National Taxpayer Advocate

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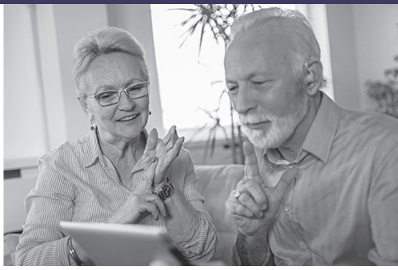

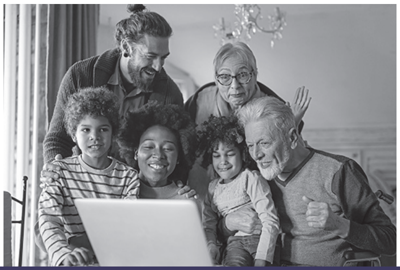

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Taxpayer Opinions of IRS Individual Online Accounts and a Review of Online Accounts and Web Services Offered to Businesses and Tax Professionals by U.S. State and Foreign Country Taxing Authorities

EXECUTIVE SUMMARY

In the National Taxpayer Advocate's 2022 Annual Report to Congress, TAS Research and Analysis published a study reporting the online account features for individuals provided by state taxing authorities and a few foreign countries. We compared account features in the online accounts offered to individuals by these taxing authorities to the IRS's online account. The first part of this year's report discusses the findings of several in-depth interviews with taxpayers about what features they would like in an IRS online account including expected security protocols and their opinions of the current features of the IRS online account. The second part of the report discusses the online account features for businesses offered by state taxing agencies and foreign countries and the online features offered to tax professionals as they assist their clients.[1]

For part one, TAS engaged a contractor in 2023 to interview taxpayers to gain their insight and input on online accounts and their opinions about present and future online services along with views on account security requirements.

For part two, as a continuation of the 2022 report, TAS Research completed a broad overview of state and foreign taxing authority websites in late 2023 with a focus on businesses and tax professionals. Specifically, TAS reviewed the IRS website along with websites of 48 U.S. states, the District of Columbia, Puerto Rico, and three countries – Canada, Australia, and the United Kingdom ("entities"). Each entity has a corporate income, gross receipts, or similar tax.

For online account features for businesses, we found the IRS website offered limited services to only some types of business taxpayers through an online account while many states and countries reviewed offered far more. While additional services are available outside of an online account, the IRS needs to expand the services and populations eligible for business online accounts while also protecting taxpayer data and establishing protocols as to whom within the business will have access to the account.

1 TAS has not previously shared this report with the IRS.

For online account features for tax professionals, we found many entities offer access to tax professionals through their online accounts, allowing for access to client records and the ability to act on their behalf. The IRS can continue to learn much from a review of the digital services offered by others, finding common ground, inspiration, and lessons learned for future improvements.

PART ONE: TAXPAYER PREFERENCES AND OPINIONS OF INDIVIDUAL ONLINE ACCOUNTS

Introduction

In the 2022 Annual Report to Congress, TAS Research published a study reporting the online account features for individuals provided by taxing authorities in 41 states, the District of Columbia, Puerto Rico, and three foreign countries. We compared the features in the online accounts offered to individuals by these taxing authorities to the IRS's individual online account. An additional TAS Research objective was to conduct focus groups with individual taxpayers to determine their preference for online account features, their view of security features, and their opinion of the IRS's online account for individuals. In lieu of focus groups, TAS Research worked with the vendor to conduct several in-depth interviews.[2] This section of the report chronicles the interviewees' responses to questions about their preferences for an online account, their views of security measures to protect the information in an individual's IRS online account, and their opinions about the features of the IRS individual online account.

