https://irs.treasury.gov/freetaxprep/), IRS tax volunteers (https://www.irs.gov/individuals/irs-tax-volunteers), and other online resources for partners, volunteers, and taxpayers. In 2023, education and outreach materials were developed for the <i>Back-to-School</i> campaign, which featured flyers and stickers that used a QR code directing parents to several of the IRS.gov resources mentioned above.</p> |
| <p>TAS Response</p> | <p>TAS acknowledges the IRS’s ongoing engagement with stakeholders and its administration of programs such as VITA and TCE, which provide crucial community-based services. However, these actions, while commendable, remain fragmented and insufficiently aligned with a formalized, data-driven strategic vision for nationwide tax literacy improvement. The IRS’s response falls short of what is needed to meet the growing complexity of the tax system and the increasing reliance on self-prepared returns, gig economy reporting, and digital tax administration tools.</p> <p>A core deficiency is the absence of uniform outcome-based metrics to measure literacy improvements. The current IRS approach largely relies on process metrics, for example, the number of flyers distributed or sessions held, which do not gauge taxpayer understanding, behavioral change, or downstream effects for taxpayers.</p> <p>TAS is asking the IRS to build upon its current outreach activities by going a step further to create a strategic plan to develop metrics that gauge the success of the efforts in place and to establish a task force with the public and private stakeholders the IRS is currently communicating with. A coordinated strategic plan, backed by data, interagency consultation, and stakeholder engagement, would not only reduce preventable errors (<i>e.g.</i>, Earned Income Tax Credit disallowances, self-employment misreporting) but also advance core taxpayer rights under the Taxpayer Bill of Rights (TBOR), particularly the <i>Right to Be Informed</i> and the <i>Right to Quality Service</i>.</p> |

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| TAS Recommendation | <p>[8-2] Develop tax education materials that states can incorporate into high school financial literacy coursework and integrate into other types of courses, such as math and government or civics, at various educational levels, including elementary school, high school, and higher education.</p> |
| IRS Response | <p>The IRS agrees to implement the TAS recommendation in part.</p> |
| IRS Action | <p>The IRS continues to explore opportunities to increase financial literacy in middle school, high school, and higher education. The IRS currently provides two e-learning applications: Link & Learn Taxes (LLT) and Understanding Taxes (UT). Available on www.irs.gov, UT helps educators prepare students for their federal tax responsibilities. It introduces students to tax education, tax terminology, tax history, politics, and the economics of taxation. The UT application addresses various levels of education and training. It includes several effective curriculum courses: History, Math, Economics, Vocational Education, Government, Civics and Business. It also presents several taxpayer simulations for an interactive experience with return preparation. High schools in two states currently use the IRS Link & Learn Taxes certification tests to support their coursework related to tax preparation.</p> <p>The IRS will continue to work with state boards of education and individual school districts to establish VITA/TCE sites in high schools as part of their overall financial literacy coursework. If funding is available, the IRS will work with the UT vendor to update existing content to bring it up to date and make it more interactive for students.</p> |

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| <p>TAS Response</p> | <p>Establishing VITA/TCE sites in high schools is a tremendous accomplishment and a vital community resource for lower income taxpayers and seniors. However, the primary function of these programs is to assist those taxpayers with their return preparation needs and does not incorporate tax and financial literacy into middle school, high school, or higher education coursework that could equip students with a basic understanding of tax and financial literacy.</p> <p>While TAS acknowledges the IRS’s use of e-learning tools such as Understanding Taxes (UT) and Link & Learn Taxes (LLT), the IRS’s reliance on these static tools without active curriculum integration or updates fails to meet the scale and scope of the national financial literacy challenge. The UT webpage is a great resource for promoting tax and financial literacy for students and teachers; however, as Taxpayer Services acknowledges, the site has not been updated or maintained since 2013, rendering its interface outdated and non-compliant with modern Section 508 accessibility standards or with adaptive learning design principles required for varied learning environments.</p> <p>Additionally, the IRS’s efforts do not reflect a strategic outreach effort to partner with state departments of education or local education agencies. While the IRS has promoted LLT in two states for school curriculums, TAS recommends that the IRS do more to reach out to the other 48 states and their school districts who may not be aware of the unique educational opportunities available through UT and LLT to help their students become more financially savvy citizens. The IRS should develop memorandums of understanding with state education boards to incorporate tax simulations into financial literacy graduation requirements, as many states are increasingly mandating such coursework.</p> <p>TAS encourages Taxpayer Services to promote these e-learning applications that have already been developed and to create more. Increasing tax and financial literacy education early on in students’ academic lives contributes to a more informed public, which creates more financial stability and greater wealth, and ultimately increases tax compliance. To build a financially resilient taxpayer base and reduce first-time filing errors, TAS urges the IRS to create a formal educational outreach strategy for K–16 institutions, inclusive of teacher training modules, youth-oriented tax simulations, and alignment with career technical education pathways in fields such as accounting, law, and economics.</p> |
| <p>TAS Recommendation</p> | <p>[8-3] Partner with federal agencies (including the Social Security Administration, the Department of Education, the Department of Labor, and the Department of Health and Human Services) and state agencies, in coordination with Recommendation 1.e., to provide IRS tax education materials at key moments during the lives of individuals and families and the lifecycles of businesses and to incorporate tax literacy content into financial literacy programming across federal agencies.</p> |

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| IRS Response | The IRS agrees to implement the TAS recommendation in part. |
| IRS Action | The IRS currently works with several federal agencies to share information related to tax education and outreach and will continue to review opportunities to partner with additional agencies, based on available agency resources. The IRS will determine if any adjustments are needed to identify other suitable agency partners for sharing tax education materials and will work through the individual Territory Offices to share content with existing state partners and identify any new agencies for future collaboration. |
| TAS Response | <p>TAS appreciates the IRS’s recognition of its limited existing engagements with other federal agencies. However, the IRS response fails to articulate a deliberate framework for how they leverage such partnerships to promote proactive and sustained tax literacy education across critical lifecycle moments. Current interactions are episodic and reactive, triggered primarily by changes in tax law or program eligibility credits rather than representing a durable educational strategy. While the IRS does maintain relationships with other federal agencies and state governments, it needs to do more to leverage these relationships to broaden the public’s overall knowledge of tax and financial literacy rather than focusing primarily on recent changes in law and procedure.</p> <p>TAS appreciates Taxpayer Services’ current efforts to provide specific information and education on evolving tax topics to federal and state agencies, as well as the intention to share broader educational information. However, we are asking that the IRS pursue a wider coordinated effort in its partnerships with other agencies and states.</p> |

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| TAS Recommendation | [8-4] Develop and post graphics on IRS.gov and develop and distribute other communications to provide basic information on the U.S. tax system’s role in society, including where the money that funds the government comes from and how the government uses it. |
| IRS Response | The IRS states this recommendation has been partially implemented. |

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| <p>IRS Action</p> | <p>The IRS is responsible for the administration of the tax code. In general, information of a broader level for the use of money within the full Federal government would be something addressed at the Department of Treasury or higher. However, the IRS annually provides taxpayers with a graphic as part of the Form 1040 instructions that identifies the major categories of federal income and outlays for the fiscal year.</p> |
| <p>TAS Response</p> | <p>While TAS acknowledges that the IRS meets the minimal statutory obligation by publishing a single annual allocation graphic in Form 1040 instructions, this limited effort is misaligned with modern expectations for fiscal transparency and civic engagement. Given the IRS’s responsibility to assist taxpayers in understanding the law and promoting compliance, the should agency expand its explanatory content to contextualize the role of taxes in sustaining government functions. This does not require the IRS to explain Congressional appropriations or policy rationale but simply to present facts regarding revenue sources and outlays in plain language formats, infographics, interactive dashboards, and short videos, which would enhance public comprehension.</p> <p>By providing the public with additional useful resources and information about how the U.S. tax system works and its role in our society through vehicles such as IRS.gov, IRS social media pages, and other platforms, the IRS can create a greater awareness, help educate and inform, and ultimately improve tax administration. The IRS’s current approach misses a profound opportunity to strengthen taxpayer trust and promote the <i>Right to Be Informed</i>. TAS urges the IRS to embrace this educational role, not as an ancillary function, but as central to its modern service mission.</p> |

