

## Update of the Review Published in the Fiscal Year 2021 Objectives Report to Congress

The COVID-19 pandemic severely impacted the 2020 filing season.<sup>1</sup> On or about March 20, the IRS ceased operations in several key customer service channels and extended the due date for filing individual income tax returns and making income tax payments by three months to July 15, 2020.<sup>2</sup> The extended time applied to all Americans, including those who live and work abroad.<sup>3</sup>

In the National Taxpayer Advocate's Fiscal Year 2021 Objectives Report to Congress, we included a partial review of the 2020 filing season.<sup>4</sup> Because the filing season was extended by three months due to the disruption caused by COVID-19, we could not capture full filing season data prior to publication of the June Objectives Report. We provide a supplemental analysis of the IRS's filing season performance here, with data updated through the end of the extended 2020 filing season.

### Impact of COVID-19 on IRS Operations

The 2020 filing season operations were disrupted due to the impact of COVID-19. The IRS offered taxpayers limited means to obtain customer service assistance.

- Due to campus and office closures, the IRS did not staff phone lines to assist callers beginning March 31, 2020.<sup>5</sup>
- After March 20, 2020, taxpayers no longer had access to face-to-face customer service.<sup>6</sup>
- There was a large backlog of incoming mail, hindering the ability of the IRS to process paper-filed returns or respond to correspondence from taxpayers.
- There was a substantial reduction in Volunteer Income Tax Assistance (VITA) and Tax Counseling for the Elderly (TCE) services.<sup>7</sup>
- The National Distribution Center (NDC) was also shut down, depriving taxpayers of a means to acquire pre-printed forms.
- Predictably, web traffic to IRS.gov more than tripled, from 422 million visits in the 2019 filing season to 1.38 billion visits in the extended 2020 filing season.<sup>8</sup>

In response to the impact of the COVID-19 pandemic on U.S. citizens, Congress enacted and assigned to the Secretary of Treasury the administration of the Economic Impact Payments (EIPs) in the height of the 2020

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1 For an in-depth discussion of the impact of the COVID-19 pandemic, see the National Taxpayer Advocate's Fiscal Year 2021 Objectives Report to Congress 10-45 (*Protecting the Rights of Taxpayers Impacted by the COVID-19 National Emergency and Restoring Much-Needed Taxpayer Services*). Because the filing season was extended to July 15 for the 2020 filing season, comparison to prior filing seasons that ended in mid-April will not be an apples-to-apples comparison.

2 IRS, Notice 2020-18, 2020-15 I.R.B. 590, Relief for Taxpayers Affected by Ongoing Coronavirus Disease 2019 Pandemic (Apr. 6, 2020), <https://www.irs.gov/pub/irs-drop/n-20-18.pdf>.

3 IRS, Notice 2020-23, 2020-18 I.R.B. 742, Update to Notice 2020-18, Additional Relief for Taxpayers Affected by Ongoing Coronavirus Disease 2019 Pandemic (Apr. 27, 2020), <https://www.irs.gov/pub/irs-drop/n-20-23.pdf>.

4 See National Taxpayer Advocate's Fiscal Year 2021 Objectives Report to Congress 94-107 (*Review of the 2020 Filing Season*).

5 Accounts Management (AM) phone lines began reopening on April 27, 2020, with all major applications opened by June 26, 2020. IRS, Wage and Investment (W&I) Business Performance Review (BPR), 3rd Quarter FY 2020, at 3 (Aug. 2020).

6 Taxpayer Assistance Centers (TACs), closed since late March (including virtual service delivery), began reopening on June 29 in seven states. IRS, W&I BPR, 3rd Quarter FY 2020, at 3 (Aug. 2020).

7 Approximately 10,500 of the more than 11,000 VITA/TCE sites remain closed. IRS, W&I BPR, 3rd Quarter FY 2020, at 3 (Aug. 2020).

