

INTRODUCTION: The Most Serious Problems Encountered by Taxpayers

IRC § 7803(c)(2)(B)(ii)(III) requires the National Taxpayer Advocate to submit an annual report to Congress that contains a summary of the ten “Most Serious Problems” encountered by taxpayers.¹ While we use the method described below to identify the Most Serious Problems, the list remains inherently subjective in many respects.

A. METHODOLOGY OF THE MOST SERIOUS PROBLEM LIST

The National Taxpayer Advocate is in a unique position to identify the most serious problems facing taxpayers because we receive input from a wide variety of sources. Through our Case Advocacy operations, TAS helps hundreds of thousands of taxpayers to resolve their account problems with the IRS every year. We help many types of taxpayers including individuals, businesses, and exempt organizations, and we work with both unrepresented taxpayers and taxpayers represented by tax professionals. Some cases come to us directly, while others come through congressional referrals.

As part of our Systemic Advocacy operations, TAS leaders meet frequently with organizations that work in the tax administration field, and we maintain an online portal through which members of the public and IRS employees can call our attention to systemic problems that affect groups of taxpayers or all taxpayers.² We receive hundreds of submissions each year. We review them all, and we create “advocacy projects” to address priority problems. TAS employees also work on cross-functional teams with other parts of the IRS to address areas that impact taxpayer rights and taxpayer service.

The National Taxpayer Advocate considers the input from these sources and assesses the following factors in selecting the Most Serious Problems encountered by taxpayers:

- Impact on taxpayer rights;
- Number of taxpayers impacted;
- Financial impact on taxpayers;
- Visibility, sensitivity, and interest to stakeholders, Congress, and external indicators (*e.g.*, media);
- Barriers to tax law compliance, including cost, time, and burden;
- Taxpayer Advocate Management Information System (TAMIS) inventory data; and
- Emerging issues.

B. TAXPAYER ADVOCATE MANAGEMENT INFORMATION SYSTEM LIST

The identification of the Most Serious Problems reflects not only the mandates of Congress and the IRC but also TAS’s integrated approach to advocacy – using individual cases to detect trends and identifying systemic problems in IRS policy and procedures or the IRC. TAS tracks individual taxpayer cases on its internal system, TAMIS.

C. THE MOST SERIOUS PROBLEMS ENCOUNTERED BY TAXPAYERS IN 2022

For the 2022 annual report, the ten Most Serious Problems are:

1. **PROCESSING DELAYS: Paper Backlogs Caused Refund Delays for Millions of Taxpayers**

The IRS still depends on outdated manual practices and a human assembly line for its paper processing operations, and paper is its Kryptonite. For the past 2.5 years, millions of taxpayers have experienced significant delays waiting for the IRS to process paper-filed tax returns and issue corresponding refunds. These unprecedented paper processing and refund delays are the product of the IRS falling behind during the pandemic, combined with its reliance on antiquated processing technology and manual data entry. Collectively, this resulted in backlogs that overwhelmed the IRS and even caused it to have to transform a campus cafeteria, conference rooms, and hallways into makeshift paper storage space. The IRS needs to modernize its antiquated paper processing procedures to clear the paper backlogs, streamline processing for the future, and improve related taxpayer services and the taxpayer experience.

2. **COMPLEXITY OF THE TAX CODE: The Complexity of the Tax Code Burdens Taxpayers and the IRS Alike**

The tax laws are overly complex, burden America's taxpayers, and negatively impact voluntary compliance. The system of preparing and filing taxes is too difficult because it is costly and time-consuming. This is especially problematic for taxpayers who access social programs through the IRS and for small business taxpayers. Some of this complexity exists because the IRC is antiquated and does not mirror modern life. The tax code can be simplified by making it easy to understand, which would make it easier for the IRS to administer, and easier for taxpayers to comply with their tax obligations. Simplifying the Code is the most important step Congress can take to reduce taxpayer compliance burdens. Simplification is essential to the integrity of the U.S. tax system and will enhance voluntary compliance.

