

National Taxpayer Advocate's Introductory Remarks

What a difference a year makes!

Beginning with the COVID-19 pandemic in 2020, taxpayers experienced the worst service in memory from the IRS. Among other problems, tens of millions of taxpayers suffered from delays that at times exceeded ten months to get their returns processed and receive their refunds; millions of taxpayers who responded to IRS notices waited an average of more than six months for the IRS to process or otherwise address their correspondence; and only about 13 percent of taxpayers who collectively placed more than 500 million telephone calls to the IRS were able to reach a telephone assistor.

Not much had changed by this time last year. When I released my mid-year report to Congress in June 2022, I wrote, “It’s Groundhog Day.”

THE 2023 FILING SEASON

In submitting this report, I’m finally able to deliver some good news: The taxpayer experience vastly improved during the 2023 filing season. The IRS caught up in processing paper-filed original Forms 1040 for individuals and various business returns; refunds were generally issued quickly; and taxpayers calling the IRS were much more likely to get through – and with substantially shorter wait times. Overall, the difference between the 2022 filing season and the 2023 filing season was like night and day.

Despite the improvement, some problems carried over and others are inevitable in a tax system as large as ours. Several stand out. The most significant involves delays in the processing of amended tax returns and taxpayer correspondence. A brief explanation: Customer service representatives (CSRs) in the IRS’s Accounts Management (AM) function perform two roles – they answer telephone calls, and they process taxpayer correspondence and cases, including amended returns. Due to several factors, including internal information technology (IT) system limitations, CSRs can’t do both at the same time, so it’s a zero-sum game. Every day an employee spends answering the telephones is a day the employee isn’t processing amended returns or taxpayer correspondence, and vice versa.

In light of the stinging criticism of the IRS’s telephone service over the past three years, the Treasury Department directed the IRS to achieve at least an 85 percent “Level of Service” (LOS) in answering telephone calls this filing season. The IRS succeeded in achieving this target LOS, and wait times were generally short. But assigning enough CSRs to the phone lines to handle peak call periods meant that CSRs were often idle when call volumes were low. Due to antiquated technology and certain other factors, CSRs assigned to answer the phones currently cannot perform other tasks while waiting for calls to come in. As a result, CSRs were idle 34 percent of the time they were assigned to answer the phones, meaning they were neither assisting taxpayers on the phone nor processing amended tax returns and taxpayer correspondence.¹ Therefore, while the LOS achievement was commendable – and it benefited millions of taxpayers – it could only be accomplished by prioritizing the phones over other IRS operations, and it resulted in greater delays in the processing of paper correspondence.²

The Filing Season Review in this report contains a detailed summary and evaluation of the filing season, but I will summarize the key points here.

¹ IRS, Ready Agent Hours Report (Jan. 1-Apr. 22, 2023).

² From December 2022 through the filing season, the inventory of amended tax returns more than doubled from 1.5 million to 3.4 million, and the inventory of taxpayer responses to IRS notices and other AM cases awaiting processing increased from 4.9 million to 5.0 million. IRS, Wage and Investment (W&I) data (weeks ending Dec. 23, 2022, and Apr. 22, 2023).

Processing of Original Tax Returns

Figure 1.1 shows that the IRS reduced its backlog of unprocessed paper tax returns from 13.3 million at the end of the 2022 filing season to 2.6 million at the end of the 2023 filing season. That represents a reduction of 80 percent and marks a return to pre-pandemic levels.

FIGURE 1.1, Status of Unprocessed Original Paper Tax Returns Comparing Weeks Ending April 22, 2022, and April 22, 2023³

Filing Season	Individual	Business	Not Specified	Total
2022	6,200,000	5,200,000	2,000,000	13,300,000
2023	1,200,000	500,000	900,000	2,600,000

It is worth noting that processing delays primarily involve tax returns filed on paper. During the pandemic, more than 90 percent of taxpayers e-filed their returns, and for the most part, the IRS processed e-filed returns without any errors normally, with associated refunds issued timely. But the IRS has been slow to deploy scanning technology to machine-read paper-filed returns, which means that IRS employees still must keystroke each digit from a paper-filed return into IRS systems.⁴ The IRS received 17 million paper-filed Forms 1040 in 2021, 14 million paper-filed Forms 1040 in 2022, and as of April 21, 2023, over five million paper-filed Forms 1040 in 2023.⁵ So, while paper returns represent a small percentage of return filings, the absolute numbers are high.

