

TAS seeks to use a data-driven approach to improve IRS services for all taxpayers. TAS Research focuses on understanding how IRS policies and procedures impact the IRS's ability to effectively and efficiently administer the IRC. To foster efficiency, TAS recommends that the IRS increasingly incorporate technology into its service offerings, most notably by expanding its online and digital services, while increasing the ease of accessibility of these tools to the vast majority of taxpayers. While taxpayers desperately need efficient access to IRS online services, the IRS also needs to ensure the effectiveness and availability of traditional services, such as sending correspondence to taxpayers, timely responding to or processing replies from taxpayers, and promptly answering telephone inquiries on its toll-free lines.

In fiscal year (FY) 2023, we continue research projects TAS initiated in FY 2022; specifically, TAS is continuing to develop and enhance three of its FY 2022 taxpayer-focused research studies.

## 1. STUDY TAXPAYER NEEDS AND PREFERENCES FOR IRS ONLINE ACCOUNT ACTIVITIES

The National Taxpayer Advocate's 2021 Annual Report to Congress includes both Online Accounts and digital services as two of the ten Most Serious Problems facing taxpayers. These two issues are very important to taxpayers, as shown in the IRS's 2021 Comprehensive Taxpayer Attitude Survey, where 85 percent of taxpayers reported the desire for a personal IRS online account to access their tax information and 81 percent wanted to be able to email questions to the IRS.<sup>1</sup> These capabilities are not only important to taxpayers, but they could also be of great benefit to the IRS. Through nearly the first eight months of FY 2022, IRS customer service representatives were only able to answer about 13 percent of the over 121 million phone calls received from taxpayers.<sup>2</sup> Expansion of the IRS Online Account service offerings has the potential to significantly reduce telephone inquiries to the IRS by providing account-related services and information to taxpayers without the need for human involvement. Although there is the potential to send communications between the IRS and taxpayers through the IRS's Online Account, the current IRS Online Account application does not accommodate that capability. TAS Research's review of online services offered by state taxing authorities finds some states offer this communications feature.<sup>3</sup> This simple enhancement would expedite communication between taxpayers and the IRS and potentially reduce the amount of time it would take to resolve a tax-related issue.

The current IRS Online Account application enables individual taxpayers to perform basic functions with the IRS.<sup>4</sup> Nevertheless, numerous obstacles exist in the IRS Online Account offerings, not the least of which is potential difficulty in establishing one's identity to open an IRS Online Account. As of May 28, 2022, only about 22 percent of individual tax return filers currently have access to an IRS Online Account.<sup>5</sup> In addition, access is complicated for joint filers. For instance, each spouse will need to sign into his or her own account to find his or her portion of the Economic Impact Payments.<sup>6</sup> In the recent initiative to distribute advance payments of the Child Tax Credit (CTC), each spouse had to separately access the CTC Update Portal if he or she wanted to halt the entire advance payment of the CTC.<sup>7</sup> TAS understands that the IRS must maintain robust security to protect taxpayer information and that even spouses have a right to protect their personal information; however, some state taxing agencies allow taxpayers to authorize a spouse access to the online account to prevent taxpayers from having to take the same online account action multiple times.<sup>8</sup>

The National Taxpayer Advocate continues to advocate for increased easy-to-access features on IRS Online Account, enabling taxpayers to both access their account information and to perform most necessary tasks in the online environment, reducing the need for telephone calls and paper correspondence. To increase use and build taxpayer confidence, the IRS should focus on offering services that taxpayers find beneficial and easy to use. It should prioritize developing additional online functionality and services, considering individual and business taxpayer needs and preferences. Accordingly, TAS is in the process of collecting information on the types of online services offered by state and foreign country taxing authorities, as well as other financial

institutions offering online account access; TAS expects to complete this activity before the end of FY 2022. TAS has also made plans to conduct focus groups with tax preparers regarding which online services they believe taxpayers would be most likely to use and which authentication requirements most taxpayers can meet to establish an IRS Online Account. TAS plans to use the data gleaned from these focus groups to design other focus group interactions or surveys of taxpayers to better understand their needs and preferences for establishing and using an IRS Online Account. Through our research efforts, we hope to help the IRS find ways to design and effectively market an IRS Online Account to taxpayers while ensuring that the process to establish an account is as straightforward and painless as possible.