8 IRS, Filing Season Statistics for Week Ending July 17, 2020, <https://www.irs.gov/newsroom/filing-season-statistics-for-week-ending-july-17-2020>.

filing season, while its workforce was working remotely.<sup>9</sup> Taxpayers with adjusted gross incomes below \$99,000 (\$198,000 for joint filers) were eligible for EIPs of up to \$1,200 per adult and \$500 per qualifying child.<sup>10</sup>

Given the time-sensitive nature of the payments, the IRS had to pivot, in the middle of the filing season and without full staffing, to develop processes and procedures that would allow for the quick release of the EIPs. Although there have been glitches — including some confusion about whether deceased individuals and prisoners are entitled to the EIP<sup>11</sup> — the IRS should be commended for timely delivering over 160 million EIPs.<sup>12</sup> As of the writing of this report, millions of taxpayers are still waiting for their EIP or are requesting an increase of the amount received.<sup>13</sup> These Americans will have to wait until the filing of their 2020 tax return before receiving the much-needed funds.

### Hiring of W&I Employees During the 2020 Filing Season

The Wage & Investment (W&I) Division is responsible for processing all returns and sorting all mail received by the IRS Campuses. Its Customer Account Services (CAS) and Customer Assistance, Relationships and Education (CARE) departments spearhead the IRS efforts in ensuring a successful filing season.<sup>14</sup> Despite its best pre-planning efforts, W&I experienced challenges meeting its fiscal year (FY) 2020 hiring goals due in part to low applicant pools and COVID-19-related disruptions, and encountered problems with onboarding new hires.<sup>15</sup> As of July 31, 2020, W&I hired 7,067 new employees, which was just 57 percent of its FY 2020 hiring goals.<sup>16</sup>

9 The Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”), Pub. L. No. 116-136 § 2201, 134 Stat. 335 (2020).

10 The EIP is limited to children who have not attained age 17. For more information about the IRS’s administration of the EIP, see The CARES Act Provides Assistance to Workers and their Families, <https://home.treasury.gov/policy-issues/cares/assistance-for-american-workers-and-families> (last visited June 3, 2020).

11 See Treasury Inspector General for Tax Administration (TIGTA), Ref. No. 2020-46-041, *Interim Results of the 2020 Filing Season: Effect of COVID-19 Shutdown on Tax Processing and Customer Service Operations and Assessment of Efforts to Implement Legislative Provisions 4-6* (June 30, 2020); IRS, SERP Alert 20A0446, EIP and Incarcerated Taxpayers (Oct. 29, 2020).

12 See *IRS in the Pandemic: Hearing Before the Subcomm. on Government Operations of the H. Comm. on Oversight and Reform*, 116th Cong. (Oct. 7, 2020) (written statement of Charles P. Rettig, IRS Commissioner).

13 Government Accountability Office (GAO), GAO-20-701, COVID-19: *Federal Efforts Could Be Strengthened by Timely and Concerted Actions* (Sept. 21, 2020), <https://www.gao.gov/reports/GAO-20-701/>.

14 The 2020 filing season was interrupted by the COVID-19 pandemic. As a result, some of the data we analyzed is for the partial filing season, as the IRS suspended operations of some programs in mid- to late-March 2020.

15 IRS, W&I BPR, 2nd Quarter FY 2020, at 6 (May 2020).

16 *Id.*

**FIGURE 3.1, W&I FY 2020 Hiring as of July 31, 2020<sup>17</sup>**

W&I Function	2020 Vacancy Goals	2020 Actual Hires 7/31/2020	Percent
Customer Account Services (CAS)			
Accounts Management	3,300	2,740	83%
Submission Processing (SP)	8,841	4,074	46%
EPSS (Technical)	185	104	56%
<b>CAS Total</b>	<b>12,326</b>	<b>6,918</b>	<b>56%</b>
Customer Assistance, Relationship and Education (CARE)			
Media and Publications (M&P)-Correspondence Production Services	17	16	94%
M&P-Nat'l Distribution Center	12	12	100%
Field Assistance (Taxpayer Assistance Center)	123	106	86%
Stakeholder, Partnerships, Education & Communication	17	17	100%
<b>CARE Total</b>	<b>169</b>	<b>151</b>	<b>89%</b>
<b>TOTAL</b>	<b>12,495</b>	<b>7,069</b>	<b>57%</b>

<sup>17</sup> IRS, W&I BPR, 3rd Quarter FY 2020, at 9 (Aug. 2020).

## 2020 FILING SEASON PERFORMANCE

The IRS's 2020 filing season statistics indicate that of approximately 152 million individual returns filed, 143 million were filed electronically and over 100 million were requests for refunds.<sup>18</sup> Figure 3.2 presents an overview of returns processing and refunds during filing seasons 2018, 2019, and 2020.

