



## PROCESSING DELAYS

### Paper Backlogs Caused Refund Delays for Millions of Taxpayers

#### WHY THIS IS A SERIOUS PROBLEM FOR TAXPAYERS

Several decades into the information age, the IRS found itself knee-deep in *paper*. The IRS is hamstrung by a lack of electronic scanning technology and a resulting reliance on manual data entry. Its technology challenges created an inventory backlog early in the pandemic that carried over from one filing season to the next. For the past 2.5 years, millions of taxpayers have experienced financial hardships and inconvenience as the IRS has taken ten months or longer to process paper-filed tax returns and issue related refunds, six months or longer to process taxpayer correspondence,<sup>1</sup> and an average of more than a full year to issue refunds to victims of identity theft.<sup>2</sup>

When taxpayers experience refund delays, they call the IRS. Largely because of the processing delays, the IRS has received more than half a billion telephone calls over the past 2.5 years. Only 13 percent reached an IRS telephone assistant. Other taxpayers sought to speak with an IRS employee in person at one of the agency's hundreds of Taxpayer Assistance Centers (TACs), but due to limited staffing, the IRS requires taxpayers to make advance appointments, which have been limited or sometimes not available. Overall, the unprecedented processing delays created by a combination of the pandemic and the IRS's antiquated processing technology have led to widespread taxpayer frustration and both individual and business financial hardships for millions of taxpayers.<sup>3</sup>

#### EXPLANATION OF THE PROBLEM

The IRS has been operating with staffing shortages, using antiquated technology, relying on a human assembly line, and deploying outdated manual practices where modern technology offers a practical alternative.<sup>4</sup> During the pandemic, taxpayers continued to mail paper returns and correspondence, even during the period the IRS closed its offices for health and safety reasons. In 2020, it quickly fell behind in processing paper-filed tax returns as paper-filled trucks and containers lined its parking lots and developed unprecedented processing backlogs that carried over into 2021 and then 2022.<sup>5</sup> This year, the IRS tried to work through

its paper backlogs through additional hiring, mandatory overtime for staff, and “surge teams” of employees reassigned from other IRS business units. Despite these efforts, IRS processing delays and paper backlogs have continued to be a Most Serious Problem for taxpayers.

Paper processing delays cause refund delays to impacted taxpayers. Most individual taxpayers receive refunds, and some depend upon timely refunds to meet critical day-to-day living expenses.<sup>6</sup> All want their refunds as quickly as possible. Until the IRS implements modernization upgrades that allow it to operate efficiently and paperless, it must manage and timely process the paper it receives, or taxpayers will continue to experience refund delays.

Today, the IRS still relies on employees to manually transcribe all required digits from millions of paper tax returns to get the information into its systems. This is an antiquated process at a time when most financial activity is conducted digitally, and many state revenue agencies have long since moved away from manual data entry.<sup>7</sup> Data transcription is meticulous work and prone to data-entry errors, and it is not an efficient use of limited IRS resources. Regardless of whether taxpayers choose to paper file returns or are forced to do so because of limitations of IRS systems, it is unacceptable that millions of taxpayers have endured months-long delays before receiving the refunds they are owed.

Practical solutions exist. While the IRS commendably has sought to achieve “healthy” paper inventory levels by end of 2022, it is important to note that its baseline for measuring “healthy” is pre-pandemic inventory levels. That would be an improvement compared with the last two years, but the agency needs to do better.<sup>8</sup> The IRS should be working toward a goal of eliminating its antiquated processes for processing paper returns. Modernizing IRS paper processing procedures and improving related taxpayer services should be a priority both to clear existing paper backlogs and to streamline processing for the future.

## ANALYSIS

In 2019, prior to the COVID-19 pandemic, the IRS used aged technology programmed with legacy computer systems in its paper tax return processing operations. Within IRS Submission Processing, the centralized system the IRS uses to process returns is outdated and decades old. While the IRS used some automation technology in its processing of paper before the pandemic, much of it was already outdated and inefficient. Paper processing challenges caused refund delays to impacted taxpayers. Most individual taxpayers receive refunds, some depend upon timely refunds to meet critical day-to-day living expenses, and all want their refunds as quickly as possible.<sup>9</sup>

The IRS still relies on staff to manually input all required digits from millions of paper tax returns to get the information into its systems. That must change. But until the IRS implements modernization upgrades that allow it to operate efficiently and paperless, it must manage and timely process the paper it receives or else taxpayers will continue to experience unacceptable delays in receiving their refunds and IRS responses to their inquiries.

Staffing inadequacies occurred during the pandemic and continue to persist. During the last two filing seasons, IRS employees were only able to answer about 11 percent of taxpayer telephone calls, meaning that most taxpayers received no service when trying to call the IRS.<sup>10</sup> Hiring remains a significant challenge, and inadequate staffing of IRS Submission Processing operations is contributing to the IRS’s taxpayer service deficiencies.<sup>11</sup> In fiscal year 2022, the IRS received Direct Hire Authority and onboarded over 2,800 new Submission Processing employees and 1,600 contractors.<sup>12</sup> In addition, the IRS temporarily reassigned approximately 2,000 employees from other IRS functions to Submission Processing.<sup>13</sup> Despite these efforts, the IRS had other options and actions it could have taken, and still can take, that would positively impact the taxpayer service experience.