MSP #9: CIVIL PENALTY ADMINISTRATION: The IRS’s Administration of Penalties Is Often Unfair, Is Inconsistently Deterring Improper Behavior, Is Not Promoting Efficient Administration, and Thus Is Discouraging Tax Compliance

PROBLEM

During fiscal year (FY) 2023, the IRS assessed almost 46 million civil penalties totaling almost \$66 billion against taxpayers.¹ Some of these penalties are immense, causing the total tax liability including penalties and interest to be life-changing and even insurmountable for some taxpayers. Taxpayers may not understand why the IRS penalized them or their right to invoke defenses such as reasonable cause to excuse their noncompliance. The IRS often does not timely consider their defenses. In the case of assessable penalties, the IRS does not provide taxpayers the right to have their defenses considered prior to assessment, causing harm and downstream consequences to both taxpayers and the IRS. These taxpayers must attempt to undo the penalty assessment that the IRS often should not have made. The use of penalties should encourage tax compliance while also discouraging intentional or reckless noncompliance. Though penalties are a necessary tool, the IRS does not always administer them according to its own policies or in a fair and consistent manner, which harms taxpayers and erodes their confidence in the U.S. tax system.

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| TAS Recommendation | [9-1] Create a task force consisting of IRS, other Treasury Department personnel, and stakeholders to study the current tax penalties regime and make administrative and legislative recommendations to ensure penalties are applied more fairly and consistently for the purpose of improving tax compliance. |
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| <p>IRS Response</p> | <p>The IRS does not agree to implement the TAS recommendation.</p> <p>Since the IRS administers over 200 civil penalties, it is most effective to focus stakeholder input and internal review on discrete issues. We are continuously improving our programs to ensure penalties are applied fairly and consistently.</p> <p>For example, we are currently engaged in a Servicewide effort to improve the Reasonable Cause Assistant tool that assists Taxpayer Services and Collection in determining whether a taxpayer's late return, payment, or deposit were due to reasonable cause, and not due to willful neglect. The planned improvements are informed by stakeholder feedback received from focus groups conducted at the 2024 Nationwide Tax Forums and a direct result of a cross-functional team with knowledge of the real day-to-day situations that taxpayers share with IRS employees who are using the tool. Together, this feedback is helping to drive needed and taxpayer-favorable updates to reasonable cause categories and factors to consider regarding penalties already assessed.</p> <p>As another example, the IRS completes bi-annual Civil Penalty Accuracy Reviews each year that validate the proper computation of penalties. On average, we find an accuracy rate of 98%, with any errors immediately resolved at discovery. We are currently exploring the creation of a Review & Recovery team to expand these reviews to a much larger scale, thereby enabling improved identification of systemic penalty issues and the ability to resolve issues on a one-to-many level.</p> |
| <p>IRS Action</p> | <p>N/A</p> |

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| <p>TAS Response</p> | <p>The purpose of civil tax penalties should be to encourage compliance. TAS supports the IRS’s efforts to improve the administration of certain penalties such as its planned improvements to the Reasonable Cause Assistant tool and its bi-annual reviews to validate the proper computation of penalties. However, the IRS’s focus on discrete issues does not address the overriding policy concerns of the current penalty regime. While verifying that the IRS accurately computed certain penalties is important (“we find an accuracy rate of 98%”), it does not take into consideration the rationale behind the penalties and whether the imposition of the penalties furthers their intended purpose, and the 98% accuracy rate does not include the percentage of penalties abated or not sustained. Moreover, the correct computation of certain International Information Return (IIR) penalties does not consider whether the penalties are excessive in relation to the offense or underlying tax liability, or whether the purpose is punitive rather than to enhance compliance.</p> <p>The focus of the federal civil tax penalty regime has shifted away from utilizing civil penalties only to enhance compliance. The IRS needs to refocus its policy on administering penalties in a manner <i>solely</i> for the purpose of encouraging compliance. The effective way to do this would be to create a task force to study the current penalty regime and make recommendations to ensure that the IRS properly applies penalties for the purpose of improving tax compliance. TAS strongly urges the IRS to reconsider its refusal to do so.</p> |
| <p>TAS Recommendation</p> | <p>[9-2] Consider establishing civil voluntary disclosure programs to encourage voluntary and future compliance for emerging issues such as digital assets.</p> |

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| IRS Response | <p>The IRS does not agree to implement the TAS recommendation.</p> <p>The IRS already has a considerable number of programs and procedures that facilitate resolution of a taxpayer's non-criminal compliance issues while encouraging voluntary disclosure and future compliance. While the IRS does not have a discrete program to address every emerging issue, the existing programs allow taxpayers to resolve any issue when the noncompliance does not rise to the level of criminal fraud.</p> <p>Before establishing a new civil disclosure or settlement program, whether for a longstanding or emerging issue, such as digital assets, or other areas of noncompliance, the IRS would need to consider whether the scope of the issue and level of noncompliance merit the creation of a new program specific process. Additionally, the time and resources needed to establish and administer any such program can be substantial. Rather than creating new programs, the IRS would want to consider whether alternative approaches such as improved outreach and communications strategies could help taxpayers learn about the best paths to compliance.</p> |
| IRS Action | <p>N/A</p> |
| TAS Response | <p>TAS appreciates the IRS's commitment to finding ways to resolve emerging noncompliance issues through alternative approaches and recognizes there are challenges to addressing these issues, including time and resource constraints. TAS supports the IRS's focus on improved outreach and communication strategies as a first step in attempting to resolve areas of noncompliance but believes more can be done by way of civil voluntary disclosure programs.</p> |
| TAS Recommendation | <p>[9-3] Conduct a thorough review of all penalty notices issued to taxpayers to determine whether they comply with IRC § 6751(a) and develop procedures to ensure that all penalty notices comply with IRC § 6751(a) along with remedial procedures for those that do not.</p> |

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| <p>IRS Response</p> | <p>The IRS does not agree to implement the TAS recommendation.</p> <p>The requested review is unnecessary, since IRS notices, including these penalty notices, are reviewed every year and our current process conveys the required information to taxpayers.</p> <p>When a penalty is systemically assessed at filing, the taxpayer receives a CP notice, which provides the name of the penalty and IRC section and the penalty computation. IRS’s Master File computes the penalty and has all the data needed to pass the computation to the notice programs. These CP notices constitute the vast majority of penalty notices that are issued. Based on the volume of penalties applied systemically each year, notices are as specific as they can be while maintaining the efficiency of a systemic program.</p> <p>Notices associated with manually assessed penalties include the name of the penalty and IRC section. However, since the penalty is computed outside of Master File, the examiner provides the penalty computation to the taxpayer prior to, or together with, the penalty notice. In general, taxpayers have already received notices showing the penalty computations from an examiner prior to having a penalty assessed and have been afforded the opportunity to work directly with the examiner to ask questions and gain a full understanding of the penalty computation. Additionally, many of these manual penalty notices include the total penalty amount along with the base rate of the penalty, making it very easy to back into the number of violations that were assessed.</p> |
| <p>IRS Action</p> | <p>N/A</p> |
| <p>TAS Response</p> | <p>TAS disagrees that IRS review of penalty notices is unnecessary. The statutory requirement of IRC § 6751(a) is clear – the IRS “shall” include certain information, including a computation of the penalty, with each notice of penalty that it sends to taxpayers. Practitioners report that the IRS frequently fails to include a penalty computation in penalty notices it issues to taxpayers, especially in the case of immediately assessable penalties including IIRs. Further, requiring taxpayers to “back into” the penalty is unacceptable, places undue burden on taxpayers, violates the <i>rights to be informed</i> and <i>to pay no more than the correct amount of tax</i>, and does not meet the clear requirements of the law.</p> |