**Objective 1 for FY 2023 – TAS will determine taxpayer needs and preferences for establishing online accounts with the IRS and authenticating secure access to those accounts.**

- Activity 1: Quantify unauthorized accesses in the online accounts of the taxing authorities of states or other nations or the online accounts of various financial institutions.
- Activity 2: Determine what online account features and capabilities U.S. taxpayers want to access.
- Activity 3: Determine what authentication criteria U.S. taxpayers could meet.
- Activity 4: Analyze whether the authentication criteria that U.S. taxpayers can meet varies by demographic groupings such as ethnicity, gender, or income.

**2. STUDY TAXPAYER NON-RESPONSE TO CERTAIN IRS ACTIONS**

The IRS mailed over 106 million notices and letters to taxpayers in FY 2021.<sup>9</sup> This method of communicating with taxpayers is generally an inexpensive way of contacting taxpayers about their tax circumstances; however, many IRS communications never generate a response from the taxpayer. Therefore, it is imperative to understand why taxpayers often do not respond to the IRS, even when it is in their best interest to do so. Taxpayers who fail to respond not only thwart the IRS mission of collecting the proper amount of tax but also potentially increase their own financial burden by not providing information to establish their right to claim a credit or by incurring additional interest and penalties.

TAS Research has initially concentrated on taxpayers' non-response to IRS audits. Taxpayers are particularly unlikely to respond to notices and letters concerning correspondence audits. In the pre-pandemic fiscal year of 2019, nearly 90 percent of audits of taxpayers with less than \$50,000 of total positive income (TPI) were correspondence audits,<sup>10</sup> and nearly 40 percent of audited taxpayers with TPI under \$50,000 did not respond to the audit.<sup>11</sup> By FY 2021, the non-response rate of taxpayers with less than \$50,000 in TPI had risen to over 46 percent.<sup>12</sup> When taxpayers do not respond to IRS audits, the IRS automatically presumes that its initial audit findings are correct, and the taxpayer must pay the additional tax calculated by the IRS.

TAS has begun to develop and analyze a list of IRS notices and letters with high non-response rates. In conjunction with the IRS, TAS has also developed a moderator's guide for focus groups with tax preparers exploring why taxpayers do not respond to IRS notices and letters, particularly notices and letters informing them of a correspondence audit. TAS intends to use the feedback obtained from these focus groups to develop additional focus groups or surveys to be conducted directly with taxpayers.

**Objective 2 for FY 2023 – TAS will analyze why taxpayers often do not respond to various types of IRS notices and letters and how to improve the response rate.**

- Activity 1: Review internal processes to identify ways to improve efficiency when processing taxpayer responses.
- Activity 2: Identify ways to clarify communication so taxpayers understand what actions they should take.

- Activity 3: Conduct focus groups and surveys with taxpayers who have not responded to specific types of IRS correspondence to determine and quantify the reasons for non-response.

### 3. STUDY THE EFFECTS OF POTENTIAL CHANGES TO THE EARNED INCOME TAX CREDIT STRUCTURE

As of December 2021, about 25 million taxpayers had received about \$60 billion of the Earned Income Tax Credit (EITC) for tax year 2020.<sup>13</sup> Unfortunately, EITC has a high improper payment rate, estimated to be nearly \$19 billion for FY 2021.<sup>14</sup> For FY 2023, TAS will continue research into recommendations about changes to improve the EITC, originally outlined in the National Taxpayer Advocate Fiscal Year 2020 Objectives Report to Congress. Specifically, TAS plans to elaborate on many of its prior recommendations for changes to the structure of the EITC and how such changes would affect the composition of the credit and the corresponding improper payment rate.<sup>15</sup>

This study will focus on whether dividing the EITC into two credits: (i) a refundable worker credit based on each individual worker's earned income, despite the presence of a qualifying child, and (ii) a refundable child credit, which will result in a similar total credit amount to those qualified to claim the EITC.<sup>16</sup> TAS will also focus on the qualifying child requirement of residency that is responsible for all or part of EITC disallowance in three-quarters of the National Research Program EITC audits where the eligibility of a qualifying child is an issue.<sup>17</sup> Rules for claiming EITC are complex, and the qualifications for residency often do not reflect today's family structure or living arrangements. Furthermore, the residency requirement for a qualifying child is extremely difficult for the IRS to verify when the child does not live in a traditional two-parent household.