**FIGURE 3.2, Filing Season Statistics Comparing Weeks Ending April 20, 2018; April 19, 2019; July 17, 2020<sup>19</sup>**

		2018	2019	2020	% Change 2019-2020
Individual Income Tax Returns	Total Receipts	136,919,000	137,233,000	151,782,000	10.6%
	Total Processed	130,477,000	130,775,000	145,464,000	11.2%
Free File	Total Free File	2,538,000	2,681,000	10,516,000	292.2%
e-Filing Receipts	Total e-Filing	124,515,000	126,264,000	143,379,000	13.6%
	Tax Professionals	70,983,000	70,476,000	73,806,000	4.7%
	Self-Prepared	53,532,000	55,788,000	69,573,000	24.7%
Total Refunds	Number	95,434,000	95,737,000	100,483,000	5.0%
	Amount	\$265.3 bil	\$260.9 bil	\$276.1 bil	5.8%
	Average Refund	\$2,780	\$2,725	\$2,748	0.8%
Direct Deposit Refunds	Number	80,491,000	83,249,000	83,384,000	0.2%
	Amount	\$236.9 bil	\$238.4 bil	\$240.5 bil	0.9%
	Average Refund	\$2,943	\$2,863	\$2,884	0.7%
Web Usage	Visits to IRS.gov	386.9 mil	421.5 mil	1,380.7 mil	227.6%
	Where's My Refund?	264.1 mil	316.5 mil	468.4 mil	47.9%

**FIGURE 3.3, Business Tax e-Filed Returns Comparing Weeks Ending July 15, 2019, and July 13, 2020<sup>20</sup>**

		2019	2020	% Change 2019-2020
Corporate Tax Returns (1120)	Total Accepted	803,000	843,000	5.0%
S-Corp Tax Returns (1120S)	Total Accepted	3,199,000	3,362,000	5.1%
Partnership Tax Returns (1065)	Total Accepted	2,542,000	2,696,000	6.1%

18 IRS, Filing Season Statistics for Week Ending July 17, 2020, <https://www.irs.gov/newsroom/filing-season-statistics-for-week-ending-july-17-2020>.

19 *Id.*; Filing Season Statistics for Week Ending April 19, 2019, <https://www.irs.gov/newsroom/filing-season-statistics-for-week-ending-april-19-2019>; Filing Season Statistics for Week Ending April 20, 2018, <https://www.irs.gov/newsroom/filing-season-statistics-for-week-ending-april-20-2018>. The Free File and Where's My Refund data was obtained from internal filing season reports. Note: The total receipts for 2020 includes returns filed solely to obtain EIPs by those who would not usually file income tax returns.

20 IRS response to TAS fact check (Dec. 23, 2020).

## TAXPAYER INTERACTIONS WITH THE IRS

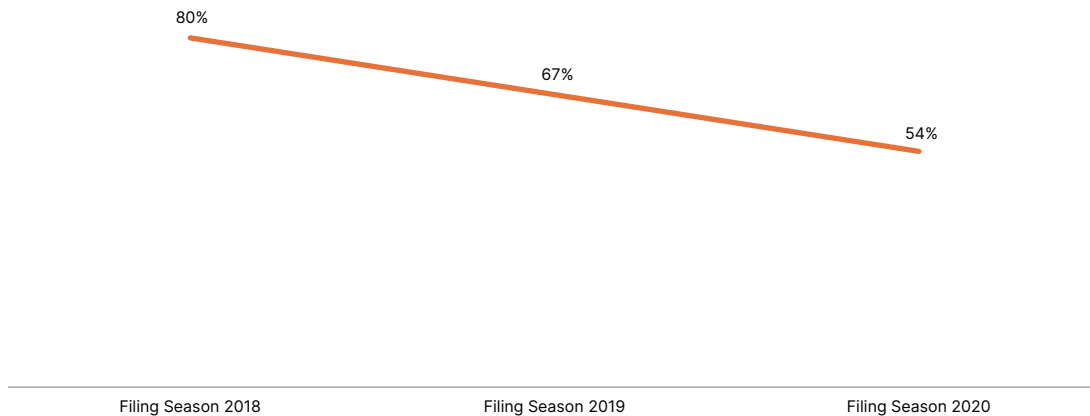
The IRS aids millions of taxpayers via its website (IRS.gov), telephone, and social media platforms, and face-to-face assistance at its TACs, VITA sites, and TCE sites.

