

Objective 7 for FY 2024 – TAS will advocate to end systemic assessment of international information return penalties and to develop an FTA waiver specific to these penalties.

- Activity 1: TAS subject matter experts will meet with the IRS to discuss the possibility of ending the systemic assessment regime for Chapter 61 IIR penalties.
- Activity 2: TAS subject matter experts will meet with the IRS Office of Servicewide Penalties to discuss the possibility of developing an FTA waiver for Chapter 61 IIR penalties.

8. MODERNIZE IRS PAPER PROCESSING PROCEDURES

Since the 2020 filing season, millions of taxpayers have experienced significant delays waiting for the IRS to process paper-filed tax returns and taxpayer correspondence.⁵⁰ The unprecedented paper processing and refund issuance delays caused taxpayers to experience financial hardship and confusion regarding the status of their cases and filings. During the final months of 2022, the IRS made substantial strides in reducing the backlog of paper-filed tax returns. Despite this progress, the IRS still started Filing Season 2023 with significant paper inventories, including an inventory of about 4.9 million pieces of taxpayer correspondence and about 1.5 million amended returns.⁵¹ The IRS ended Filing Season 2023 with a similar inventory of paper taxpayer correspondence (about five million) and about 3.4 million amended returns (an increase of nearly 127 percent).⁵²

The IRS relies on outdated manual practices to process paper-filed tax returns, amended returns, and paper correspondence. In its IRA SOP, the IRS indicated plans to “scan and digitalize all incoming paper forms, returns, and communications.”⁵³ Implementation of scanning technology and digitalization will modernize paper processing procedures and reduce taxpayer burden by decreasing processing times and refund turnaround times. As part of the IRS’s Digital Intake scanning initiative, the IRS began scanning some forms, including Forms 940, 941, and 1040.⁵⁴

Objective 8 for FY 2024 – TAS will work with the IRS as it implements plans to modernize paper processing procedures to streamline the processing of paper-filed returns and correspondence.

- Activity 1: Monitor the IRS implementation of scanning technology and digitalization to process paper-filed IRS forms and correspondence and make administrative recommendations, as needed, to minimize taxpayer burden.

50 National Taxpayer Advocate 2022 Annual Report to Congress 34-48 (Most Serious Problem: *Processing Delays: Paper Backlogs Caused Refund Delays for Millions of Taxpayers*), https://www.taxpayeradvocate.irs.gov/wp-content/uploads/2023/01/ARC22_MSP_01_Processing-Delays.pdf.

51 IRS, W&I, Status of Unopened Mail and Backlog Inventory (Dec. 30, 2022) (showing data as of Dec. 23, 2022); Email from W&I (Jan. 3, 2023) (on file with TAS).

52 IRS, W&I, Wage and Investment Inventory Report (Apr. 29, 2023) (as of Apr. 22, 2023).

53 IRS, Pub. 3744, IRS Inflation Reduction Act Strategic Operating Plan 22 (Apr. 2023).

54 The IRS also has two scanning initiatives underway: Digital Intake with Lockbox and Digital Intake with Industry Partners. IRS News Release IR 2023-41, IRS Begins New Digital Initiative; Form 940 Scanning Process Off to Strong Start; Other Forms to Start Soon (Mar. 8, 2023).