Processing of Amended Tax Returns

In contrast to the 80 percent reduction in the backlog of paper-filed original tax returns, Figure 1.2 shows that the backlog of amended returns declined from 3.6 million to 3.4 million, a reduction of only six percent between last April and this April.

FIGURE 1.2, Status of Unprocessed Amended Paper Tax Returns Comparing Weeks Ending April 22, 2022, and April 22, 2023⁶

Filing Season	Individual	Business	Total
2022	2,600,000	1,100,000	3,600,000
2023	1,700,000	1,700,000	3,400,000

³ IRS, W&I data (weeks ending Apr. 22, 2022, and Apr. 22, 2023). The 2022 total is slightly less than the sum of the numbers in the row due to rounding.

⁴ 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/hta-blog-getting-rid-of-the-kryptonite-the-irs-should-quickly-implement-scanning-technology-to-process-paper-tax-returns>. The IRS is running several pilot programs to test alternative technologies to automate the processing of paper-filed tax returns, and it is aiming to develop the capability to scan all paper-filed Forms 1040 by the 2024 filing season.

⁵ IRS, Filing Season Statistics (weeks ending Dec. 31, 2021; Dec. 30, 2022; Apr. 21, 2023). The number of paper-filed returns is derived by subtracting the number of e-filed returns received from the number of total returns received. For 2023, the number of paper-filed returns reported is just for the filing season and will increase as more complex returns are filed later in the year. Notably, the number had risen to nearly eight million by May 12 – just three weeks after the April 21 filing season report. See IRS, Filing Season Statistics (week ending May 12, 2023).

⁶ IRS, W&I data (weeks ending Apr. 22, 2022, and Apr. 22, 2023). The 2022 total is slightly less than the sum of the numbers in the row due to rounding.

Although the IRS accepts Forms 1040-X (amended individual income tax returns) electronically, it still relies on manual processing for these returns. This creates delays in both data intake and the issuance of refunds. As of the end of the filing season, it was taking the IRS about seven months to process Forms 1040-X.⁷ As noted above, the continuing amended return backlog is attributable primarily to the IRS's decision to prioritize telephone service over paper processing in its AM function.

On the business side, a large portion of the delay in processing amended returns is attributable to Employee Retention Credit (ERC) claims. The ERC is a refundable credit that Congress authorized to encourage employers to retain employees during the COVID-19 pandemic. Employers may receive up to \$26,000 per employee if they meet certain conditions. The ERC is most frequently claimed on Form 941-X, Adjusted Employer's Quarterly Federal Tax Return or Claim for Refund. The IRS believes that most ERC claims are legitimate, but a significant percentage are "along the spectrum of very aggressive to fraudulent."⁸ The IRS has placed promoter claims involving the ERC on its "Dirty Dozen" list of tax scams and has announced it is "actively auditing and conducting criminal investigations related to these false claims."⁹ As a result, the processing of these claims has been relatively slow.

The influx of fraudulent claims has put the IRS between a rock and a hard place. As of the end of May, there was a backlog of an estimated 800,000 ERC claims the IRS was working through, and more Forms 941-X continue to arrive.¹⁰ If the IRS pays out claims quickly without taking the time to review them individually, it will be making some payments to individuals potentially engaged in fraud. If it takes the time to review claims individually, legitimate businesses who need the funds Congress authorized to help them stay afloat may not receive them in time.

Processing of Taxpayer Correspondence and Other Accounts Management Cases

In addition to answering telephone calls and processing amended tax returns, AM employees process taxpayer responses to IRS notices and many types of taxpayer requests, such as applications for Employer Identification Numbers, a high percentage of Identity Theft Victim Assistance cases, and tax return preparer authorizations.

Figure 1.3 compares the AM inventory, excluding amended tax returns, at the close of the 2022 and 2023 filing seasons.