**FIGURE 2.1.1, Cafeteria of an IRS Facility in Austin<sup>14</sup>**



*IRS cafeterias should be permanently reserved for hard-working staff, not used to store overflow paper tax returns.*

Additionally, the IRS missed opportunities before and during the pandemic, including not expeditiously using the \$1.5 billion of additional funds provided by the American Rescue Plan Act of 2021 to hire additional employees and not implementing technology solutions such as return scanning.<sup>15</sup> Instead of utilizing more technology to unbury itself from under its paper mountain, the IRS mainly relied on trying to hire and reassigning its limited staff to surge teams to assist with paper backlogs.<sup>16</sup>

### **Legislative Changes Contributed to Delays During the 2022 Filing Season**

Similar to the prior filing season, the 2022 filing season was affected by COVID-19 legislative changes. Many taxpayers needed to reconcile the Recovery Rebate Credit (RRC) on their tax returns in the 2022 filing season. In addition, many taxpayers had to navigate reconciling the Advance Child Tax Credit (AdvCTC) for the first time, and many had to reconcile both the RRC and AdvCTC on their tax returns. At the end of the filing season, the IRS remained buried in a backlog of work of about 29 million tax returns and pieces of correspondence.<sup>17</sup> The processing inventory backlog the IRS needed to manually work included about 5.3 million pieces of taxpayer correspondence and Accounts Management cases (excluding amended tax returns) and over 13 million paper tax returns, including over two million filed in the prior year.<sup>18</sup> As of December 9, 2022, the IRS had about 5.1 million pieces of taxpayer correspondence and Accounts Management cases (excluding amended returns) as well as 2.6 million paper tax returns and an additional 1.5 million amended returns awaiting processing.<sup>19</sup>

The inventory level and calendar year in which a return was filed are relevant because the IRS generally processes tax returns on a first-in, first-out basis.<sup>20</sup> Thus, even if the taxpayer was due a refund, the IRS did not begin processing the paper returns it received in calendar year (CY) 2022 until it first processed all the paper returns received in CY 2021.<sup>21</sup> While processing delays primarily affected taxpayers who filed paper returns, millions of taxpayers who e-filed their returns were also adversely impacted.

Taxpayers who e-file error-free tax returns and provide accurate direct deposit information typically received refunds promptly. But millions of e-filed returns were not error free, which meant they required employee review for issues such as math errors, thus suspending the payment of the refund. In these cases, refunds were delayed, often by months and in some cases over a year.

Taxpayers made the largest number of errors trying to reconcile the RRC and/or AdvCTC.<sup>22</sup> When IRS systems detected disparities, math error notices were generated. During the 2022 filing season, the IRS issued over 11 million math error notices to taxpayers, and as of November, the IRS had issued over 17 million during 2022.<sup>23</sup> When taxpayers responded to the math error notices, the responses often were added to the

backlog of paper submissions. This resulted in paper processing delays for taxpayers, including those who acted timely to protect their taxpayer rights, and further refund delays.

### Return Statistics Associated With 2022

During 2022, the IRS processed items carried over from 2021 plus most returns filed and correspondence received in 2022. The National Taxpayer Advocate appreciates the efforts of IRS employees and management to move closer toward being current and understands that returns or correspondence inventories carried over into 2023 will be less than the carryover inventories during the last two years. However, taxpayers whose returns are still awaiting processing; are sitting in the Error Resolution unit, the reject unit, or the unpostable unit; are awaiting verification for potential identity theft; or are still waiting for the IRS to process their correspondence have unmet priority needs. The IRS must continue to follow an all-hands-on-deck strategy to end the backlog once and for all.

Figure 2.1.2 depicts the large volume of original and amended individual and employment tax returns and claims for refund the IRS received during the last four years. Thereafter, Figures 2.1.3-5 illustrate the challenges and delays that impacted taxpayers in 2022. The data in these figures reflects a point in time and does not show the total number of returns filed, correspondence received, or items processed during the preceding periods.

**FIGURE 2.1.2, Tax Returns Received by Type and Year<sup>24</sup>**

Returns Received – Type/Year	CY 2019	CY 2020	CY 2021	CY 2022
Paper Forms 1040	16,948,000	14,852,000	16,202,000	12,798,000
Electronic Forms 1040	138,047,000	152,232,000	151,765,000	151,429,000
Paper Forms 1040-X	2,882,013	2,486,555	2,129,027	1,029,097
Electronic Forms 1040-X	0	144,214	1,802,284	2,016,412
Paper Forms 941	12,770,328	11,594,459	10,775,793	1,942,919
Electronic Forms 941	12,093,323	12,939,196	14,199,749	15,629,173
Forms 941-X	325,718	338,678	738,422	1,369,000
Forms 1045	6,720	28,695	18,825	25,000
Forms 1139	4,360	22,882	16,337	14,000