### Telephones

From January 1 through June 30, 2020, the IRS received 55.3 million telephone calls during open hours,<sup>21</sup> of which 46.5 million were directed to its Accounts Management (AM) telephone lines.<sup>22</sup> The IRS achieved a 54 percent customer service representative (CSR) level of service (LOS)<sup>23</sup> for AM in the 2020 filing season, significantly lower than the 67 percent LOS attained in the 2019 filing season and the 80 percent LOS achieved during the 2018 filing season.<sup>24</sup> Among taxpayers who got through to AM telephone assistants this filing season through June 30, 2020, the average speed of answer was 15 minutes.<sup>25</sup>

**FIGURE 3.4**

Level of Service for Filing Seasons 2018-2020



21 IRS, Joint Operations Center (JOC), Snapshot Reports: Enterprise Snapshot, Enterprise Total (week ending June 30, 2020). The last day of the JOC planning period including the filing season is June 30, although in 2020, the filing season was extended to July 15.

22 IRS, JOC, Snapshot Reports: Enterprise Snapshot, Accounts Management (AM) (week ending June 30, 2020).

23 The official IRS term is CSR LOS, but we will shorten it to LOS in our discussion here. The FY 2020 filing season was extended through July 15, 2020. IRS follow-up to TAS fact check response for LOS through week ending July 18, 2020 (Jan. 5, 2021).

24 IRS, JOC, Snapshot Reports: Enterprise Snapshot (week ending July 18, 2020); IRS, JOC, Snapshot Reports: Enterprise Snapshot (week ending Apr. 20, 2019); IRS, JOC, Snapshot Reports: Enterprise Snapshot (week ending Apr. 21, 2018). The phone service in filing season 2019 was impacted by the inability of the IRS to hire and train seasonal employees due to the 35-day government shutdown immediately prior to the opening of the filing season. We note that the IRS's FY 2020 budget projected a customer service representative LOS of 60 percent, so there should be no surprise at the LOS achieved this filing season. IRS, Pub. 4450, Congressional Budget Justification & Annual Performance Report and Plan Fiscal Year 2021, at 53 (Feb. 2020).

25 IRS, JOC, Snapshot Reports: Enterprise Snapshot (week ending June 30, 2020).

Level of service was considerably worse on some IRS telephone lines outside the AM category, particularly on the compliance lines, where fewer callers were assisted, with longer wait times. For example, the IRS had a LOS of 35 percent on its consolidated Automated Collection System telephone lines, and callers who managed to get through on those lines waited on hold for an average of almost 26 minutes.<sup>26</sup>

The LOS is the IRS benchmark measure in how it calculates and presents filing season data. It is complex and does not accurately reflect the overall experience of taxpayers seeking telephone assistance. It is also a very narrow one and may not accurately reflect the taxpayer experience in two respects. First, the benchmark measure reflects only calls directed to the IRS's AM telephone lines, which are primarily its taxpayer service lines and receives about 84 percent of its calls. Of those, 46.5 million of the 55.3 million total net attempts (84 percent) the IRS received came in on or were routed to AM.<sup>27</sup> The benchmark measure does not tell us anything about how the IRS handled the remaining almost nine million calls outside of AM (such as the Compliance phone lines).<sup>28</sup>

Second, the LOS is calculated using many components of call data. The denominator in the IRS's LOS computation is derived from calls from those seeking to speak to an assistor (those routed to telephone assistors or to automated services) rather than from *all* calls to that phone line. Callers to the AM lines are greeted by a phone tree, and based on their responses, they are directed either to an employee for live assistance or to an automated system — automation is not always a deliberate caller-selected option. Having said this, some callers are able to obtain the information they sought from the automation response lines even though they did not affirmatively opt in to these lines. Only 19 percent of the 46.5 million net attempts received by the AM lines (almost nine million calls) were answered by a representative, while the remaining taxpayer calls were routed to automation or reflected taxpayer hang ups.<sup>29</sup> Hang ups might be due to taxpayers' unwillingness to work through the phone tree or wait on hold. While the IRS is reporting a benchmark level of service of 56 percent, *IRS employees answered only 19 percent of the net attempted calls to the AM lines and 21 percent of the net attempted calls received on all lines.*<sup>30</sup>