FIGURE 1.3, Status of Unprocessed Taxpayer Correspondence and Accounts Management Cases Comparing Weeks Ending April 22, 2022, and April 22, 2023¹¹

Filing Season	Individual	Business	Not Specified	Total
2022	2,200,000	1,000,000	2,100,000	5,300,000
2023	1,900,000	900,000	2,200,000	5,000,000

7 IRS, Accounts Management Research, Analysis, and Data Reports, Form 1040-X (week ending Apr. 22, 2023).

8 Richard Rubin & Ruth Simon, *The Pandemic-Era Tax Break Keeping the IRS Up at Night*, WALL ST. J. (May 20, 2023) (quoting Doug O'Donnell, Deputy Comm'r, Internal Revenue), <https://www.wsj.com/articles/the-pandemic-era-tax-break-keeping-the-irs-up-at-night-f139e439?page=1>.

9 IRS News Release, IR-2023-49, IRS Opens 2023 Dirty Dozen With Warning About Employee Retention Credit Claims; Increased Scrutiny Follows Aggressive Promoters Making Offers Too Good to Be True (Mar. 20, 2023).

10 See IRS, IRS Operations: Status of Mission-Critical Functions (as of May 24, 2023), <https://www.irs.gov/newsroom/irs-operations-status-of-mission-critical-functions>; see also Doug Sword, *Employee Retention Credit Backlog Under 1 Million, Werfel Says*, 179 TAX NOTES FED. 854 (May 1, 2023).

11 IRS, W&I data (weeks ending Apr. 22, 2022, and Apr. 22, 2023).

Because of the Treasury Department's decision to prioritize telephone service over paper processing, the IRS has not made much progress in reducing its paper AM inventories over the past year. The inventory is just six percent lower than at the same time last year. In April, it was taking the IRS 130 days to process its adjustments cases.¹² That's a substantial improvement from the 214 days it was taking last year, but it's still well above the IRS's standard processing time of 45 days.

For victims of identity theft, the delays have been particularly long and frustrating. The average cycle time for Identity Theft Victim Assistance cases closed in April 2023 was 436 days – nearly 15 months. That's about three months *longer* than the 362-day cycle time in April 2022.¹³

Telephone Service

The IRS made considerable progress in its telephone service this filing season. It answered more calls, answered a substantially higher percentage of calls, and significantly reduced wait times, as shown in Figure 1.4.

FIGURE 1.4, IRS Enterprise Telephone Results Comparing Weeks Ending April 23, 2022, and April 22, 2023¹⁴

Filing Season	Calls Received	Number of Calls Answered by an IRS Employee	Percentage of Calls Answered by an IRS Employee	Time on Hold
2022	73 million	7.5 million	10%	29 minutes
2023	32 million	11.0 million	35%	8 minutes

The IRS reached the Treasury Department's goal of an 85 percent LOS on the IRS's AM telephone lines. However, it is worth explaining how IRS employees could answer only 35 percent of incoming calls and still achieve an 85 percent LOS. The LOS measure excludes 73 percent of the taxpayer calls the IRS received. Specifically, the IRS computation only includes calls directed to its AM telephone lines (so it excludes 7.2 million calls directed to compliance and other telephone lines); it excludes 8.5 million calls in which taxpayers hung up before being placed into a calling queue; and it excludes about 6.9 million calls that were routed to receive automated responses. Thus, its LOS measure reflects that telephone assistants answered 7.7 million out of 9.3 million taxpayer calls routed to them (rather than 11 million out of the 31.9 million calls the IRS received).¹⁵

Even taking the 85 percent LOS measure at face value, taxpayers calling certain telephone lines experienced substantially worse service. The IRS reports an LOS of 51 percent on calls from 3.2 million taxpayers facing collection action to its consolidated Automated Collection System (ACS) telephone lines, with an average wait time of 20 minutes.¹⁶ It reports an LOS of 46 percent on calls from 2.6 million taxpayers to its Installment Agreement/Balance Due line,¹⁷ and 48 percent on calls from 2.1 million taxpayers to its Return Integrity Compliance Services (RICS) line.¹⁸

12 IRS, Correspondence Imaging System, Fiscal Year (FY) 2023 Cycle Time Report (Adjustments Total).

13 IRS, Correspondence Imaging System, FY 2023 Cycle Time Report (Identity Theft Total).

14 IRS, Joint Operations Center (JOC), Snapshot Reports: Enterprise Snapshot, Enterprise Total (weeks ending Apr. 23, 2022, and Apr. 22, 2023).