**FIGURE 2.1.3, Status of Inventory Requiring Manual Processing (as of April 22, 2022)<sup>25</sup>**

	Individual	Business	Not Specified	Total
<b>Paper Returns Awaiting Processing</b>				
Received in Calendar Year 2021	1,600,000	700,000		2,300,000
Received in Calendar Year 2022	4,600,000	4,500,000	2,000,000	11,000,000
<b>Total Paper Returns Awaiting Processing</b>	<b>6,200,000</b>	<b>5,200,000</b>	<b>2,000,000</b>	<b>13,300,000</b>
<b>Paper and Electronic Returns – Processing Suspended</b>	<b>5,300,000</b>	<b>1,600,000</b>		<b>6,800,000</b>
<b>Amended Returns Inventory</b>	<b>2,600,000</b>	<b>1,100,000</b>		<b>3,700,000</b>
<b>Total Unprocessed Returns</b>	<b>14,100,000</b>	<b>7,900,000</b>	<b>2,000,000</b>	<b>23,800,000</b>
<b>Correspondence/Accounts Management Cases (excluding amended returns)</b>	<b>2,200,000</b>	<b>1,000,000</b>	<b>2,100,000</b>	<b>5,300,000</b>
<b>Total Inventory Requiring Manual Processing</b>	<b>16,300,000</b>	<b>8,900,000</b>	<b>4,100,000</b>	<b>29,300,000</b>

**FIGURE 2.1.4, Status of Inventory Requiring Manual Processing (as of October 14, 2022)<sup>26</sup>**

	Individual	Business	Not Specified	Total
<b>Paper Returns Awaiting Processing</b>				
Received in Calendar Year 2021				
Received in Calendar Year 2022	3,300,000	4,600,000	100,000	7,900,000
<b>Total Paper Returns Awaiting Processing</b>	<b>3,300,000</b>	<b>4,600,000</b>	<b>100,000</b>	<b>7,900,000</b>
<b>Paper and Electronic Returns – Processing Suspended</b>	<b>4,500,000</b>	<b>1,500,000</b>		<b>6,000,000</b>
<b>Amended Returns Inventory</b>	<b>1,400,000</b>	<b>700,000</b>		<b>2,100,000</b>
<b>Total Unprocessed Returns</b>	<b>9,200,000</b>	<b>6,800,000</b>	<b>100,000</b>	<b>16,100,000</b>
<b>Correspondence/Accounts Management Cases (excluding amended returns)</b>	<b>1,900,000</b>	<b>800,000</b>	<b>1,900,000</b>	<b>4,600,000</b>
<b>Total Inventory Requiring Manual Processing</b>	<b>11,100,000</b>	<b>7,600,000</b>	<b>2,000,000</b>	<b>20,700,000</b>

**FIGURE 2.1.5, Status of Inventory Requiring Manual Processing (as of December 9, 2022)<sup>27</sup>**

	Individual	Business	Not Specified	Total
<b>Paper Returns Awaiting Processing</b>				
Received in Calendar Year 2021				
Received in Calendar Year 2022	1,000,000	1,500,000	100,000	2,600,000
<b>Total Paper Returns Awaiting Processing</b>	<b>1,000,000</b>	<b>1,500,000</b>	<b>100,000</b>	<b>2,600,000</b>
<b>Paper and Electronic Returns – Processing Suspended</b>	<b>4,300,000</b>	<b>1,600,000</b>		<b>5,900,000</b>
<b>Amended Returns Inventory</b>	<b>600,000</b>	<b>900,000</b>		<b>1,500,000</b>
<b>Total Unprocessed Returns</b>	<b>5,900,000</b>	<b>4,000,000</b>	<b>100,000</b>	<b>10,000,000</b>
<b>Correspondence/Accounts Management Cases (excluding amended returns)</b>	<b>2,000,000</b>	<b>800,000</b>	<b>2,300,000</b>	<b>5,100,000</b>
<b>Total Inventory Requiring Manual Processing</b>	<b>7,900,000</b>	<b>4,800,000</b>	<b>2,400,000</b>	<b>15,100,000</b>

### IRS Processing Operations Must Be Healthier Than Ever to Best Serve Taxpayers

Improving the immediate health and developing a solid strategic plan for the long-term health of its processing operations, especially how it works paper, is critical for the IRS to be an efficient 21st century tax administration. Notably, the IRS needs to reimagine itself as a modern agency and move on from considering the pre-pandemic inventory levels as the benchmark for a healthy inventory.<sup>28</sup> To better serve taxpayers in the future, the IRS should seek to become healthier than before by improving the processing of its inventory while enhancing its customer service levels and options.