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| <p>TAS Recommendation</p> | <p>[9-4] Stop the automatic assessment of all IIR penalties prior to considering the taxpayer’s specific facts and circumstances, including providing taxpayers their appeal rights with Appeals.</p> |
| <p>IRS Response</p> | <p>The IRS does not agree to implement the TAS recommendation.</p> <p>The IRS already considers whether a taxpayer had reasonable cause based on their particular circumstance prior to manually assessing a late-filing penalty, including in field examinations. Where a penalty is assessed systemically at filing, the taxpayer has an opportunity to raise a reasonable cause defense and, if reasonable cause is denied, seek review by Appeals. Accordingly, the current process balances up-front consideration of reasonable cause where it is feasible to do so with leveraging systemic tools where they yield the greatest efficiencies.</p> <p>More specifically, and as the National Taxpayer Advocate acknowledges in the report, the IRS has already stopped the assessment of Part IV penalties on Form 3520 at filing and updated procedures to review reasonable cause statements attached to Form 3520 and Form 3520-A prior to assessing penalties at filing. Currently these forms are paper-filed, and the consideration of a penalty at filing is largely a manual process, which made it both possible and more efficient to change procedures and look at reasonable cause prior to assessment.</p> <p>In addition, penalties for most types of international information return (IIR) filings – including Forms 8938, 8865, 926, 8858, 8621, 8854, and 8992, FBARs, and Form 5471 filings attached to Form 1040 – are only assessed through a field examination in which taxpayers are given a chance to work directly with an examiner, who is familiar with the taxpayer’s particular circumstances and who considers reasonable cause prior to assessing a penalty.</p> <p>The only IIR penalties that are systemically assessed at filing via programming apply to a Form 5471 or Form 5472 attached to an original late-filed Form 1120 or Form 1065. With higher volume returns like these, systemic assessment results in more consistent treatment of taxpayers, rather than just penalizing those selected for audit. It also serves as a stronger incentive for timely compliance knowing a penalty will be assessed regardless of whether a field exam occurs. Information reported on these forms is valuable to understand the accuracy of the taxpayer’s income tax return and helps IRS efforts to minimize the international tax gap. Pivoting to a manual process for these penalties, so the IRS could consider reasonable cause prior to assessment, would significantly delay return processing and, importantly, delay the payment of any refunds owed to taxpayers on their related Form 1120 or 1065.</p> |

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| IRS Action | N/A |
| TAS Response | <p>TAS is pleased that the IRS stopped the assessment of Part IV penalties on Form 3520 at filing and updated procedures to review reasonable cause statements attached to Forms 3520 and 3520-A prior to assessing penalties at filing. While the changes the IRS has made with respect to Forms 3520 and 3520-A are beneficial for taxpayers, the IRS should expand its elimination of automatic assessments to all late-filed IIRs and provide taxpayers the ability to raise a reasonable cause defense with the opportunity for an administrative review with Appeals prior to any assessment.</p> <p>TAS has expressed its concerns with the IRS's approach to IIR penalties on many prior occasions. The IRS systemically assesses these penalties without any prior review or opportunity to establish reasonable cause or other defenses. They are often erroneously classified as assessable and therefore must be paid before judicial review, which deprives taxpayers of review in the U.S. Tax Court and causes financial hardship. They are disproportionate in comparison with any potential underlying tax and fall particularly hard on lower-income taxpayers and small businesses.</p> |
| TAS Recommendation | <p>[9-5] Update the IRM to require review of any reasonable cause relief requests before assessing penalties including exploring an option to check a box on the return if the taxpayer attaches a reasonable cause statement.</p> |

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| IRS Response | <p>The IRS does not agree to implement the TAS recommendation.</p> <p>The IRS is charged with enforcing penalty provisions with respect to the high volumes of returns received each year. When an income tax or employment tax return is filed late and with a balance due, the IRS has all the information needed to assess the late filing and/or late payment penalty. For efficiency, the IRS assesses these penalties systemically. Taxpayers receive a notice and may respond with a reasonable cause statement, which the IRS considers. If reasonable cause is denied, the taxpayer has the right to seek review by Appeals. In this way, the current process appropriately balances the need for efficient and effective enforcement of penalties in support of voluntary compliance with affording taxpayers the opportunity to assert penalty defenses. The reasonable cause analysis itself is not something that can be handled systemically at filing, since it is dependent on a consideration of the taxpayer's particular facts and circumstances. However, where reasonable cause can be considered first, such as in a field examination, the taxpayer is provided an opportunity to submit a reasonable cause statement prior to penalty assessment.</p> <p>We will continue to weigh the merits of potential improvements, such as the suggested checkbox, that could be helpful in terms of identifying whether a reasonable cause statement has been attached to an original, late-filed return.</p> |
| IRS Action | <p>N/A</p> |
| TAS Response | <p>TAS understands the IRS would need to address current systemic limitations to implement this recommendation. TAS supports continued consideration by the IRS of potential improvements to systemic penalty assessments including the checkbox.</p> |
| TAS Recommendation | <p>[9-6] Extend eligibility for first-time abatement administrative relief to estimated tax penalties under IRC §§ 6654 and 6655 and to any other penalties automatically assessed through electronic means.</p> |

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| <p>IRS Response</p> | <p>The IRS does not agree to implement the TAS recommendation.</p> <p>First Time Abate (FTA) is an administrative waiver meant to reward those taxpayers with a history of filing, paying, and/or making deposits on time, in service of the purpose behind penalty administration of enhancing voluntary compliance. FTA's criteria around a timely compliance history do not apply to event-based information returns that a taxpayer may or may not be required to file in any given year, but which, in years they are required, are key to the IRS's ability to verify accurate reporting of income. Accordingly, FTA has not historically applied to any penalties other than the failure to file, failure to pay, and failure to deposit penalties, which are the most common systemically assessed penalties for individual and business returns.</p> <p>With respect to estimated tax penalties specifically, each penalty is intended to collect the lost interest from amounts the taxpayer did not pay timely to the IRS throughout the year as the law requires. It is computed in the same manner as interest, except it is not compounded daily. Accordingly, waiver of this penalty is not appropriate other than in cases where the late estimated payment is due to reasonable cause. In addition, the assessment of an estimated tax penalty in the prior three years does not preclude a taxpayer from benefitting from FTA in the current year. Finally, a safe harbor already exists that limits the application of the estimated tax penalty. Specifically, the penalty is not assessed if less than \$1,000 (IRC 6654) or \$500 (IRC 6655) in tax is due (after withholding/credits) or the balance due is less than a specified percentage of the current or prior year tax shown on the return.</p> |
| <p>IRS Action</p> | <p>N/A</p> |
| <p>TAS Response</p> | <p>While the estimated tax penalty is intended to function as an interest provision, taxpayers often have difficulty estimating how much tax they will owe. As a result, millions of taxpayers do not satisfy the requirements of IRC §§ 6654 and 6655 and are liable for penalties each year. For example, in fiscal year 2023, the IRS assessed over 14 million estimated tax penalties totaling around \$7 billion against individuals, estates, and trusts. However, the IRS only abated 179,109 estimated tax penalties totaling around \$105 million for individuals, estates, and trusts. Although the reasonable cause exception to the estimated tax penalty applies under limited circumstances, expanding FTA to estimated tax penalties would potentially benefit many taxpayers and eliminate the burden of filing a request for abatement.</p> |

MSP #10: CRIMINAL VOLUNTARY DISCLOSURE: Changes to the IRS’s Criminal Voluntary Disclosure Practice Requirements May Be Reducing Voluntary Compliance and Negatively Impacting the Tax Gap

PROBLEM

Some of the most severe and potentially life-altering tax penalties are in the criminal arena. Taxpayers who are caught filing false or fraudulent returns or failing to file altogether can face extremely high penalties. These penalties can be far more severe than civil penalties and lead to criminal prosecution. In addition to the financial burden, they can result in the loss of civil rights, the potential for asset forfeiture, and even imprisonment. This makes the stakes particularly high for taxpayers who are noncompliant.