## Telephone Service Observations

Favorable top-line numbers mask significant weaknesses in IRS telephone service. Consider the following:

- **Most taxpayers calling the IRS want to speak to an employee; however, 32 percent of the net attempts to reach AM were answered by automation and never connected to an employee.**<sup>31</sup> Callers generally have no choice regarding how and where their calls are routed; the IRS programs transfer the calls based on the caller's response to pre-recorded telephone prompt options. The IRS call tree does not

26 IRS, JOC, Snapshot Reports: Enterprise Snapshot (week ending June 30, 2020).

27 *Id.*

28 The National Taxpayer Advocate raised these concerns in a March 2019 hearing. *The Tax Filing Season: Hearing Before the H. Subcomm. on Oversight of the H. Comm. on Ways and Means*, 116th Cong. 6-11 (Mar. 7, 2019) (statement of Nina E. Olson, National Taxpayer Advocate).

29 IRS, JOC, Snapshot Reports: Enterprise Snapshot (week ending June 30, 2020). CSR LOS = Numerator divided by Denominator (see following). Numerator = Assistor Calls Answered + Info Messages. Denominator = Assistor Calls Answered + Info Messages + Emergency Closed + Secondary Abandons + (Add either Calculated Busy Signals OR Network Incompletes)\* + (Add either Calculated Network Disconnects OR Total Disconnects) \*Note: If the sum of VCR Answered + Informational Messages + ICCE-PHONES is greater than or equal to one, use Calculated Busy Signals and Calculated Network Disconnects to determine CSR LOS. Otherwise, use Total Busy Signals (Network Incompletes) and Total Disconnects.

30 IRS, JOC, Snapshot Reports: Enterprise Snapshot (week ending June 30, 2020).

31 *Id.*

present the taxpayer with a choice to speak to a live assistor. *Thus, the LOS data reflects where taxpayers have been directed by the IRS, not necessarily where and how taxpayers need or would like to be assisted.*

- **Despite a reported LOS of 56 percent, IRS telephone assistors answered only about 19 percent of the net attempted calls the IRS received on its AM lines.** While the IRS reported that its benchmark LOS was 56 percent, *telephone assistors answered only less than nine million calls out of 46.5 million net attempts to reach the AM lines, or 19 percent.* We are not suggesting that the IRS served less than 19 percent of callers; we recognize that some are adequately served through automation and some quickly hang up for personal reasons.

These results show taxpayers are not getting the full assistance they need over the phone, jeopardizing their *right to quality service* and *right to be informed*, while potentially undermining voluntary compliance.

### Correspondence

For FY 2018 and FY 2019, the IRS received an average of approximately seven million letters annually from taxpayers responding to proposed adjustments and other notices (*e.g.*, requesting penalty abatements, responding to math error notices, and making payment arrangements).<sup>32</sup> With the COVID-19 pandemic shutting down IRS offices during the midst of the 2020 filing season, the IRS has not been able to accurately track or respond to correspondence.

As of September 19, 2020, the IRS estimated there was a backlog of 5.8 million pieces of correspondence, including 2.8 million unopened returns.<sup>33</sup> Failing to timely process taxpayer responses to proposed increases in tax liability can have a significant impact on the taxpayer. For example, delays in processing of paper-filed returns (original or amended returns) would delay the release of a taxpayer's 2019 tax refund.

### Face-to-Face Service at Taxpayer Assistance Centers

The IRS Field Assistance function provides face-to-face assistance to taxpayers in the 50 states, the District of Columbia, and Puerto Rico at 358 TACs (down from 401 locations in 2011).<sup>34</sup> The number of taxpayers visiting a TAC declined from about 2.9 million in FY 2018 to 1.0 million in FY 2020.<sup>35</sup> In response to the COVID-19 crisis, TACs were temporarily closed on March 20 to ensure the safety and health of taxpayers and IRS employees.<sup>36</sup>

32 In FY 2019, the IRS received 6.9 million letters, down from 7.1 million letters in FY 2018. See IRS, JOC, Adjustments Inventory Reports: July-September Fiscal Year Comparison (FY 2018 through FY 2019).

33 *IRS in the Pandemic, Hearing Before the H. Comm. on Oversight and Reform, Subcomm. on Government Operations*, 116th Cong. (Oct. 7, 2020) (statement of Erin M. Collins, National Taxpayer Advocate).