#### *Funding Brings Hope of Modernization to IRS Processing Operations*

In August, Congress passed the Inflation Reduction Act, which provides the IRS with supplemental funding of nearly \$80 billion over the next ten years.<sup>29</sup> The legislation includes about \$3.2 billion to improve taxpayer services, \$4.8 billion to modernize the IRS’s information technology (IT) systems, \$25.3 billion to support taxpayer services and enforcement operations, and the balance for enforcement.<sup>30</sup> The paper backlogs and broader customer service deficiencies require priority attention.<sup>31</sup> If this additional funding is prudently spent, the IRS should be able to bring about a complete modernization makeover of its paper processing operations, with the ability to hire and train an advanced workforce, replace outdated technology and systems, and dramatically improve taxpayer services and the taxpayer experience.<sup>32</sup>

### ***Automated Solutions Can Mitigate Hiring and Training Issues***

As the IRS continues to struggle to hire and train new staff, automated solutions are an option to mitigate staffing issues. One example of such automation is the IRS's adoption of its FixERS tool, an automated way to process the IRS's Error Resolution System case inventory that historically the IRS processed manually.<sup>33</sup> The FixERS tool worked over 12 million individual returns that otherwise would have waited to be worked by an IRS tax examiner, which is the equivalent of 108 full-time employees using the antiquated IRS manual processing methods.<sup>34</sup> Automation enabled the IRS to work nearly 97 percent of eligible return errors within three days of receipt.<sup>35</sup> Improvements brought about by using modern automation had clear benefits for the IRS, but most importantly, it helped reduce delays for taxpayers. Automation is the best solution to help the IRS improve its processing health. TAS recommends that the IRS continue to leverage additional FixERS capabilities and other IT upgrades to improve the filing season experience and achieve efficiencies.

### ***The IRS Should Expand Electronic Filing for Taxpayers to Help Digitally Divert the Paper Returns It Receives<sup>36</sup>***

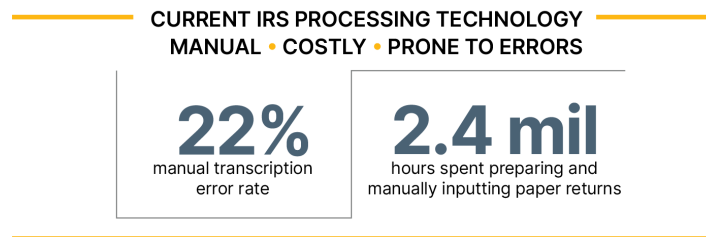
Presently, taxpayers e-file over 90 percent of individual tax returns and only about 69 percent of business tax returns.<sup>37</sup> Although some taxpayers choose not to e-file their federal tax returns, e-filing is the best choice for those who are able to do so. Some taxpayers would prefer to e-file their returns but cannot for a variety of reasons, including that IRS systems are not programmed to electronically accept some of its own forms.<sup>38</sup> Expanding electronic filing so more taxpayers can use it will reduce the IRS's volume of manual paper processing. Taxpayers are likely to quickly reap the benefits of an IRS that is less reliant on staff to manually transcribe returns from paper to computer.

### ***Scanning Technology Can Digitally Clear Current Paper Jams and Prevent Future Ones***

Scanning technology has been available for years and is cost-effective. If the IRS had used it during the pandemic, processing and refund delays would have been less extreme. While the IRS has contemplated the use of scanning in its processing operations, its indecisiveness and lack of strategy never produced follow-through or meaningful pursuit of it.<sup>39</sup> The lack of scanning technology as part of its data intake process puts the IRS several decades behind a significant number of state revenue agencies that incorporated this technology years ago.<sup>40</sup>

In March 2022, the National Taxpayer Advocate issued a Taxpayer Advocacy Directive (TAD) to the IRS, instructing it to implement scanning technology with the goal of substantially reducing or eliminating the challenges of processing paper-filed tax returns.<sup>41</sup> More machine-read returns mean fewer returns that require manual data transcription. Several months later, the IRS Deputy Commissioners responded to the TAD by partially modifying and partially rescinding the TAD's directed actions, but the response lacked specificity.<sup>42</sup> Due to the magnitude of the backlog and its negative impact on taxpayers, the National Taxpayer Advocate appealed the IRS Deputy Commissioners' decision to the IRS Commissioner.<sup>43</sup> After several months, the IRS Commissioner provided the National Taxpayer Advocate a general response indicating that the IRS planned to conduct further scanning of some, but not all, individual and business paper returns, and that detailed plans were in development.<sup>44</sup>

Scanning technology is an immediately available solution that will improve the processing pipeline with fewer transcription errors. Modern scanning technology does not sacrifice accuracy for speed and makes minimal errors, in contrast to the IRS's manual transcription error rate for paper returns of 22 percent.<sup>45</sup> IRS staff spent approximately 2.4 million direct hours preparing and manually inputting paper tax returns in its systems in 2022. Scanning would help the IRS accomplish this work in much less time and with greater accuracy.<sup>46</sup> And although the IRS slowly tested various scanning pilot programs during the pandemic, taxpayers experiencing refund delays were not the focal point.<sup>47</sup> The IRS should have used its scanning pilots as a possible solution to expedite refund delivery.