15 For additional information, see *Filing Season Review, infra*.

16 IRS, JOC, Snapshot Reports: Enterprise Snapshot, Consolidated ACS (week ending Apr. 22, 2023).

17 IRS, JOC, Snapshot Reports: Product Line Detail, Installment Agreement/Balance Due (week ending Apr. 22, 2023).

18 IRS, JOC, Snapshot Reports: Enterprise Snapshot, Return Integrity Compliance Services (RICS) (week ending Apr. 22, 2023).

Despite these areas of relative weakness, the big picture shows taxpayers had a much easier time reaching the IRS this filing season, reducing the need for repeat calls and lengthy wait times – a welcome relief for millions of taxpayers.

TECHNOLOGY, TECHNOLOGY, TECHNOLOGY: INFLATION REDUCTION ACT FUNDING AND THE IRS'S STRATEGIC OPERATING PLAN

Most of the challenges taxpayers experienced over the last few years have resulted from antiquated technology. The COVID-19 pandemic was obviously an unexpected development, but if the IRS had been using technology to automate the processing of paper-filed tax returns prior to the pandemic, processing delays and consequent refund delays would have been minimal. If the IRS had deployed sophisticated chatbots and better communications tools, far fewer taxpayers would have needed to call the IRS, making it easier for those who needed personal assistance to reach an employee. If all taxpayers had broadly functional online accounts, they could have obtained transcripts and most necessary information online, without the need to call. If taxpayers could have downloaded notices and responded online, employees who were not permitted to come into the office due to COVID-19-related social distancing restrictions could have processed the responses from their telework locations.

In a blog posted in March, I wrote:

Large U.S. banks spend between \$10 billion and \$14 billion a year on technology, often more than half on new technology systems.

Yet in fiscal year (FY) 2022, Congress appropriated just \$275 million for the IRS's Business Systems Modernization (BSM) account. That's less than five percent of what the largest banks are spending on new technology each year, and the IRS serves far more people and entities than any bank.

This comparison isn't exactly apples-to-apples because there are differences in the components of the banks' technology accounts and the IRS's BSM account. But overall, the comparison tells you everything you need to know to understand why the IRS is still using antiquated information technology (IT) systems, some dating to the 1960s, and why taxpayer service has been abysmal in recent years.¹⁹

Last August, Congress tried to address part of the problem by giving the IRS about \$79 billion over the next ten years through the Inflation Reduction Act of 2022 (IRA) as a supplement to the funding it receives through the annual appropriations process.²⁰ Congress funds the IRS through four accounts, and slightly more than half the IRA-provided funding (\$45.6 billion) was allocated for the Enforcement account. That portion of the funding has been extremely controversial. But I am pleased that support for funding the other accounts – Taxpayer Services, BSM, and Operations Support – has been strong.²¹

¹⁹ Erin M. Collins, National Taxpayer Advocate Urges Congress to Maintain IRS Appropriations But Re-Direct Some Funds Toward Taxpayer Service and Information Technology Modernization, NATIONAL TAXPAYER ADVOCATE BLOG (Mar. 16, 2023), <https://www.taxpayeradvocate.irs.gov/news/nta-blog-nta-urges-congress-to-maintain-irs-appropriations-but-re-direct-some-funds-toward-taxpayer-service-and-it-modernization>.

²⁰ Pub. L. No. 117-169, § 10301, 136 Stat. 1818, 1831-1833 (2022). As part of the Fiscal Responsibility Act of 2023 and a related side agreement, IRA funding is expected to be reduced by about \$21 billion. Pub. L. No. 118-5, § 251. See also Fatima Hussein & Kevin Freking, *Debt Limit Bill Gives Republicans IRS Cuts, But Democrats Say They Expect Little Near-Term Impact*, WASH. POST (June 1, 2023), https://www.washingtonpost.com/business/2023/06/01/irs-debt-ceiling-budget-x-date-yellen/0786e2b8-0032-11ee-9eb0-6c94dcb16fcf_story.html.