Background

The National Taxpayer Advocate has included the lack of a robust IRS online account among the Most Serious Problems in her 2020, 2021, 2022, and 2023 Annual Reports to Congress.[3] Although the IRS has made significant progress in developing its online account and increasing its functionalities, only a small percentage of taxpayers have accessed their IRS online account. In fiscal year (FY) 2023, 64.4 million users had authenticated user sessions. However, these sessions were initiated by only 16.8 million unique authenticated users, meaning that about 11 percent of tax year 2022 filers used their online accounts.[4] Meanwhile, the IRS received nearly 93 million telephone calls in FY 2023.[5] While many taxpayers want to contact the IRS to speak to a live representative, using online accounts has not permeated into most taxpayers' interactions with the IRS. In the National Taxpayer Advocate Fiscal Year 2022 Objectives Report to Congress, TAS listed the study of taxpayers' needs and preferences for their online account activities as one of its research objectives.[6]

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2 All findings in this section of our report are a compilation of interview results conducted by Russell Research. Russell Research, Taxpayer Advocate Service Online Preferences Interviews (Dec. 2023).

3 National Taxpayer Advocate 2020 Annual Report to Congress 44 (Most Serious Problem: *Online Records Access: Limited Electronic Access to Taxpayer Records Through an Online Account Makes Problem Resolution Difficult for Taxpayers and Results in Inefficient Tax Administration*), https://www.taxpayeradvocate.irs.gov/wp-content/uploads/2021/01/ARC20_MSP_03_OnlineRecords.pdf; National Taxpayer Advocate 2021 Annual Report to Congress 109 (Most Serious Problem: *Online Accounts: IRS Online Accounts Do Not Have Sufficient Functionality and Integration With Existing Tools to Meet the Needs of Taxpayers and Practitioners*), https://www.taxpayeradvocate.irs.gov/wp-content/uploads/2022/01/ARC21_MSP_06_OnlineAccounts.pdf; National Taxpayer Advocate 2022 Annual Report to Congress 90 (Most Serious Problem: *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*), https://www.taxpayeradvocate.irs.gov/wp-content/uploads/2023/01/ARC22_MSP_05_Online-Access.pdf; National Taxpayer Advocate 2023 Annual Report to Congress 87 (Most Serious Problem: *Online Account Access for Taxpayers and Tax Professionals: Digital Services Remain Inadequate, Impeding Efficient Case Resolution and Forcing Millions of Taxpayers to Call or Send Correspondence to the IRS*), https://www.taxpayeradvocate.irs.gov/wp-content/uploads/2024/01/ARC23_MSP_07_Online-Accounts.pdf.

4 IRS response to TAS information request (Oct. 25, 2023).

5 IRS, Joint Operations Center (JOC) Snapshot Reports: Enterprise Snapshot, Enterprise Total (week ending Sept. 30, 2023).

6 National Taxpayer Advocate Fiscal Year 2022 Objectives Report to Congress 54 (TAS Research Objectives), https://www.taxpayeradvocate.irs.gov/wp-content/uploads/2021/06/JRC22_Research.pdf; IRS, 2023 Filing Season Statistics (week ending Oct. 27, 2023), https://www.irs.gov/newsroom/filing-season-statistics-for-week-ending-oct-27-2023.

Objectives

1. Gauging U.S. taxpayers' wants, needs, and preferences for individual online account services provided by the IRS;
2. Understanding preferences for IRS online account security requirements; and
3. Determining interviewee perceptions of the existing IRS online account features.

Methodology

TAS Research contracted with a vendor to conduct 48 in-depth online interviews, each 45 minutes in length. The vendor conducted the interviews from August 22 through November 14, 2023. Selection criteria for participation in the interviews on IRS individual online accounts included:

- A mix of men and women, ages 18 and over, who filed federal income taxes in the past year;
- A mix of race and ethnicities;
- A mix of geographical representation; and
- Varying levels of online experience, including 16 interviews with individuals who describe themselves as having little online experience based on their online activities and familiarity with technology.