### The Negative Impacts of IRS Processing Delays

With most taxpayers eligible to receive refunds, the impact of IRS processing delays may affect taxpayers in important and financially damaging ways.<sup>48</sup> For individual taxpayers and families, refund delays may leave them unable to afford rent, food, or medicine. For business taxpayers, delays in providing congressionally authorized pandemic relief may have required some businesses to lay off workers or even to shutter operations.<sup>49</sup> For various reasons, taxpayers claimed many pandemic relief benefits via paper filing. This was also the case with refunds claimed on IRS Form 1139, Corporation Application for Tentative Refund, which taxpayers cannot e-file and where at one point taxpayers faced average IRS processing wait times over 165 days, far exceeding the 90-day statutory requirement.<sup>50</sup>

#### *Collateral Impact on Congress*

Taxpayers who cannot connect with the IRS or have difficulty resolving a tax issue often contact their members of Congress for help. Members of Congress have routinely been reaching out to the IRS or referring constituents to TAS to provide advocacy services for case resolution. Congressional offices and ultimately TAS should not be overburdened with constituent/taxpayer cases that are easily avoidable. Members of Congress and their constituents need TAS to focus its limited resources on taxpayer advocacy issues where it is uniquely positioned to add value and not divert its resources to serve as a backup IRS processing function.

### CONCLUSION AND RECOMMENDATIONS

The IRS must modernize its processing operations to create a paperless work environment built on a solid foundation and designed for present and future success. To achieve this, the IRS must leave the era of the Flintstones and advance to the era of the Jetsons and beyond. The IRS must develop and execute a detailed and specific strategic plan to deploy its additional funding in a swift, tactical way that eliminates delays in paper processing and refund delivery and improves all facets of the taxpayer experience involving the processing of tax returns and related taxpayer correspondence.

#### **Preliminary Administrative Recommendations to the IRS**

The National Taxpayer Advocate recommends that the IRS:

1. Expedite the processing of paper tax returns by developing a plan to implement optical character recognition, 2-D bar coding, or similar technology to automate the processing of these returns during the 2023 filing season or, if that is not feasible, by the start of the 2024 filing season.
2. Prioritize the processing of refund returns prior to returns with tax due or no tax during the 2023 filing season.
3. Automate error resolution for all error codes and conditions using the FixERS tool or other tool during the 2023 filing season or, if that is not feasible, by the start of the 2024 filing season.
4. Develop and post on IRS.gov an easy-to-read dashboard that provides weekly information on the filing season, including the total number of returns in inventory, the number of returns beyond normal processing times, the number of returns in suspense status, and the anticipated timeframes for working through the backlog.

5. Provide inventory level status updates for each specific area of Submission Processing in a weekly report distributed to all impacted business units, including TAS.

## RESPONSIBLE OFFICIALS

Kenneth Corbin, Commissioner, Wage and Investment Division

Amalia Colbert, Commissioner, Small Business/Self-Employed Division

## IRS COMMENTS

The IRS is not only committed to becoming healthy with our inventories and enhancing our customer service levels and options but also to comprehensively modernizing paper processing. The Inflation Reduction Act provides the IRS with supplemental funding of nearly \$80 billion over the next ten years, part of which is earmarked to improve and support taxpayer services and modernize information technology systems. The IRS has been collaborating with a third-party vendor to pilot a scanning and digitalization solution. As of September 30, 2022, the IRS scanned and processed almost 135,000 tax returns through the pilot. For the 2023 filing season (FS) and beyond, the IRS is hoping to scan and process millions of tax returns using a digitalization solution. In the interim, we continue to develop and expand automated options such as the FixERS tool to process Error Resolution System (ERS) cases effectively and efficiently. During processing year (PY) 2022, the tool processed five error codes (13.2 million through 10/26/2022) with 100% accuracy. Only about 3% of the cases required manual intervention. For PY 2023, the IRS is planning to add 16 additional error codes to FixERS for a total of 21, including 9 of the 11 highest volume that come to the ERS.

Millions of taxpayers rely on their refunds for a variety of financial obligations. The Service's goal for FS 2023 is to return to pre-COVID processing guidelines, which means prioritizing returns that request a refund. The IRS continues to explore ways to deliver transparent messaging to taxpayers about their refunds by facilitating quicker responses to delays, increasing the use of lower-level authentication tools, reducing the need to involve other service channels such as the telephones, and identifying actions taxpayers may take to resolve delays. We are targeting the Where's My Refund (WMR) and Where's my Amended Return (WMAR) applications for enhancements in three key areas. Those enhancements include:

- Remove identify theft restrictions for certain scenarios that prevent users from accessing WMAR.
- Import ERS records into the WMR database and then tailor simple messages about the delay and possible actions taxpayers can take to speed up the processing of their return and refund.
- Enable WMR to receive and recognize specific return codes for certain types of return filtering delays and provide more specific and transparent messaging, including possible actions taxpayers may take to take action to resolve delays.

The IRS continues to expand Document Upload Tool (DUT) capabilities and has requested funding to develop a DUT for victims of identity theft to submit Form 14039, Identity Theft Affidavit.