²¹ The IRA provided \$3.2 billion for the Taxpayer Services account, \$4.8 billion for the BSM account, and \$25.3 billion for the Operations Support account. IRA, Pub. L. No. 117-169, § 10301, 136 Stat. 1818, 1831-1833. According to the IRS's Chief Financial Officer, the majority of Operations Support dollars supports taxpayer services and IT modernization (including hiring and training, rent, computers, and maintenance of existing technology systems).

To date, the IRS has used nearly \$1 billion of the IRA funding to hire more employees to process paper-filed tax returns, answer taxpayer telephone calls, and process taxpayer correspondence.²² The strong improvement in taxpayer services this filing season is mostly due to this increased staffing.

But to achieve and sustain transformational improvement over the longer term, the IRS must focus like a laser beam on IT. The IRS must give taxpayers robust online accounts that are comparable to accounts provided by banks and other financial institutions. It must make it possible for *all* taxpayers to e-file tax returns. It must limit the number of rejected electronic tax returns. It must provide faster relief for victims of identity theft. It must make it possible for taxpayers to receive and submit responses to information requests electronically in all interactions with the agency. For taxpayers who prefer to submit returns or correspondence by mail, it must digitize all paper upon receipt. It must replace its 60 discrete case management systems that currently have limited ability to communicate with each other with an integrated, agency-wide system. And it must complete the modernization of its Individual Master File and Business Master File, which were originally deployed in the 1960s and are the repository for official taxpayer records. It must transform the way it performs its tax administration mission and become a responsive and trusted agency. Improved IT is imperative to achieving that goal.

In April, the IRS released a Strategic Operating Plan (SOP) that details how it intends to spend the IRA funding.²³ The SOP outlines an ambitious set of objectives that, if effectively implemented, will be a game changer for taxpayers and tax administration. My main concern is with the large number of ambitious goals and projects described in the SOP. The IRS's leadership will need to set priorities and provide focus to ensure the most important projects are completed and the agency doesn't tackle more projects than it can reasonably handle.

Lastly, an update about TAS's advocacy efforts. We released our Annual Report to Congress in December 2022, in which we made 46 administrative recommendations to the IRS. I am pleased to report that the IRS has agreed to implement 38 of them. Read the IRS's detailed responses on our website at www.taxpayeradvocate.irs.gov/arc-recommendations-tracker.

CONCLUSION

I began my service as the National Taxpayer Advocate on March 30, 2020 – just as the COVID-19 pandemic was erupting and then-Commissioner Rettig was ordering all IRS offices across the country to close and most employees to convert to telework. It has been a difficult time for tax administration. For millions of taxpayers, interacting with the IRS during the last three years has been a miserable experience. This year, for the first time, the clouds are beginning to part, and I can see some blue sky. I am optimistic that the paper processing backlog is coming to an end, taxpayers who need to reach the IRS are generally able to do so, Congress has given the IRS funding to bring its technology into the 21st century, and IRS leaders have been working hard to develop and execute plans to transform the IRS for the better.

Transitions can be difficult, and recognizing there may be growing pains, the first TAS Systemic Advocacy Objective I set out in this report is to “protect taxpayer rights as the IRS implements its strategic operating plan.” But with adequate funding, leadership prioritization, and appropriate oversight from Congress, I believe the IRS will make considerable progress in the next three to five years in helping taxpayers comply with their tax obligations as painlessly as possible. A key goal of the SOP is to improve compliance by encouraging and helping taxpayers to do the right thing on the front end. That is the most efficient approach – much cheaper and more effective than trying to audit our way out of the tax gap one taxpayer at a time

22 See Jacob Bogage, *The IRS Braces for the Unthinkable: A Normal Tax Season*, WASH. POST (Mar. 3, 2023), <https://www.washingtonpost.com/business/2023/03/03/irs-taxes-biden-law/>.

23 IRS, Pub. 3744, IRS Inflation Reduction Act Strategic Operating Plan (Apr. 2023).

on the back end. The success of IT is instrumental to accomplishing the SOP's objectives of improving compliance and providing better service. Like many Americans, I have high aspirations and expectations for the agency. I am eager to see the enhancements to improve IT and ultimately taxpayer service, and I am excited to be a part of the journey.

I look forward to working with the IRS and Members of Congress to help transform the taxpayer experience.

Respectfully submitted,



Erin M. Collins
National Taxpayer Advocate
June 21, 2023