3. **IRS HIRING AND TRAINING: Weaknesses in the Human Capital Office's Hiring, Recruitment, and Training Programs Are Undermining the IRS's Efforts to Achieve Appropriate Staffing to Meet Taxpayer Needs**

Over the past decade, the IRS's budget was reduced by more than 15 percent in inflation-adjusted terms, resulting in reduced staffing levels not seen since the 1970s. As staffing declined, so did taxpayer service levels. The Inflation Reduction Act of 2022 provided the IRS with much-needed funding and presented an excellent opportunity to improve taxpayer service. With this new funding, the IRS will need to recruit, hire, and train new employees on a historic scale as the IRS has never attempted to hire beyond its current capacities. It must do this while also keeping pace with the rate of attrition and accounting for the estimated 50,000 IRS employees expected to be lost through attrition within the next six years. To hire thousands of new employees over the next decade and replace employees who have retired or otherwise left, the IRS must increase its current hiring capacity to meet this demand and focus on the training of its employees. The IRS must also prioritize recruitment and counter recruitment challenges it faces in a competitive job market. The agency must work to revamp its training quality and overall efficiency. New IRS employees cannot provide an appropriate level of service on day one; they need significant resources and time to receive quality training, which can often mean both classroom-type and on-the-job training over an extended period. A workforce equipped with next-generation skills needs advanced training throughout their careers, which requires investment and dedicated budgetary resources. For years, the IRS has been developing and implementing a comprehensive training strategy as described in the IRS's Taxpayer First Act

Report to Congress. However, the IRS Human Capital Office (HCO) did not have dedicated budgetary resources needed to launch this vision. Without the appropriate reallocation of funding and a long-term investment in training strategy, HCO will continue to struggle. Although TAS is encouraged by the incremental progress recently in the areas of hiring, recruitment, and training, the IRS has much more work to do to increase HCO hiring capacity, improve recruitment strategies, and start implementation of its robust training program.

4. 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

Though the IRS is increasing staffing and implementing technology designed to improve the customer experience, processing backlogs caused the demand for telephone and in-person service to remain high, while customer service levels continued to remain unacceptably low. The fiscal year 2022 post-pandemic filing season saw little improvement in telephone and Taxpayer Assistance Center services. Taxpayers and practitioners rely heavily on the ability to reach an IRS employee for account actions and answers to their inquiries. Lack of sufficient service jeopardizes compliance, frustrates taxpayers, and impacts the taxpayers' *right to quality service*.

5. ONLINE ACCESS FOR TAXPAYERS AND TAX PROFESSIONALS: Inadequate Digital Services Impede Efficient Case Resolution and Force Millions of Taxpayers to Call or Send Correspondence to the IRS

Providing tax information and services accessible through a robust online account and seamlessly integrated digital communication tools are essential for taxpayers, their representatives, and IRS employees. Taxpayers or their representatives wanting to interact online need and deserve quality service options and quick responses from the IRS. Today, most taxpayers and tax professionals can't depend on receiving either, causing dissatisfaction that can lead to distrust in tax administration. In recent years, the IRS developed standalone self-assistance web applications that allow taxpayers to perform a single task, such as resolving their inquiries via an automated voicebot or chatbot, sending and receiving secure digital messages, uploading documents, and viewing basic account information. While each application and tool has standalone value and facilitates a particular interaction, the IRS has not leveraged its utility by making them accessible from a central hub that provides a seamless taxpayer experience. As the IRS continues to introduce new self-assistance applications and improve existing ones, it should determine its priorities using a taxpayer-centric approach. The IRS must prioritize the experience of individual and business taxpayers as customers and provide an intuitive central hub with one-click access to all authenticated and unauthenticated self-assistance applications.

6. 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

The high number of e-filed returns shows that taxpayers are committed to e-filing, despite the obstacles they sometimes encounter. It is in the IRS's best interest to encourage this trend by making the e-file process more straightforward and user-friendly. By making all forms and schedules compatible with e-filing, as well as making taxpayers' information returns and payment histories downloadable from their online accounts, the IRS can facilitate quick and accurate e-filing for individuals. Opportunities for improvement also exist for business taxpayers, who are sometimes discouraged from e-filing information returns and employment tax returns on account of cumbersome technology. Enhancing this capacity while developing an IRS-run direct e-file option could take a creaky system still managing to produce good results and create a comprehensive e-file system that would benefit both taxpayers and the IRS. This transformation would improve the

taxpayer experience, remove barriers to tax filing, improve the timeliness of refunds, and further voluntary compliance.