Hiring and positioning our staff to best serve taxpayers is critical to bringing processing inventories to a healthy level and achieving our mission. Accounts Management onboarded over 5,500 employees in preparation for FS 2023 and Submission Processing selected more than 1,200 applicants during



October and continues to onboard contractors for clerical support. Options such as Direct Hire Authority and surge teams were invaluable to securing the necessary manpower to work inventories and staff the telephones. We are considering using surge teams in 2023 and are analyzing data to determine our needs. Even with adequate levels of funding, there are collateral challenges such as hiring clerical staff, lead technicians, and managers to support the new employees. Our Human Capital Office continues to provide strategies and tools for recruiting, hiring, developing, retaining, and transitioning a highly skilled and high-performing workforce to support the IRS mission accomplishments.

## TAXPAYER ADVOCATE SERVICE COMMENTS

The IRS's response presents fewer answers for taxpayers than it does questions. Taxpayers need more transparency; they need clear answers as to how the IRS will quickly fix its problems and reasons to be optimistic for the future. While the IRS has been confronted with remarkable challenges during the pandemic, that does not justify the duration of its unprecedented processing delays and the significant refund delays impacting and harming taxpayers for a third straight year. Good news, the IRS has made considerable progress reducing the inventory backlog and is starting the 2023 filing season in an improved position from the two prior years. But millions of taxpayers are still waiting for their refunds and returns to be processed. Those taxpayers do not see the IRS as "healthy." Notably, the IRS continues to use "healthy" in the context of pre-pandemic inventory levels and guidelines as a benchmark for success. Although the pre-pandemic health of the IRS is certainly an improvement compared to the last 2.5 years, the IRS and taxpayers deserve better. From a taxpayer's point of view, the last three filing seasons have been brutal, resulting in delayed refunds, unanswered calls, inability to meet face-to-face, and failure of the IRS to post transparent updates, which leaves taxpayers in limbo. As we prepare to enter another filing season, the IRS once again is positioned to carry over a large volume of processing inventory. Taxpayers cannot afford to wait for refunds they should have received months sooner, and the IRS cannot continue the practice of carrying over millions of unprocessed returns every year. The backlog must be eliminated once and for all.

### RECOMMENDATIONS

#### Administrative Recommendations to the IRS

The National Taxpayer Advocate recommends that the IRS:

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3. Automate error resolution for all error codes and conditions using the FixERS tool or other tool during the 2023 filing season or, if that is not feasible, by the start of the 2024 filing season.

4. Develop and post on IRS.gov an easy-to-read dashboard that provides weekly information on the filing season, including the total number of returns in inventory, the number of returns beyond normal processing times, the number of returns in suspense status, and the anticipated timeframes for working through the backlog.
5. Provide inventory level status updates for each specific area of Submission Processing in a weekly report distributed to all impacted business units, including TAS.

