

13. IMPROVE TAX RETURN PROCESSING BY ELIMINATING BARRIERS TO E-FILEING

Taxpayers who file paper returns are subject to return processing delays, longer refund delivery times, and potential transcription errors made by IRS employees as they manually enter return information into IRS systems. Transcription errors can also trigger unwarranted compliance actions, which lead to unnecessary correspondence and increased work for both the taxpayer and the IRS. During FY 2024, TAS will continue working with the IRS to remove obstacles to electronic filing (e-filing) and improve the frequency with which individuals and businesses e-file.

E-file rates by individual and business taxpayers are generally high. During PY 2022, over 90 percent of individual taxpayers e-filed;⁷⁹ over 13 million individual paper returns were filed in 2022.⁸⁰ Almost 70 percent of businesses e-filed.⁸¹ The IRS's administrative efficiency and the well-being of taxpayers require that the IRS successfully implement strategies to increase these e-filing rates. Taxpayers choose to paper file for a variety of reasons. For example, security concerns may lead some taxpayers to paper file. The IRS can allay those fears by educating taxpayers on how the IRS protects their data while also explaining the benefits of e-filing. Expanding software into languages beyond English will improve accessibility to taxpayers not comfortable with the English language. The IRS may also need to provide additional training and support to make e-file a comfortable option for taxpayers who have minimal digital literacy skills. High-quality e-file options that address the needs of all taxpayers will streamline the filing process, encourage compliance, and help prevent the future paper return backlogs that bedevil the IRS.

One of the IRA initiatives is to prioritize digitalization technology to allow taxpayers to transmit documents and IRS forms that are currently ineligible for e-filing. Investment in this technology will enable more taxpayers to e-file. TAS will continue to monitor this progress and provide recommendations during the execution of this initiative to expand e-file access to taxpayers, regardless of the forms they are attaching.⁸²

Many individual taxpayers use commercial tax return preparation software. Overall, this software is effective, but it does occasionally carry hidden costs and varying functionality, depending on the product of choice. The IRS should continue working with the Free File Alliance to ensure that eligible taxpayers have the option of high-quality commercial tax return preparation software for free and to increase public awareness of this program through search engine optimization and improved IRS publicity.⁸³ One step that would help taxpayers e-file more smoothly would be to provide them with downloadable copies of their tax information that they can upload to the software product of their choosing.

Where e-filing rates are concerned, the biggest opportunity for improvement exists with respect to businesses. Just over 30 percent of all business returns are still paper-filed, along with 42 percent of all employment tax returns.⁸⁴ The reasons for these lower e-file rates vary; some taxpayers simply are in the habit of paper filing these returns, and others object to the additional costs required to e-file, which for employment tax returns can only be done through a payroll provider.⁸⁵ If the IRS enabled employment tax returns to be e-filed

79 These numbers reflect the e-file rates for PY 2022. IRS, Filing Season Statistics Weekly Report (week ending Dec. 31, 2022).

80 IRS, Filing Season Statistics Weekly Report (week ending Nov. 26, 2022).

81 IRS, Filing Season Statistics Weekly Report (week ending Dec. 31, 2022).

82 See National Taxpayer Advocate 2022 Annual Report to Congress 104, 108 (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*), https://www.taxpayeradvocate.irs.gov/wp-content/uploads/2023/01/ARC22_MSP_06_FilingDelays.pdf.

83 See Memorandum from Staff of the Permanent Subcomm. on Investigations, to the Senate Comm. on Homeland Sec. and Governmental Affairs (June 9, 2020), https://www.carper.senate.gov/wp-content/uploads/archives/PSI%20Staff%20Memo_Free%20File.pdf (last visited May 23, 2023).

84 IRS, Filing Season Statistics Weekly Report (week ending Dec. 31, 2022).

85 See National Taxpayer Advocate 2022 Annual Report to Congress 104-115 (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*), https://www.taxpayeradvocate.irs.gov/wp-content/uploads/2023/01/ARC22_MSP_06_FilingDelays.pdf.

directly with the agency, as is the case for Forms 1099, the e-file rates for these types of returns would likely improve.

As mandated by the IRA, the IRS recently released its report on the feasibility of establishing an agency-run, free, direct e-file tool.⁸⁶ The report identifies taxpayer interest in the establishment of such a system but acknowledges operational challenges and complexities that it would have to overcome. These obstacles, however, are not insignificant, and considering the IRS's aggressive SOP,⁸⁷ applying the necessary resources in 2024 may require prioritization over other necessary improvements and modernization efforts. The IRS will need to address the impact of its direct file tool's inability to file state tax returns and potential negative consequences to state tax authorities. Additionally, it will need to build configuration-driven software; update the software to keep pace with tax law changes; and ensure taxpayer information is private, secure, and protected from fraud. The IRS will also need to devote substantial customer service and support for its e-file tool.⁸⁸ While the feasibility of a free, direct e-file tool is still open to question, TAS will work with the IRS to provide comment and recommendations.

Objective 13 for FY 2024 – TAS will collaborate with the IRS to identify and implement strategies for increasing e-file rates for individual and business taxpayers.

- Activity 1: Meet with the IRS to discuss the feasibility of providing taxpayers with access via an online account to their tax information in a downloadable format that taxpayers can upload to the tax return software of their choice. Explore and consider the benefits and burdens of a legislative recommendation to move up the March 15 information e-filing deadline that would allow the IRS to include Form 1099 information in a taxpayer's online account earlier in the filing season.
- Activity 2: Form a working group with the IRS to develop strategies for removing barriers, both behavioral and systemic, that contribute to the decision of many business and individual taxpayers to paper file.
- Activity 3: Meet with representatives of the Free File Alliance to better understand the offerings and make recommendations to the IRS about how to improve the Free File webpage on [IRS.gov](https://www.irs.gov) so that taxpayers have access to high-quality information about their free tax return filing options.
- Activity 4: Work with the IRS as it continues to explore building an agency-run, free, direct e-file tool for taxpayers and provide comments.

14. IMPROVE IRS TRANSPARENCY

Transparency, including providing taxpayers with accessible information, is key to a fair and effective tax system that relies on voluntary compliance through self-assessment. Taxpayers, tax professionals, and Congress are entitled to clear communication, timely information, and increased access to IRS operations, procedures, and legal and administrative positions to build trust and voluntary compliance.

Several recent situations affecting the IRS have reinforced the importance of transparency to taxpayers: (1) a commitment of increased funding to the IRS through the IRA;⁸⁹ (2) delays in issuing refunds for tax years 2021 and 2022 due to a backlog in processing returns; and (3) backlogs in processing other forms and correspondence. Although the IRS provides taxpayers with some easily accessible information, there is room for improvement. For example, on April 6, 2023, the IRS issued the IRA SOP,⁹⁰ which provides a useful roadmap as to how the IRS plans to use IRA funds, but the report is light on details. The IRS needs

86 IRA, Pub. L. No. 117-169, § 10301(1)(B), 136 Stat. 1818, 1832 (2022).

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

88 IRS, Pub. 5788, IRS Report to Congress: Inflation Reduction Act § 10301(1)(B) IRS-Run Direct E-File Tax Return System 20 (May 2023).

89 IRA, Pub. L. No. 117-169, § 10301(1)(B), 136 Stat. 1818, 1832 (2022).

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