34 Although the IRS reports having 358 TACs for the 2020 filing season, 40 of these were not open due to lack of staffing as of February 20, 2020. An additional seven TACs have no permanent technical staff assigned. However, the IRS is able to keep these locations open by providing a "circuit rider." A circuit rider is an employee who travels from one office to cover an unstaffed TAC. TIGTA, Ref. No. 2020-45-024, *Interim Results of the 2020 Filing Season 15* (Apr. 7, 2020); GAO, GAO-12-176, *Processing Gains, but Taxpayer Assistance Could Be Enhanced by More Self-Service Tools 18* (Dec. 2011).

35 IRS, W&I BPR, 4th Quarter FY 2020, at 22 (Nov. 5, 2020); IRS, Fiscal Year 2019 Data Book, Table 19, Selected Taxpayer Assistance and Education Programs, by Type of Assistance.

36 See IRS, Taxpayer Assistance Center (TAC) Locations Where In-Person Document Review Is Provided (Mar. 20, 2020), <https://www.irs.gov/help/tac-locations-where-in-person-document-verification-is-provided>.

The IRS continued its policy of encouraging taxpayers to schedule an appointment to receive assistance at any of its TACs.<sup>37</sup> This filing season through June 30, the number of assistor-answered calls to the TAC appointment line (670,486) was down 34 percent from filing season 2019 (1,019,131 assistor calls answered).<sup>38</sup> Field Assistance provided face-to-face assistance to nearly 537,000 taxpayers, a decrease of 33 percent compared to the prior filing season.<sup>39</sup> Nearly 37,000 taxpayers received assistance at TACs without an appointment because of openings in the day's calendar or the availability of staff, down 57 percent from the prior year.<sup>40</sup>

## SPECIAL TOPICS

### New Form 1040-SR

The IRS introduced a new Form 1040-SR, U.S. Tax Return for Seniors, during the 2020 filing season. This simplified form is intended for use by taxpayers aged 65 or older, many of whom may have previously used Form 1040EZ, Income Tax Return for Single and Joint Filers With No Dependents, which was eliminated after tax year 2018. Through July 17, 14.1 million Forms 1040-SR had been e-filed (12.9 million had been accepted).<sup>41</sup> With the shutdown of TCE and American Association of Retired Persons (AARP) Foundation Tax-Aide sites in mid-March due to COVID-19, this may have impacted the number of Form 1040-SR filings.<sup>42</sup>

### Refund Fraud

The IRS's efforts to detect and prevent refund fraud are managed by the Return Integrity Verification Operation (RIVO) of Wage and Investment (W&I). RIVO oversees both the identity theft (IDT) refund fraud program via the Taxpayer Protection Program (TPP) and non-IDT refund fraud via the Pre-Refund Wage Verification Hold Program (PRWVH).<sup>43</sup>

### Taxpayer Protection Program

When the TPP flags a tax return as potential IDT, it suspends the processing of the tax return and sends correspondence to the taxpayer to authenticate his or her identity either over the phone, online, or by visiting a TAC. During the 2020 filing season, the IRS selected over 1.5 million refund tax returns for TPP review as of July 15, 2020.<sup>44</sup> However, due to the pandemic-related closure of IRS notice production centers, the IRS suspended all printing of TPP correspondence to taxpayers on April 8, 2020, and resumed July 8, 2020.<sup>45</sup>

37 IRS, IR 2019-67, IRS.gov: Best Place to Get Last-Minute Tax Tips and Resources (Apr. 9, 2019), <https://www.irs.gov/newsroom/irsgov-best-place-to-get-last-minute-tax-tips-and-resources>. See also Internal Revenue Manual (IRM) 21.3.4.2.4.2, TAC Appointment Exception Procedures (Oct. 1, 2018).

38 IRS, JOC, Snapshot Reports: Product Line Detail Snapshot (week ending June 30, 2020); IRS, JOC, Snapshot Reports: Product Line Detail Snapshot (week ending Apr. 20, 2019).

39 IRS, 2019 Weekly Individual Filing Season Report Cumulative Statistics (July 17, 2020); IRS, 2018 Weekly Individual Filing Season Report Cumulative Statistics (Apr. 19, 2019).