## Endnotes

- 1 IRS, Research Analysis and Data, Accounts Management Reports: Collection Information System (CIS) Closed Case Cycle Time FY 2022.
- 2 See IRS, IRS Operations During COVID-19: Mission-Critical Functions Continue, <https://www.irs.gov/newsroom/irs-operations-during-covid-19-mission-critical-functions-continue> (last visited Dec. 8, 2022).
- 3 See National Taxpayer Advocate 2022 Annual Report to Congress (Most Serious Problem: *Telephone and In-Person Service: Taxpayers Continue to Experience Difficulties and Frustration Obtaining Telephone and Face-to-Face Assistance to Resolve Their Tax Issues and Questions*), *infra*. From April 2020 through September 2022, the IRS received 506.7 million calls, and telephone assistants answered 64.9 million. IRS, Joint Operations Center (JOC), Snapshot Reports: Enterprise Snapshot for Enterprise Total (weeks ending Sept. 30, 2022; Sept. 30, 2021; Sept. 30, 2020; and Mar. 28, 2020).
- 4 Catherine Rampell, *Opinion: Why Does the IRS need \$80 billion? Just Look At Its Cafeteria*, WASH. POST (Aug. 9, 2022), <https://www.washingtonpost.com/opinions/interactive/2022/irs-pipeline-tax-return-delays/>; *IRS Operations and Improving the Taxpayer Experience, Hearing Before H. Ways and Means. Comm., Subcomm. on Oversight*, 117th Cong. (May 18, 2022) (statement of Kenneth Corbin, Commissioner, Wage and Investment (W&I) Division, and Chief Taxpayer Experience Officer), <https://waysandmeans.house.gov/sites/democrats.waysandmeans.house.gov/files/documents/K.%20Corbin%20Testimony.pdf>.
- 5 IRS, W&I, Status of Unopened Mail and Backlog Inventory (Dec. 15, 2022) (showing data as of Dec. 9, 2022).
- 6 See IRS, 2021 Filing Season Statistics (week ending Dec. 3, 2021) (showing that 129.8 million returns, or 77 percent, resulted in refunds), <https://www.irs.gov/newsroom/filing-season-statistics-for-week-ending-december-3-2021>. See also IRS, 2022 Filing Season Statistics (week ending Oct. 28, 2022) (showing 108.6 million returns, or 66 percent, resulted in refunds), <https://www.irs.gov/newsroom/filing-season-statistics-for-week-ending-october-28-2022>.
- 7 See Erin M. Collins, Getting Rid of the Kryptonite: The IRS Should Quickly Implement Scanning Technology to Process Paper Tax Returns, NATIONAL TAXPAYER ADVOCATE BLOG (Mar. 30, 2022), <https://www.taxpayeradvocate.irs.gov/news/nta-blog-getting-rid-of-the-kryptonite-the-irs-should-quickly-implement-scanning-technology-to-process-paper-tax-returns>.
- 8 *Id.*
- 9 See IRS, 2021 Filing Season Statistics (week ending Dec. 3, 2021) (showing that 129.8 million returns or 77 percent, resulted in refunds), <https://www.irs.gov/newsroom/filing-season-statistics-for-week-ending-december-3-2021>. See also IRS, 2022 Filing Season Statistics (week ending Oct. 28, 2022) (showing 108.6 million returns, or 66 percent, resulted in refunds), <https://www.irs.gov/newsroom/filing-season-statistics-for-week-ending-october-28-2022>.
- 10 IRS, JOC, Snapshot Reports: Enterprise Snapshot for Enterprise Total (weeks ending May 22, 2021; Apr. 23, 2022).
- 11 *Id.*
- 12 IRS response to TAS information request (Nov. 3, 2022).
- 13 *Id.*
- 14 Photograph of the cafeteria of an IRS facility in Austin, Texas. Courtesy of the Department of the Treasury.
- 15 See National Taxpayer Advocate Fiscal Year 2023 Objectives Report to Congress 1 (Preface: *National Taxpayer Advocate's Introductory Remarks*), <https://www.taxpayeradvocate.irs.gov/reports/2023-objectives-report-to-congress/preface/>.
- 16 *Id.*
- 17 IRS, W&I, Status of Unopened Mail and Backlog Inventory (Apr. 29, 2022) (showing data as of Apr. 22, 2022).
- 18 *Id.*
- 19 IRS, W&I, Status of Unopened Mail and Backlog Inventory (Dec. 15, 2022) (showing data as of Dec. 9, 2022). See Erin M. Collins, Update on IRS Progress in Working Through Its Backlog of Paper-Filed Tax Returns and Correspondence, NATIONAL TAXPAYER ADVOCATE BLOG (Nov. 10, 2022), <https://www.taxpayeradvocate.irs.gov/news/nta-blog-update-on-irs-progress-in-working-through-its-backlog-of-paper-filed-tax-returns-and-correspondence-part-3/>.
- 20 IRS response to TAS information request (Nov. 3, 2022).
- 21 *Id.*
- 22 IRS, Math Error Report for CY 2022 (cycle 16).
- 23 IRS, Compliance Data Warehouse, Individual Returns Transaction File, returns processed as of the week ending November 24, 2022.
- 24 IRS response to TAS information request (Nov. 3, 2022); IRS response to TAS fact check (Dec. 15, 2022).
- 25 IRS, W&I, Status of Unopened Mail and Backlog Inventory (Apr. 29, 2022) (showing data as of Apr. 22, 2022).
- 26 IRS, W&I, Status of Unopened Mail and Backlog Inventory (Oct. 21, 2022) (showing data as of Oct. 14, 2022).