To mitigate the impact of severe penalties and encourage noncompliant taxpayers to come forward, the IRS has established voluntary disclosure programs. These programs offer the possibility of reduced penalties for taxpayers who voluntarily disclose their noncompliance. Often, these taxpayers are ones the IRS would not find on its own and include some taxpayers living “under the radar” as they have failed to file returns that might alert the IRS to their existence.

While the IRS has had a criminal voluntary disclosure practice (VDP) for decades, the VDP in its current form is not working as effectively as intended and the IRS’s inability to track the progress of the VDP program makes it nearly impossible to determine its effectiveness. Lack of enthusiasm for the program is partly due to recent changes the IRS has implemented that have made taxpayers and tax professionals wary of using the program and many professionals uncomfortable recommending it to taxpayers. The changes have made the program less accessible and effective, which discourages taxpayers from participating. As a result, fewer taxpayers are coming forward, and the program is failing to achieve its goal of encouraging voluntary compliance. When taxpayers perceive penalties for noncompliance as too severe, they may not come forward, thus creating a paradox where taxpayers are so fearful of the consequences that they may avoid coming into compliance altogether.

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| TAS Recommendation | [10-1] Convene a working group with stakeholders to include tax practitioners, tax policy experts, and others to comprehensively review the current VDP and provide recommendations for reforming the program to make it more accessible and fair, and recommend narrowing the definition of illegal source income to the extent possible to encourage greater participation in the VDP and clarifying other terms such as non-willful. |
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| IRS Response | The IRS agrees to implement the TAS recommendation in part. |
| IRS Action | <p>The IRS actively seeks ways to incorporate taxpayer perspectives into the planning, design, and execution of its operations, including modernization initiatives. For example, the Taxpayer Experience Office was established to specifically ensure that the taxpayer experience is at the center of the IRS's continuous efforts to improve and modernize its operations.</p> <p>The IRS is already in the process of comprehensively reviewing the VDP with input from stakeholders to ensure the program achieves its intended purpose of increasing compliance among taxpayers with potential criminal liability. The IRS is in the process of making allowances for income derived or related to the sale of marijuana.</p> |
| TAS Response | It is vital that the IRS engage with stakeholders going forward to ensure that taxpayer perspectives are incorporated into the VDP and the taxpayer experience is at the center of the program. The IRS's commitment to a comprehensive review of the VDP that includes input from stakeholders is key to guaranteeing the program is viable and meets its intended goal of obtaining increased compliance. TAS supports the IRS narrowing the definition of income but also encourages the IRS to define and clarify other essential terms of the program so taxpayers fully understand the terms of participation in the program. |
| TAS Recommendation | [10-2] Review the current VDP structure to determine whether the penalty structure is deterring participation in the VDP and reconsider the 75 percent civil fraud penalty with the goal of encouraging noncompliant taxpayers to enter the program without discouraging compliant taxpayers from remaining in compliance (similar to pre-2018 IRM 9.5.11.9, Voluntary Disclosure Practice). |

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| IRS Response | <p>The IRS does not agree to implement the TAS recommendation.</p> <p>The current VDP penalty structure balances the need to encourage noncompliant taxpayers with criminal exposure to come forward by using criminal prosecution as a strong, credible deterrent to willful conduct, which is integral to sound tax administration. The 75 percent civil fraud penalty is an integral part of achieving this balance for taxpayers in VDP by reducing the six-year disclosure period to one year. For offshore disclosures, taxpayers are generally subject to one willful Foreign Bank Account Reporting penalty (if applicable). Additionally, examiner discretion will determine whether other international information return penalties apply based upon facts and circumstances of that case and whether the case can be resolved by agreement. Reviewing the current VDP penalty structure should only be considered when the proposed changes do not degrade the deterrence that the current structure provides.</p> |
| IRS Action | N/A |
| TAS Response | <p>It is disappointing that the IRS is unwilling to review the structure and penalty requirements of the current VDP. As of August 31, 2024, the IRS had completed only 161 criminal VDP cases since the beginning of fiscal year 2019 when the 75% civil penalty requirement was incorporated. This fact underscores the reality that the structure and penalty framework of the VDP is not encouraging participation and working effectively. A comprehensive review would necessitate examination of all terms of the program, including a review of the current penalty structure. TAS encourages the IRS to include the current penalty structure in its review of the VDP.</p> |

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| TAS Recommendation | [10-3] Revise Form 14457 to eliminate the willfulness checkbox requirement for VDP. |
| IRS Response | The IRS agrees to implement the TAS recommendation in full. |

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| IRS Action | Criminal Investigation will remove the checkbox from Form 14457. It will be removed in the next form update. |
| TAS Response | TAS commends IRS Criminal Investigation for listening to taxpayer concerns regarding the willfulness checkbox on Form 14457 – it's a start in improving the program. The deletion of the checkbox in the next revision will help allay taxpayer and practitioner concerns regarding the legal effect of making an explicit admission of willfulness and will encourage greater participation in the VDP. |

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| TAS Recommendation | [10-4] Provide flexible payment options and allow taxpayers to enter alternative payment options, including partial payment installment agreements and offers in compromise, when they establish that they cannot full pay all tax, penalties, and interest. |
| IRS Response | <p>The IRS does not agree to implement the TAS recommendation.</p> <p>The payment options available under the terms of the VDP are intentionally narrow. This is to ensure taxpayers receive the benefits of VDP (<i>i.e.</i>, the IRS likely refraining from criminal prosecution, a limited disclosure period, and a set penalty framework) only if they fully comply with their tax, penalty, and interest obligations under the law. In addition to signing a closing agreement (and FBAR agreement, if applicable), the VDP requires taxpayers to either remit full payment for obligations that are owed or make arrangements via an acceptable installment agreement, which allows them to fully pay their liability over as many months as necessary. The IRS notes that offers in compromise (OIC) are premature in the context of VDP because OIC are only available for assessed taxes, and VDP taxpayers' liabilities are not assessed until their cases are closed.</p> |
| IRS Action | N/A |