40 *Id.*

41 IRS, SP, Program Management/Process Assurance Branch, Filing Season Statistics Report (week ending July 18, 2020).

42 IRS, W&I BPR, 2nd Quarter FY 2020, at 3 (May 2020); AARP Foundation, *Scheduling Notice: Due to Coronavirus Concerns, AARP Foundation Tax-Aide Suspends Service Until Further Notice* (Mar. 13, 2020), <https://press.aarp.org/2020-3-13-Scheduling-Notice-Due-to-Coronavirus-Concerns-AARP-Foundation-Tax-Aide-Suspends-Service-Until-Further-Notice>.

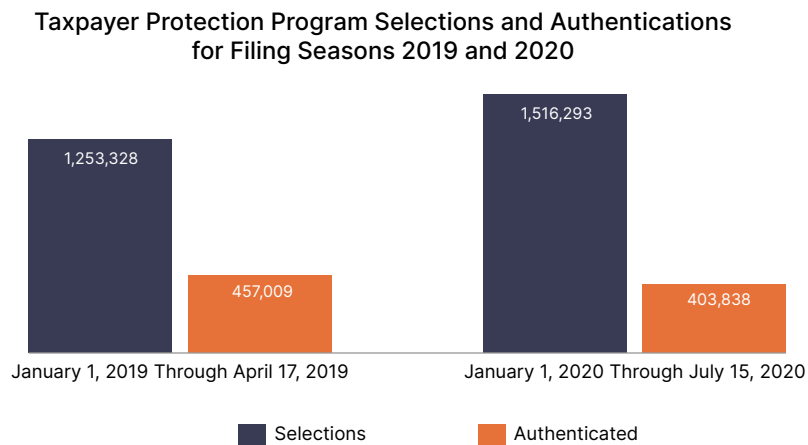
43 See IRM 25.25.6.1.7(1), Taxpayer Protection Program Overview (Apr. 28, 2020); IRM 25.25.3.1(1), Program Scope and Objectives (Aug. 30, 2019).

44 IDT and Integrity Verification Operation (IVO) Performance Report 2 (July 22, 2020).

45 TPP Combined Report 8 (July 20, 2020).



The IRS issued 964,319 letters on 64 percent of the selected returns by the July 15 due date.<sup>46</sup> Thus, only 403,838 taxpayers authenticated their identities by July 15, compared to 457,009 of the more than 1.2 million refund tax returns selected through April 17, 2019 during the 2019 filing season.<sup>47</sup>

**FIGURE 3.5**

### Pre-Refund Wage Verification Holds

When returns are selected as potential non-IDT refund fraud into the PRWVH process, the IRS freezes the claimed refund while they seek to verify information on the return, namely wages and withholding. This verification process is done by either confirming the information on the return by comparing it to Form W-2 data provided by the Social Security Administration, or by contacting the taxpayer's employer(s) to verify the wages.

For the 2020 filing season, the IRS continued to improve its non-IDT refund fraud program. These changes have resulted in two significant differences in the program, when compared to prior filing seasons:

1. The filters have been able to select many more returns for further analysis than they have in the past; and
2. Many more returns were identified for release earlier in the filing season.

During the 2020 filing season, the refund fraud filters selected over 3.2 million refund returns, a 107 percent increase over the 2019 filing season.<sup>48</sup> One possible explanation for this increase is the adoption of improved systemic verification and reprocessing features for the non-IDT refund fraud filters, a sign that the IRS is getting better at identifying questionable refund claims. This is a positive result — the IRS is identifying more fraud but also getting refunds out sooner than when it used a manual process.

Approximately 88 percent of over 3.2 million returns selected by the IRS non-IDT refund fraud filters have been released, as shown in Figure 3.6. Comparing these results with the same selections and release rates

<sup>46</sup> TPP Combined Report 8 (July 20, 2020).

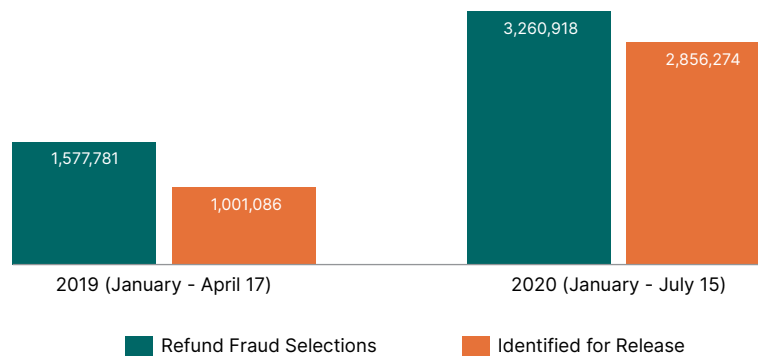
<sup>47</sup> IDT and IVO Performance Report 2 (Apr. 24, 2019). However, an additional 312,782 taxpayers authenticated after the filing season ended (July 15) through September 23, 2020.