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- 27 IRS, W&I, Status of Unopened Mail and Backlog Inventory (Dec. 15, 2022) (showing data as of Dec. 9, 2022).
- 28 Treasury Inspector General for Tax Administration (TIGTA), Ref. No. 2022-46-057, *Delays in Management Actions Contribute to the Continued Tax Processing Center Backlogs* (2022), <https://www.tigta.gov/reports/audit/delays-management-actions-contribute-continued-tax-processing-center-backlogs>.
- 29 An Act to Provide for Reconciliation Pursuant to Title II of S. Con. Res. 14 (commonly referred to as the "Inflation Reduction Act of 2022"), Pub. L. No. 117-169, 136 Stat. 1818 (2022); see Remarks by Secretary of the Treasury Janet L. Yellen at the IRS facility in New Carrollton, Maryland, <https://home.treasury.gov/news/press-releases/jy0952> (last visited Sept. 20, 2022).
- 30 *Id.*
- 31 Treasury Secretary Yellen has called upon the IRS to submit a plan within six months stating how the funds will be used. In general, she will not authorize the IRS to spend the additional funding until the plan is submitted, but she will currently approve funding to improve services for the upcoming filing season. See *Yellen Tells IRS to Develop Modernization Plan in 6 months*, ASSOCIATED PRESS (Aug. 17, 2022), <https://apnews.com/article/biden-technology-personal-taxes-janet-yellen-26165108b1fe1907f216ed0357d8f0bf> (last visited Dec. 7, 2022); Letter from Janet L. Yellen, Sec'y of the Treasury, to Charles P. Rettig, Comm'r, Internal Revenue (Aug. 10, 2022), <https://home.treasury.gov/news/press-releases/jy0918>; see National Taxpayer Advocate 2021 Annual Report to Congress 37-50 (Most Serious Problem: *Processing and Refund Delays: Excessive Processing and Refund Delays Harm Taxpayers*), [https://www.taxpayeradvocate.irs.gov/wp-content/uploads/2022/01/ARC21\\_MSP\\_01\\_Processing-Delays.pdf](https://www.taxpayeradvocate.irs.gov/wp-content/uploads/2022/01/ARC21_MSP_01_Processing-Delays.pdf).
- 32 *Id.*
- 33 IRS response to TAS information request (Nov. 3, 2022).
- 34 *Id.*
- 35 *Id.*
- 36 See National Taxpayer Advocate 2022 Annual Report to Congress (Most Serious Problem: *E-File and Free File: E-Filing Barriers and the Absence of a Free, Easy-to-Use Tax Software Option Cause Millions of Taxpayers to Continue to File Paper Tax Returns*), *infra*, for a more detailed discussion.
- 37 IRS, Filing Season Statistics Weekly Report (week ending Dec. 17, 2022); IRS, Submission Processing Program Management/ Process Assurance (PMPA) Branch Filing Season Statistics Report.
- 38 For a detailed discussion on e-filing, see Most Serious Problem: *E-File and Free File: E-Filing Barriers and the Absence of a Free, Easy-to-Use Tax Software Option Cause Millions of Taxpayers to Continue to File Paper Tax Returns*, *infra*.
- 39 See Erin M. Collins, Getting Rid of the Kryptonite: The IRS Should Quickly Implement Scanning Technology to Process Paper Tax Returns, NATIONAL TAXPAYER ADVOCATE BLOG (Mar. 30, 2022), <https://www.taxpayeradvocate.irs.gov/news/nta-blog-getting-rid-of-the-kryptonite-the-irs-should-quickly-implement-scanning-technology-to-process-paper-tax-returns/>. Here it describes 2-D barcoding and optical character recognition (OCR) technologies. 2-D barcoding, similar to those used at grocery stores, places a 2-D barcode on the return that encodes the return data in a machine-readable form. The IRS could scan the barcode and convert the data into a digital form that would allow the IRS to process the return like an e-filed return. OCR uses a machine to read and input the data from the paper returns.
- 40 *Id.*
- 41 IRC § 7803(c)(5)(B); Erin M. Collins, Memorandum for Douglas O'Donnell, Deputy Commissioner, Services and Enforcement; Jeffrey J., Deputy Commissioner, Operations Support regarding Taxpayer Advocate Directive 2022-1: Implementing Scanning Technology to Machine Read Paper Tax Returns and Address the Paper Return Backlog (Mar. 29, 2022), <https://www.irs.gov/pub/irs-utl/tad-2022-1-memo-from-nta.pdf>.
- 42 Douglas W. O'Donnell, Deputy Commissioner for Services and Enforcement; Jeffrey J. Tribiano, Deputy Commissioner for Operations Support Memorandum for Erin M. Collins National Taxpayer Advocate regarding Taxpayer Advocate Directive 2022-1: Implementing Scanning Technology Machine Read Paper Tax Returns and Address the Paper Return Backlog (July 18, 2022), <https://www.irs.gov/pub/irs-utl/tad-2022-1-memo-from-dcse.pdf>.
- 43 Erin M. Collins, IRS Deputy Commissioners Respond to Taxpayer Advocate Directive on Scanning Technology; National Taxpayer Advocate Appeals Decision to IRS Commissioner, NATIONAL TAXPAYER ADVOCATE BLOG (Aug. 4, 2022), <https://www.taxpayeradvocate.irs.gov/news/nta-blog-irs-deputy-commissioners-respond-to-taxpayer-advocate-directive/>.
- 44 Charles P. Rettig, Commissioner of Internal Revenue, Memorandum for Erin M. Collins, National Taxpayer Advocate, regarding Commissioner's Response to Taxpayer Advocate Directive 2022-1 Appeal (Oct. 31, 2022).
- 45 IRS response to TAS information request (Nov. 3, 2022).
- 46 *Id.*
- 47 *Id.*
- 48 See IRS, 2021 Filing Season Statistics (week ending Dec. 3, 2021) (showing that 129.8 million returns, or 77 percent, resulted in refunds), <https://www.irs.gov/newsroom/filing-season-statistics-for-week-ending-december-3-2021>. See also IRS, 2022 Filing Season Statistics (week ending Oct. 28, 2022) (showing 108.6 million returns, or 66 percent, resulted in refunds), <https://www.irs.gov/newsroom/filing-season-statistics-for-week-ending-october-28-2022>.
- 49 Government Accountability Office (GAO), GAO-22-105291, *COVID-19 Significant Improvements Are Needed for Overseeing Relief Funds and Leading Responses to Public Health Emergencies* (2022).
- 50 *Id.*