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| TAS Response | <p>The National Taxpayer Advocate is disappointed in the IRS’s unwillingness to bring these taxpayers into compliance. The IRS’s VDP payment policy serves to exclude taxpayers who want to come forward and resolve their tax noncompliance but are unable to pay in full. Without flexible payment options, many taxpayers may not be able to participate in the VDP. This limits the effectiveness of the program and does not lead to compliance. TAS recommends that as part of the IRS’s VDP program review it consider the effect of this policy and reevaluate its position based on the findings and consideration of the information gathered.</p> |
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| TAS Recommendation | <p>[10-5] Extend appeal rights to VDP participants who disagree with positions taken by the civil examination agent.</p> |
| IRS Response | <p>The IRS does not agree to implement the TAS recommendation.</p> <p>Extending appeals rights to VDP participants would contravene the purpose of the program and create significant administration challenges. Admission into VDP requires taxpayers to accept its terms, which includes agreeing to the assessment and collection of income tax liabilities (including interest and penalties). Because it is a voluntary program, the taxpayer must fully cooperate with the IRS throughout, usually concluding with signing a final position which is known as Form 906, Closing Agreement, for all years in the disclosure period. Such closing agreement is not reviewable by Appeals. Technical issues are developed by technical specialists, counsel, and management, working in concert, to determine the IRS’s final position. Safeguards are in place to ensure terms are consistently applied and any penalty deviation must be approved by designated counsel. These strict parameters give certainty and finality to the taxpayer, and to the IRS, which is conducive to sound tax administration. The VDP program would not operate effectively or efficiently if taxpayers were able to press for a better outcome of their case in Appeals after pursuing resolution through VDP.</p> <p>Taxpayers who believe they can achieve a better result in Appeals than in VDP are entitled to challenge an examination adjustment in Appeals if they have not yet entered the VDP program. They are also equally entitled to withdraw from the VDP program if, at any point, they believe their best option is to present their issue to Appeals.</p> <p>The applicable IRS stakeholders and Appeals remain committed to improving the taxpayer experience including through the VDP process so long as such efforts fall within the scope of the program’s defined parameters.</p> |

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| IRS Action | N/A |
| TAS Response | <p>TAS disagrees with IRS not providing taxpayers the opportunity to challenge the IRS's proposed assessments while participating in VDP. While TAS acknowledges the parameters of the VDP program, taxpayers still retain the <i>right to pay no more than the correct amount of tax</i>. TAS has been informed of several situations in which the IRS revenue agent asserts legal positions that the taxpayer believes are incorrect. Currently, the taxpayer's options are accepting an incorrect legal position or withdrawing from the program - a Hobson's choice. The IRS response assumes that the examination function is correct. The reason for the Independent Office of Appeals is to provide an independent review of the IRS's position as not all revenue agents are correct. Providing taxpayers the ability to have the issues reviewed by an Appeals Officer does not prevent the parties from entering into a Closing Agreement. Another option would be to permit the parties to participate in an Appeals Fast Track option which would allow an Appeals Officer to assess the merits of the parties' position while the case is pending in Exam. Fast Track would allow the examination function to make the final decision in the case. This would provide some protections to the taxpayer when the revenue agent is asserting an incorrect position. Providing this option would be a start in protecting taxpayer rights within the VDP program. Outside of Appeals, the IRS could explore other avenues to resolve taxpayer disputes within the program, such as a managerial conference.</p> |

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| TAS Recommendation | <p>[10-6] Evaluate shifting the internal ownership of the VDP after acceptance from CI to the Tax Compliance Office to ensure the program's administration focuses on compliance and taxpayer support rather than criminal enforcement.</p> |
| IRS Response | <p>The IRS agrees to implement the TAS recommendation in full.</p> |
| IRS Action | <p>Criminal Investigation will evaluate shifting the internal ownership of the VDP to focus on compliance and taxpayer support.</p> |

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| TAS Response | TAS supports the IRS's willingness to evaluate shifting the internal ownership of the VDP from Criminal Investigation to the Tax Compliance Office after a taxpayer is accepted into the program. As Compliance completes most of the administration of the VDP, a shift of ownership would serve to streamline the program and help ensure taxpayer compliance and support are the focus. |
| TAS Recommendation | [10-7] Consider establishing other civil disclosure programs to encourage voluntary and future compliance for emerging issues such as digital assets where noncompliance may not rise to the level of criminal fraud. |
| IRS Response | <p>The IRS does not agree to implement the TAS recommendation.</p> <p>The IRS already has a considerable number of programs and procedures that facilitate resolution of a taxpayer's non-criminal compliance issues while encouraging voluntary disclosure and future compliance. While the IRS does not have a discrete program to address every emerging issue, the existing programs allow taxpayers to resolve any issue when the noncompliance does not rise to the level of criminal fraud.</p> <p>Before establishing a new civil disobedience or settlement program, whether for a longstanding or emerging issue, such as digital assets, or other areas of noncompliance, the IRS would need to consider whether the scope of the issue and level of noncompliance merit the creation of a new program specific process. Additionally, the time and resources needed to establish and administer any such program can be substantial. Rather than creating new programs, the IRS would want to consider whether alternative approaches such as improved outreach and communications strategies could help taxpayers learn about the best paths to compliance.</p> |
| IRS Action | N/A |

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| TAS Response | TAS appreciates the IRS's commitment to finding ways to resolve emerging noncompliance issues through alternative approaches and recognizes there are challenges to addressing these issues, including time and resource constraints. TAS supports the IRS's focus on improved outreach and communication strategies as a first step in attempting to resolve areas of noncompliance but believes more can be done by way of civil voluntary disclosure programs. |
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| TAS Recommendation | [10-8] Begin collecting robust data on VDP participation to measure program effectiveness that includes at minimum the amount of money collected through the VDP. |
| IRS Response | The IRS agrees to implement the TAS recommendation in full. |
| IRS Action | The IRS has commenced collecting data on tax, interest, and penalties collected related to VDP in May 2024. |
| TAS Response | The amount of money collected through the VDP is key data the IRS needs to evaluate the effectiveness of the program. The IRS's commitment to collecting this data is a positive step to ensuring the program is viable and successful. |

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| TAS Recommendation | [10-9] Introduce mechanisms for tracking taxpayer compliance after taxpayers complete the VDP process to ensure that the program is contributing to long-term compliance. |
| IRS Response | <p>The IRS does not agree to implement the TAS recommendation.</p> <p>Before signing a closing agreement, the IRS conducts a thorough review of the taxpayer's filings to confirm that it has complied with all required reporting in the years immediately after the disclosure period. This review covers, among any other applicable filings, income tax returns, FBARs, international information returns, employment tax returns, and estate and gift tax returns. However, the IRS does not have the resources or administrative capacity to continue tracking and verifying compliance by taxpayers who have completed the VDP process. Even if the IRS did have such capacity, dedicating the kind of attention suggested by the recommendation to taxpayers who had completed the VDP program would likely deter at least some of those taxpayers from even coming into the VDP program if they knew they would be subject to continuous scrutiny. Such an approach might also be construed as targeting a specific class of taxpayer, since the IRS does not monitor other groups of examined taxpayers for subsequent compliance.</p> |
| IRS Action | N/A |
| TAS Response | TAS acknowledges there are administrative and resource constraints involved in tracking future compliance. However, some compliance systems are already in place in other areas, including the five-year compliance requirements after the IRS accepts an offer in compromise. TAS encourages the IRS to consider implementing similar compliance monitoring to help make certain that the VDP is encouraging future compliance. |

TAS Research Report: Some Legitimate Taxpayers Did Not Receive a Tax Year 2020 Refund Because They Did Not Respond to an IRS Letter Requesting Identity Verification

SUMMARY

Each year, a few million refund returns trigger an IRS fraud filter, and these returns are set aside while the IRS awaits verification of the taxpayer's identity. One of the challenges the impacted taxpayers face is that the IRS only issues one letter notifying the taxpayers of the need to authenticate, with no subsequent follow-up. Beginning in 2024, the IRS updated Where's My Refund? messaging to reflect return delays and the need for identity verification. Although the need to verify information before receiving a frozen refund is now noted on a taxpayer's IRS Online Account, only a small percentage of taxpayers have these accounts.