<sup>48</sup> IDT and IVO Performance Report 4, 11-13 (July 22, 2020).

(63 percent) for the 2019 filing season indicates the IRS is more efficient at systemically identifying more returns for release earlier.<sup>49</sup>

**FIGURE 3.6**

**Comparison of Refund Fraud Selections and Returns Identified for Release During Filing Seasons 2019 and 2020**



Due to the suspension of notice production, taxpayers were unaware that the PRWVH was holding their refunds and that they may have needed to provide the IRS with documentation verifying information on the return (*e.g.*, wages and withholding) or submit an amended return to get their refunds released.<sup>50</sup> In many cases, taxpayers were unaware why their refund was held or what they could do to release it.

For FY 2020 through June, PRWVH case receipts remain the number one issue for taxpayers who come to TAS for assistance.<sup>51</sup> Of 58,276 TAS PRWVH cases closed through June 2020, 47,010 cases (81 percent) were closed with full or partial relief.<sup>52</sup> As of October 31, 2020, over 8,000 PRWVH cases remain open in TAS inventory.<sup>53</sup>

Despite the high number of returns identified for release, concerns remain. Systemic problems early in the filing season caused the misidentification of legitimate returns and created a backlog of returns, resulting in the need for manual workarounds and delaying refund issuance.<sup>54</sup> About 25 percent of the returns flagged for income verification took longer than 56 days for the IRS to release the refund this year, and about 18 percent of those flagged for identity verification took longer than 120 days for the IRS to release the refund.<sup>55</sup> Even a

49 IDT and IVO Performance Report 4, 9 (Apr. 24, 2019).

50 Letter 4464C, Questionable Refund Hold (Sept. 8, 2020). "You don't need to do anything at this time. However, we suggest you review your return and supporting documents for accuracy and ensure you're eligible to claim all reported income, withholding, and tax credits. If you find an error, you can file an amended return to correct it."

51 TAS BPR, 3rd Quarter FY 2020, at 23.

52 Data obtained from TAMIS (July 1, 2020).

53 Data obtained from TAMIS (Nov. 1, 2020).

54 Executive Director Systemic Advocacy and Return Integrity Compliance Service Meeting Minutes (Feb. 25, 2020) (on file with TAS).

55 IRS, RRP Non-IDT Performance Report 3 (Oct. 7, 2020); IDT, and IVO Performance Report 6 (Oct. 7, 2020).

short delay in receiving a refund can have significant impact for low-income taxpayers who may be relying on the refund to assist with day-to-day living expenses.<sup>56</sup>

## CONCLUSION

The IRS faced significant challenges in filing season 2020, including a severe disruption in work for much of the country due to COVID-19 and the need for the IRS to administer the delivery of EIPs to millions of Americans. Due to the disruptions by COVID-19-related closures in the midst of the filing season, the IRS served fewer taxpayers via telephone, correspondence, or in-person assistance than in prior years. The IRS reported a 54 percent LOS as its benchmark measure of telephone performance, down from a LOS of 67 percent in the 2019 filing season.

On a positive note, 152 million Americans filed their individual tax returns by the July 15 extended due date, up over ten percent from the 2019 filing season (which had the normal mid-April filing deadline), despite many taxpayers facing disruptions in their lives due to COVID-19. One possible explanation for the increased filings is that many taxpayers with no filing requirements in prior years filed in 2020 to ensure they received the EIP. Over 100 million of those returns were for refunds, up five percent from prior year filings.

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<sup>56</sup> For a more in-depth discussion, see National Taxpayer Advocate's 2019 Annual Report to Congress 34-44 (Most Serious Problem: Processing Delays: Refund Fraud Filters Continue to Delay Taxpayer Refunds for Legitimately Filed Returns, Potentially Causing Financial Hardship).