#### **Objective 3 for FY 2023 – TAS will analyze tax return data, administrative EITC audit files, and census data to recommend a credit structure that is easier to administer while generating similar benefits to low-income families.**

- Activity 1: Analyze the outcome of prior EITC audits if the rules for the proposed per-worker and per-child credit were in place.
- Activity 2: Explore IRS and Census Bureau data to quantify the number of children who would qualify their parents for a per-child tax credit under various definitions of a “qualifying child.”
- Activity 3: Estimate the new improper payment rate for EITC based on the rules for the proposed per-worker and per-child credit.

#### Endnotes

- 1 IRS, 2021 Comprehensive Taxpayer Attitude Survey 36 (Apr. 2022).
- 2 IRS, Joint Operations Center (JOC), Snapshot Reports: Enterprise Snapshot, Executive Level Summary (week ending May 28, 2021). These numbers are enterprise-wide rather than particular to a specific phone line.
- 3 See, e.g., Indiana Department of Revenue's INTIME User Guide for Individual Income Tax Customers (Oct. 2021), <https://www.in.gov/dor/files/intime-individual-guide.pdf>.
- 4 IRS Online Account features include viewing unpaid account balances and payment histories, establishing an installment agreement, and even making a payment. In fact, in FY 2021, taxpayers established over a million payment plans online. (Collection Activity Report 5000-6). Other online features available to taxpayers include obtaining account transcripts, checking on the status of a refund, acquiring an Identity Protection Personal Identification Number or Employer Identification Number, and verifying income for purposes of obtaining a loan. National Taxpayer Advocate 2020 Annual Report to Congress 46 (Figure 1.3.1). The IRS has also recently allowed tax professionals to submit Form 2848, Power of Attorney and Declaration of Representative, online and initiated other features for tax professionals. See IRS, Submit Forms 2848 and 8821 Online, <https://www.irs.gov/tax-professionals/submit-forms-2848-and-8821-online> (last visited June 12, 2022).
- 5 As of May 28, 2022, approximately 35.4 million individuals currently have access to an IRS online account. Slightly over 159 million taxpayers filed an individual income tax return in tax year 2020. IRS Individual Returns Transaction File on the IRS Compliance Data Warehouse (35.4 million/159 million = approximately 22 percent). However 16.8 million of these taxpayers obtained access to an IRS Online Account under old IRS authentication guidelines and may be required to take additional actions to maintain their account access in the future. IRS email response to TAS (June 3, 2022). Additionally, this percentage ignores the fact that both spouses who file a joint return must have their own individual account on IRS Online Account.
- 6 See IRS, News Release: Get ready for tax season using IRS Online Account, <https://www.irs.gov/newsroom/get-ready-for-tax-season-using-irs-online-account> (last visited May 24, 2022).

- 7 If only one spouse unenrolled from Advance CTC payments, the IRS continued to automatically pay half of the credit to the other spouse. See IRS, Advance Child Tax Credit Payments in 2021, <https://www.irs.gov/credits-deductions/advance-child-tax-credit-payments-in-2021> (last visited June 12, 2022).
- 8 See, e.g., Indiana Department of Revenue's INTIME User Guide for Individual Income Tax Customers (Oct. 2021), <https://www.in.gov/dor/files/intime-individual-guide.pdf>.
- 9 IRS Compliance Data Warehouse Notice Delivery System (June 2, 2022).
- 10 National Taxpayer Advocate 2021 Annual Report to Congress 14 (*Taxpayer Rights and Service Assessment*).
- 11 *Id.*
- 12 *Id.*
- 13 IRS, Statistics for Tax Returns with the Earned Income Tax Credit (EITC), <https://www.eitc.irs.gov/eitc-central/statistics-for-tax-returns-with-eitc/statistics-for-tax-returns-with-the-earned-income> (last visited June 12, 2022).
- 14 FY 2021 Payment Accuracy Dataset (Mar. 14, 2022), [www.PaymentAccuracy.gov](http://www.PaymentAccuracy.gov) (last visited May 19, 2022).
- 15 National Taxpayer Advocate Fiscal Year 2020 Objectives Report to Congress vol. 3, at 10-22 (Special Report: *Earned Income Tax Credit: Making the EITC Work for Taxpayers and the Government*).
- 16 National Taxpayer Advocate Purple Book: *Compilation of Legislative Recommendations to Strengthen Taxpayer Rights and Improve Tax Administration* 115-118 (*Restructure the Earned Income Tax Credit (EITC) to Make It Simpler for Taxpayers and Reduce Improper Payments*).
- 17 IRS, Pub. 5162, Compliance Estimates for the Earned Income Tax Credit Claimed on 2006-2008 Returns (Aug. 2014).