Last year, in conjunction with the National Taxpayer Advocate 2023 Annual Report to Congress, TAS published an online report describing a research project in which TAS contacted taxpayers likely eligible to receive their frozen tax year (TY) 2020 refunds. As indicated, IRS procedures only require one letter notifying taxpayers of the need to authenticate their identity before the IRS will release their refund. Many of these refunds remained frozen because the taxpayers had not authenticated their identity with the IRS. In December 2023, TAS sent its first letter offering to help a sample of taxpayers likely eligible to receive their TY 2020 refund with navigating the IRS identity authentication process. TAS sent a follow-up letter in early January 2024 to the same taxpayers, repeating its offer of assistance. The TAS offer of assistance did not circumvent the necessity of the taxpayer authenticating their identity with the IRS but served as a reminder of the authentication requirement and offered to assist taxpayers with the authentication process.

TAS believes many legitimate taxpayers may be entitled to their frozen refunds, even though they have not yet authenticated their identity with the IRS. Once the IRS selects a return as potentially being submitted by an identity thief, the taxpayer must authenticate their identity before the IRS will process the return. While IRS procedures only require it to send one letter notifying taxpayers of the need to authenticate their identity, a recent study conducted by TAS and the IRS Refund Integrity Compliance Services (RICS) office, which explored why taxpayers often delay authenticating, found that many taxpayers reported never receiving the IRS letter requesting they authenticate their identity.

The TAS outreach study discussed in this report explored the effect of sending subsequent letters to a sample of potentially legitimate taxpayers who were likely entitled to their claimed refunds even though they had not authenticated their identity with the IRS in the past three years. The letters offered TAS assistance to taxpayers needing to authenticate their identity to receive their TY 2020 refund, which remained frozen by the IRS. TAS tracked both the number of respondents and whether the taxpayers could successfully verify their identity and tax return information as well as the number of taxpayers who successfully authenticated their identity directly with the IRS after receiving the TAS letter. Our outreach study determined that over seven percent of sampled taxpayers were able to work with TAS or the IRS to successfully authenticate their identity, about 2.3 times the authentication rate of taxpayers from a control group not receiving the TAS outreach letter, where we observed a 3.1 percent authentication rate. Respondents in the study received over \$3.8 million in released refunds, and the IRS may release up to \$122,000 in additional refunds to taxpayers who contacted TAS but whose TAS case remains open.

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| TAS Recommendation | [RR 1-1] Provide a second follow-up letter approximately 30 to 60 days later if the taxpayer has not yet responded and authenticated, notifying the taxpayer that they must authenticate their identity before the IRS can release their claimed refund. |
| IRS Response | <p>The IRS does not agree to implement the TAS recommendation.</p> <p>Letters are sent to taxpayers for each tax module in which a refund is frozen. Taxpayers can authenticate using various methods including over the phone, in person at a TAC office, and online. Further, the <i>Where's My Refund?</i> app has been enhanced to provide Taxpayer Protection Program and non-identity theft letter information. If there is no response to the letter, the case moves into the appropriate IDT treatment stream.</p> |
| IRS Action | N/A |
| TAS Response | <p>While the IRS sends letters to taxpayers for each tax module with a frozen refund, TAS Research has demonstrated that a follow-up letter significantly increases the taxpayer response rate. This conclusion is drawn from a study conducted by TAS in partnership with the IRS Refund Integrity Compliance Services office.</p> <p>The study delved into the reasons behind the delays in the authentication process, revealing that many taxpayers reported never receiving the IRS letter requesting identity verification. This highlights the need for a more proactive communication strategy, in pursuit of the taxpayers' <i>right to be informed</i>, to ensure that taxpayers can swiftly resolve their tax issues and access their rightful refunds. Declining to take what TAS considers to be a reasonable action of sending follow-up letters to taxpayers who did not respond to the initial letter is a missed opportunity by the IRS to provide quality service.</p> |

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| TAS Recommendation | [RR 1-2] When the IRS releases a refund for the current year and there are still frozen refunds for prior years, resend a notice to the taxpayer that they still need to authenticate their identity for the prior year. Taxpayers should receive this letter as close as possible to the filing date of the current year return. |
| IRS Response | <p>The IRS does not agree to implement the TAS recommendation.</p> <p>Letters are sent to taxpayers for each tax module in which a refund is frozen. Taxpayers can authenticate using various methods including over the phone, in person at a TAC office, and online. If there is no response, the case moves into the appropriate IDT treatment stream.</p> |
| IRS Action | N/A |
| TAS Response | TAS acknowledges the current IRS procedures that inform taxpayers about their still frozen refunds and the multiple methods established to verify their identities. TAS study results demonstrated an increase in taxpayers proactively reaching out to the IRS for identity validation if they received a follow-up letter. Taking this step will ensure more taxpayers can access their refunds. |
| TAS Recommendation | [RR 1-3] Perform additional research on taxpayers, particularly those with lower incomes, who had their refunds released much later with the goal of reducing the false detection rate for identity theft filters and to improve administrative processes around identity authentication. |

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| IRS Response | <p>The IRS does not agree to implement the TAS recommendation.</p> <p>The IRS appreciates the support for detecting and mitigating refund fraud while working to decrease burden on taxpayers who have filed legitimate returns and continually evaluates the filters to address this balance. The filters are used to protect taxpayers that had their tax related data compromised due to data breaches/losses. Also included were schemes due to social media promotions that were originally identified as potential IDT. These cases were not treated as IDT; however, these cases were referred for other non-IDT compliance treatments including Frivolous Filer, audits, and/or Automated Questionable Credits. The IRS continues to collaborate with internal and external partners, including TAS, to refine and automate refund fraud filters where appropriate. Each year several factors are considered to make the most efficient selections and improve performance while continuing to achieve a continued high level of protection.</p> <p>Roughly 98% of refund returns are not selected by fraud filters. The remaining 2% often have reported information that may not adhere to known patterns and may not have the information returns needed to validate reported amounts. Without proper validation, the IRS risks issuing improper refunds. The IRS strives to properly balance fraud detection and minimizing improper payments against the taxpayer experience and desire for fast return processing.</p> <p>When a return is selected for pre-refund review, the goal is to validate the tax return and issue a refund as quickly as possible. Taxpayers can authenticate their identity by phone, on the web, or in person at a taxpayer assistance center. Once the authentication is successful, the processing of the taxpayer's return is completed and the refund is quickly released, generally within 21 days. A positive taxpayer experience is critical, but the risks are too high in the current environment to modify the pre-refund return selection criteria to arbitrarily set the false detection rate at a certain percentage.</p> |
| IRS Action | <p>N/A</p> |
| TAS Response | <p>TAS appreciates the IRS involving us in the collaborative discussion and commends the proactive measures taken to safeguard taxpayer data. TAS study results identified an area of concern: More than half of the taxpayers currently identified by the IRS's model do not appear to be victims of identity theft. To enhance the accuracy and efficacy of the IRS's efforts, TAS strongly urges the IRS to reassess the IDT filter program. Developing more effective methods to accurately identify true victims can significantly reduce the incidence of false identity theft detections and better serve those genuinely in need of protection.</p> |

TAS Research Report: Improving IRS Telephone Service: A Review of Best Practice Processes and Measures Used by Large Government and Private Sector Call Centers

SUMMARY

The National Taxpayer Advocate has included IRS telephone operations as one of the ten Most Serious Problems facing taxpayers since 2020. To its credit, the IRS improved its primary measure – Level of Service (LOS) – on its Accounts Management (AM) phone lines during the 2023 and 2024 filing seasons, setting and achieving its goal of at least an 85 percent LOS. However, the LOS metric is an imperfect, incomplete measure of the service the IRS provides to taxpayers calling for assistance. The IRS has also expanded its online services to taxpayers by developing individual and business online accounts. The expansion of online services provides informative content on a variety of tax topics, allows taxpayers to check the status of their refunds or review their account, and makes it easier to get copies of tax returns and account transcripts, all of which should reduce the number of taxpayers who must call the IRS. Nevertheless, tens of millions of taxpayers continue to call the IRS each year.