7. IRS TRANSPARENCY: Lack of Transparency About Processing Delays and Other Key Data Frustrates Taxpayers and May Undermine Voluntary Compliance

This Most Serious Problem addresses the importance of transparency and providing taxpayers with access to information. These bedrock principles of tax administration are especially critical since the IRS has recently received a significant increase in funding to be used for enforcement, customer service, and technology enhancements. It is also critical that the IRS provide taxpayers with complete, accurate, and timely information about the status of their refunds, and clear, concise, and reliable guidance on a variety of complex tax issues. A tax administration agency fully transparent and clear about how taxpayers can comply with their tax obligations and where their return is in the processing pipeline results in trust between the IRS and taxpayers, ultimately yielding optimal voluntary compliance.

8. RETURN PREPARER OVERSIGHT: Taxpayers Are Harmed by the Absence of Minimum Competency Standards for Return Preparers

Return preparers prepare over half of individual income tax returns and play a key role in tax administration. Many taxpayers are ill-equipped to assess a preparer's expertise in tax laws and tax return preparation. The absence of minimum competency standards for preparers of federal tax returns leaves taxpayers, particularly low-income taxpayers, vulnerable to return preparers' inadvertent errors that could cause them to overpay their tax – or to underpay their tax and face subsequent IRS enforcement action. Recent IRS data shows that taxpayers are harmed by non-credentialed return preparers. For example, about 92 percent of the total amount of 2020 Earned Income Tax Credit audit adjustments (in dollars) occurred on returns prepared by non-credentialed paid return preparers. Because taxpayers are financially responsible for inaccurately prepared returns, minimum competency standards for return preparers are an important taxpayer protection measure. Taxpayers should be able to rely on and trust qualified preparers.

9. APPEALS: Staffing Challenges and Institutional Culture Remain Barriers to Quality Taxpayer Service Within the IRS Independent Office of Appeals

Appeals plays a crucial role in administrative case resolution within the IRS. However, over the past decade, Appeals has faced challenges with funding and employee attrition that made providing top-notch taxpayer service difficult. The average Appeals case takes about a year to resolve, which means that taxpayers may be frustrated and discouraged with the process by the time it runs its course. With increased hiring and training and modernized systems for electronic case files, Appeals can improve cycle times, an important step toward quality taxpayer service. Appeals can also make important strides in reinforcing its role as an independent office within the IRS by adopting more taxpayer-friendly practices regarding conferences, by empowering Appeals Officers as final decision makers, and by providing taxpayers with access to Appeals Case Memoranda and post-settlement conferences, where applicable.

10. OVERSEAS TAXPAYERS: Taxpayers Outside of the United States Face Significant Barriers to Meeting their U.S. Tax Obligations

Many taxpayers face challenges understanding their tax obligations and accessing information and services from the IRS. However, taxpayers living overseas face additional challenges in virtually every aspect of their taxpayer experience. Whether they are U.S. citizens, resident aliens living abroad, or foreign persons with U.S. tax obligations, the laws that apply to these taxpayers are very complex.

These taxpayers are subject to highly complicated rules for determining whether they need to file a U.S. tax return and, if so, their correct U.S. tax liability. They have even more limited access to IRS customer service than domestic taxpayers, and they routinely face delays in receiving correspondence. They also face barriers in obtaining Taxpayer Identification Numbers, electronically filing returns, and accessing assistance from both the IRS and private industry. The National Taxpayer Advocate urges the IRS to take concrete steps to reduce the burden on these taxpayers and to better support them in their attempts to comply with U.S. law.

Endnotes

- 1 Prior to 2019, Congress tasked the National Taxpayer Advocate with identifying at least 20 of the most serious problems encountered by taxpayers. This change was the result of the passage of the Taxpayer First Act, Pub. L. No. 116-25, 133 Stat. 981 (2019).
- 2 The Systemic Advocacy Management System (SAMS) is a database of systemic issues and information reported online to TAS by IRS employees and members of the public. IRS, SAMS, <https://www.irs.gov/advocate/systemic-advocacy-management-system-sams>. TAS reviews and analyzes the submissions and determines a course of action, which may include information-gathering projects, immediate interventions, and advocacy projects. Internal Revenue Manual 1.4.13.4.9.2, Systemic Advocacy Management System (SAMS) (July 16, 2021).