The IRS receives approximately 100 million calls each year. It uses an enterprise of phone lines to provide service to taxpayers on a variety of issues, including tax law, compliance services, and other specialty topics. This report compares the telephone processes and metrics of the IRS with other public and private entities, including state and national governmental agencies that receive large call volumes. The goal of this comparison is to recommend metrics and processes that may improve IRS telephone operations.

Although the IRS has increased the likelihood of taxpayers having their calls answered during the filing season, practitioner complaints about IRS telephone service dominated the Town Halls that the National Taxpayer Advocate held at the 2024 IRS Nationwide Tax Forums during the summer. When the IRS provides better service during the filing season (late January to mid-April), it is more likely to receive tax returns with fewer errors. However, taxpayers who have something wrong with their return after the filing season face difficulty reaching the IRS to resolve the problem. For example, in fiscal year (FY) 2024, IRS customer service representatives (CSRs) answered 32 percent of the calls it received during the filing season and only 24.4 percent of the calls it received after the filing season through September 30, 2024; the wait time for a CSR to answer more than tripled, increasing from 3.4 minutes to 12.6 minutes. This is understandable as CSRs wear multiple hats and juggle work from answering telephones to processing correspondence to making account adjustments. That said, the challenge the IRS faces involves allocating its resources to properly adjust and provide taxpayers and practitioners with the quality service to which they are entitled across multiple channels (telephones, online services, and in-person).

As mentioned, the IRS uses LOS as a primary metric to evaluate its telephone operations. LOS measures how many calls the IRS answers, but this measure is somewhat misleading. During the 2024 filing season, the IRS LOS on its AM lines was 87.6 percent, even though live assistants answered only 32.1 percent of the calls they received. The primary reason for this discrepancy is that the IRS does not include calls that drop off before it places the caller in a queue for a live assistant, which impacts its LOS calculation.

We found that public or private entities typically do not use LOS or variations of this metric. Of the entities we reviewed, the IRS was the only one using this specific metric. Other incoming call center operations often measured aspects of the IRS's LOS measure including calls answered, call abandon rate, and callers receiving a busy signal. Both the IRS and other entities included metrics on the time spent answering an inquiry; the wait time before a representative answers a call, which the IRS refers to as the average speed of answer; the percent of calls transferred; and other metrics such as handle and wrap time. Like other entities, the IRS uses customer satisfaction surveys to gauge taxpayer sentiment for its telephone service; however, the percentage of respondents is much lower for the IRS than for other entities. Additionally, we found that many entities track if the caller's first call resolves the issue, but the IRS does not currently track this metric.

In terms of alternate forms of service, the IRS is lagging technologically as it has yet to implement live chat functionality, which many other entities are using. However, the IRS is working to implement this technology when expanding its web services, which could decrease incoming call volumes and allow it to answer more taxpayer inquiries.

Significant conclusions from our study include:

- IRS incoming call volumes significantly exceed the volumes of other entities studied, even considering large national agencies like the Social Security Administration (SSA) or the Department of Veterans Affairs (VA).
- The IRS answers a smaller percentage of calls than the 80 percent standard of most public entities, and it generally answers a smaller percentage of calls than most of the state agencies we reviewed.
- Wait times for IRS callers are higher than the goal of other incoming call operations in the private sector, although wait times are similar during the filing season; wait times for IRS callers are less than those of most of the state agencies we reviewed.
- A common call center metric for many public and private entities is the first contact resolution (FCR) rate. A few state agencies use this metric, but the IRS does not.
- The IRS and most call center operations we reviewed use surveys to measure user satisfaction; however, the IRS should increase the feedback it gathers whether it involves increasing the sample size for its surveys or allowing callers to take the survey at a point in time after their call.

As a result of comparing the IRS to other entities, TAS recommends that the agency strive to implement these changes to improve their telephone service and metrics:

1. Revise the LOS formula so it is a function of total call attempts and include calls answered through automation in the calculation.
2. Implement a procedure for measuring FCR.
3. Offer all callers a customer satisfaction survey.
4. Deploy live chat functionality.

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| TAS Recommendation | [RR 2-1] Revise the LOS formula so it is a function of total call attempts and includes calls answered through automation in the calculation. This formula will not only be more representative of the taxpayer experience, but it will allow for a better comparison between phone lines that only use a live assistor and phone lines that use both a live assistor and automation. |
| IRS Response | The IRS agrees to implement the TAS recommendation in full. |
| IRS Action | In 2023, the IRS created a team from across the IRS, including TAS, to potentially replace the existing Level of Service (LOS) with an improved measure of service for the taxpayer's experience. This team conducted a study with other government agencies, including international, private, and public corporations, to gauge how they measured phone services to their customers. The result of the study was that the IRS will test and baseline the newly proposed metric during FY 2025 with implementation during FY 2026. |
| TAS Response | TAS looks forward to reviewing the results from the testing and baseline assessment of the newly proposed metric during the implementation in FY 2025 and FY 2026. We anticipate this will provide valuable insights and drive impactful outcomes. |
| TAS Recommendation | [RR 2-2] Implement a procedure for measuring FCR. |

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| IRS Response | The IRS agrees to implement the TAS recommendation in full. |
| IRS Action | <p>The IRS began working in 2023 to implement a procedure for measuring contact resolution. The process uses two separate approaches, one that uses taxpayer's response to satisfaction surveys indicating agreement with "My Needs Were Met" and "Will this interaction prevent the need for future contact?" The Contact Resolution Percentage is based on responses to these questions from the customer experience survey for the Tax Law and Accounts survey. This is a quarterly metric and supplements the suite of measures used by the IRS to track the taxpayer experience.</p> <p>The second approach includes research to measure First Touch Resolutions that are instances of a taxpayer having one inbound phone call or office visit recorded in our systems with no other telephone calls or office visits present within 90 days after the touchpoint event.</p> <p>The First Touch Resolution rate is the ratio of taxpayer events classified as a first touch resolution to the total number of taxpayer phone calls and office visits recorded in the Account Management System system in a given period. This is an annual metric.</p> |
| TAS Response | TAS supports this development and looks forward to reviewing the data. TAS requests an update on when we can expect the data to be made available. |
| TAS Recommendation | [RR 2-3] Offer all callers a survey in a separate call if the taxpayer consents. Because there is a risk of disconnection when the IRS transfers the caller to a survey after the call is complete, a separate call may lead to a higher response rate. By offering the survey to all callers, the IRS could capture more feedback that may be more representative of the population. |

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| IRS Response | <p>The IRS does not agree to implement the TAS recommendation.</p> <p>The IRS maintains interest in expanding opportunities to gather taxpayer feedback to improve experiences when using our toll-free phone services. The IRS continuously selects and invites some toll-free callers to participate in customer satisfaction and experience surveys. It uses an automated Interactive Voice Recognition system to invite select callers to take a survey immediately after speaking with a representative or voicebot. The objective of the survey is to identify what Taxpayer Services' toll-free staff and managers can do to improve customer service and to track callers' satisfaction with telephone service attributes over time. A separate survey would be a duplication and an extra step for the callers.</p> |
| IRS Action | N/A |
| TAS Response | <p>TAS did not intend this recommendation to be in addition to current survey methods, but rather to replace the current method. As noted in the report, while it is encouraging to see taxpayers reporting a positive experience of over 70 percent for all seven questions, this reflects the opinions of only 4,721 respondents, which equates to about a 1.9 percent response rate.</p> |

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| TAS Recommendation | <p>[RR 2-4] Deploy live chat functionality, which could redirect calls and provide faster taxpayer service.</p> |
| IRS Response | <p>The IRS states this recommendation has been implemented.</p> |

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| IRS Action | Taxpayer Services deployed an unauthenticated chatbot for Electronic Products & Services Support with the option to escalate to live chat on December 5, 2024. The topics covered were IRS e-File Application, Transmitter Control Code and Electronic Filing System. Based on the success, Taxpayer Services is exploring expanding live chat for international topics. |
| TAS Response | TAS appreciates the IRS's commitment to further deploy chat features and looks forward to evolving and growing enhancements moving forward. |

TAS Research Report: IRS Processing of Individual Taxpayer Identification Numbers

SUMMARY

Individual Taxpayer Identification Numbers (ITINs) are an essential tool for individuals who are not eligible for a Social Security number (SSN) to fulfill their tax obligations in the United States. While ITINs are often linked with immigration policy, their primary purpose is to allow a non-SSN holder to report and pay taxes. Congress created the ITIN program in 1996 to facilitate tax return processing and payment for those without SSNs, emphasizing that ITINs are for tax purposes only. Over time, however, various private and public entities, including financial institutions and state agencies, have used ITINs as proof of identity for services like credit card applications or driver's licenses. The 2015 Protecting Americans from Tax Hikes (PATH) Act introduced significant changes to the ITIN program. These include stricter application rules and automatic expiration of ITINs if unused for three consecutive tax years. Despite these updates, the ITIN program faces operational challenges that burden both the IRS and taxpayers.

This report examines the scope and impact of ITINs, focusing on the characteristics of ITIN-related tax returns, including the size of the ITIN tax return filing population, taxes paid, credits received, and other characteristics. It discusses the IRS administration of the program, including the challenge of the IRS reviewing and processing hundreds of thousands of ITIN applications. Finally, we look at the challenges faced by ITIN applicants, particularly when errors occur because the IRS erroneously deactivated their ITIN and the additional burdens imposed by the IRS issuance of ITIN-related math error notices, which taxpayers may not understand leading to delays and loss of millions of dollars in credits. The specific objectives for this study and corresponding significant conclusions are to:

1. Determine the size and composition of the ITIN program and quantify its impact on U.S. taxation.
 - Millions of tax returns include at least one ITIN annually, contributing billions of dollars in tax revenue, even after allowable credits, which range from about \$2 to \$4 billion.
 - ITIN filers are predominately low-income taxpayers with a median adjusted gross income (AGI) of slightly over \$31,000.
 - ITIN applicants who use a Certifying Acceptance Agent (CAA) to certify the documents submitted with their ITIN application are 15 percent more likely to have the IRS accept their application, while ITIN applicants without CAA support face more than double the rejection rate of ITIN applications submitted by a CAA.
 - Volunteer Income Tax Assistance (VITA) sites may offer free CAA services to certify documents submitted with the ITIN application but are limited to only 17 states, leaving taxpayers without adequate support.
2. Assess the IRS's administration of the ITIN program.
 - The IRS assigns hundreds of thousands of ITINs each year. In calendar year (CY) 2023, the IRS issued nearly 900,000 ITINs and rejected more than 250,000 ITIN applications.
 - Navigating the IRS process may be quite difficult for taxpayers, and if they submit critical identification documents with their applications, they risk not receiving them back.

- In tax year (TY) 2022, the IRS invalidated ITINs for almost 22,000 taxpayers impacting nearly 32,000 dependents, and IRS-issued math error notices eliminated over \$6 million in claimed Other Dependent Credits.

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| TAS Recommendation | [RR 3-1] <i>Survey ITIN taxpayers:</i> Conduct a survey of ITIN taxpayers to determine which aspects of the IRS ITIN application process are especially burdensome. |
| IRS Response | <p>The IRS does not agree to implement the TAS recommendation.</p> <p>A survey of individual taxpayers to determine which aspects of the IRS ITIN application process are especially burdensome and unnecessary. Advocacy groups that represent the taxpayer’s perspective as well as the IRS Advisory Council have provided feedback of the ITIN experience. Many of the concerns identified were addressed through process improvements, including the implementation of a new document authentication process that allows the return of authenticated original documents earlier in the applications processing. Taxpayer guidance was revised for the Form W-7, Application for IRS Individual Taxpayer Identification Number, and instructions to include a table aiding taxpayers in the determination of acceptable medical and school records. The ITIN-related content on IRS.gov was updated to include a frequently asked questions section. The IRS continues to explore development of modernization and automation efforts with the ITIN application process.</p> |
| IRS Action | N/A |
| TAS Response | TAS commends the initiatives to alleviate taxpayer burden by returning original authenticated documents significantly earlier in the process than ever before. Furthermore, TAS applauds the IRS for its efforts to refine and streamline the ITIN application process. To better understand the effectiveness of these vital improvements, an internal survey designed by subject matter experts could provide crucial insights into the impact of these changes and help identify any lingering challenges that may still impose difficulties on taxpayers. |

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| TAS Recommendation | [RR 3-2] <i>Expand CAA services:</i> Increase the number of VITA sites that offer CAA services, focusing on high application areas to reduce processing burdens and costs for taxpayers. |
| IRS Response | The IRS does not agree to implement the TAS recommendation. The IRS has paused existing efforts to expand Certifying Acceptance Agent services and conduct other ITIN-related activities. |
| IRS Action | N/A |
| TAS Response | TAS recognizes the need to pause the expansion of Certifying Acceptance Agent services and other ITIN related activities. However, we believe that when the opportunity arises, adopting a strategic approach to identify regions with high concentrations of ITIN applicants will facilitate assisting the highest number of taxpayers. By promoting and expanding VITA sites that provide CAA services, we can enhance support for taxpayers and streamline ITIN application process. This initiative will not only improve accessibility but also strengthen our collective efforts in combating the challenges associated with ITINs. |
| TAS Recommendation | [RR 3-3] <i>Resolve systemic errors:</i> Fix recurring systemic problems causing the erroneous deactivations of ITINs to prevent unnecessary hardships. |

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| IRS Response | The IRS agrees to implement the TAS recommendation in full. |
| IRS Action | The IRS will identify and, if found, fix systemic problems that relate to erroneous deactivations. |
| TAS Response | TAS supports the IRS initiatives aimed at identifying and resolving systemic issues linked to erroneous deactivations. As outlined in the TAS Research Report referenced here, we have developed a process for detecting potentially erroneous deactivations of ITINs. This methodology can be further refined and expanded to effectively identify and eliminate systemic problems related to these deactivations. By taking these proactive steps, the IRS can ensure greater accuracy and reliability in their processes, ultimately enhancing the trust and confidence in their systems. |

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| TAS Recommendation | [RR 3-4] Enhance taxpayer outreach: Provide comprehensive outreach to taxpayers with deactivated dependent ITINs, explaining reactivation requirements and steps to secure associated tax credits. |
| IRS Response | The IRS agrees to implement the TAS recommendation in part. |
| IRS Action | Taxpayers filing returns using deactivated ITINs are notified through Math Error notices about the issue with their ITINs. The notice explains that if they don't qualify for a social security number, they can apply for an ITIN and how to obtain a Form W-7, Application for IRS Individual Taxpayer Identification Number. The letter also provides contact information to discuss their options with a customer service representative. The letter identifies TAS and Low-Income Taxpayer Clinics as an additional source for taxpayers to obtain assistance. The IRS will explore opportunities for enhanced taxpayer outreach through existing outreach platforms. |

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| TAS Response | TAS recognizes existing methods to notify taxpayers of issues with their ITIN through math error notices and lauds IRS efforts to explore opportunities for enhanced taxpayer outreach. TAS would emphasize the benefit to the taxpayer to be given explicit information on the steps necessary to secure the potentially lost tax credits associated with deactivated dependent ITINs. |
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