The information in Part One is qualitative research, but the results of these interviews may help inform the ongoing development of the IRS online account and may contribute to designing a quantitative survey, which could provide more definitive data about taxpayer preferences for the evolvement of the IRS individual online account.[7]

Findings

Overall Opinions[8]

Overall, interview participants had two reactions to the concept of an IRS individual online account. The largest group believed the IRS online account to be useful. Specifically, they mentioned these reasons why they believed an online account would be beneficial:

- Easy accessibility with helpful resources:
  - Integration with the ability to obtain live assistance:
    - Schedule a call (phone or online) ahead of time; and
    - Chat with a live assistor;
- Streamlined processes to make payments, manage their account, and receive notices;
- Filing taxes online could provide cost savings by cutting out the middleman; and
- Personalized experiences including receiving individual advice based on their situation:
  - Suggestions from the IRS based on personal history and situation;
  - Estimated taxes and tax payments specific to situation;
  - Ability to file taxes on the IRS site using prepopulated information from prior tax returns; and
  - Updates on personally relevant tax changes.

7 Prior to completing these interviews, TAS Research completed a Privacy and Civil Liberties Impact Assessment and received approval from the Office of Management and Budget to conduct these interviews.

8 These opinions pertain to interviewee preferences for an online account. In a later section, we will discuss their opinions about the IRS online account as it exists today.

A smaller segment of the individuals interviewed were not as interested in the IRS online account. Their reasons for this indifference included:

- Concerns about security;
- Lack of relevancy as they either only interact with the IRS once per year or use a paid professional to do so;
- General anxiety and discomfort when interacting with the IRS; and
- Skepticism about the online account being accurate or replacing a tax advisor.

Perceived Barriers in Using an IRS Individual Online Account

Interviewees listed privacy and security concerns as the two major barriers that would prevent them from using an IRS individual online account. Security concerns mentioned include exposure of personal information during online account access, hacks and data breaches, identity theft, and technical issues, which might cause errors with the taxpayers' accounts. Privacy concerns included the IRS's ability to use supplied information against them, the sharing of their information outside the IRS, and the possibility of allowing the government to conduct surveillance on their financial activities. Preferred security measures include:

- Multifactor authentication;
- Strong and complex passwords;
- Security questions;
- Unique PINs;
- Biometric security;
- Alerts from the IRS if suspicious activity is identified;
- Secure data encryption; and
- Regular security updates.

Most taxpayers interviewed are comfortable providing personal information to establish their credentials to access an IRS individual online account. As they must do with other online accounts, they use their name, date of birth, address, email address, Social Security number (last four digits), phone number, and tax or banking information. They would also like the IRS to provide security assurances and be transparent about the security provided.

Preferred Characteristics for Individual Online Account

Interviewees expressed these preferences for the characteristics of an IRS individual online account:

- Straightforward and transparent dashboard;
- Easy to navigate;
- Visual with color and graphics:
    - Individuals with less online experience desire larger fonts;
- User-friendly explanations of options and resources:
    - Individuals with less online experience desire less wordiness and IRS jargon;
- Easy to understand resources;
- Safe place to store electronic documents; and
- Presence of an IRS mobile app.

Preferred Tools and Resources

In addition to the look and feel of the website, interviewees also expressed their preferences for IRS individual online account tools and resources, including:

- Tutorials about how to file taxes and navigate life transitions;
- Videos on how to use the online account:
  - Less experienced online users want step-by-step tutorials;
- Information, tips, and recommendations regarding deductions;
- Guidance related to specific tax laws, obligations, and expenses;
- Guidance for non-W-2 filers (gig workers, entrepreneurs, and contractors);
- Interactive tools and forecasting or estimation tools;
- Tax calculators;
- Tool that allows one to see tax implications of different scenarios (*e.g.*, filing jointly or separately; adjusting retirement savings contributions; managing investments; paying off mortgage); and
- Ability to integrate with state and local taxes and the Social Security Administration.

Several participants in the interviews opined that the IRS account needs to have resources in their individual online account addressing common tax situations to assist them with their filing decisions and tax planning. They are looking for an online tool that makes meeting their tax obligations easier while helping them plan for the upcoming tax year.

Following the discussion of the taxpayers' preferences for the design of an IRS individual online account and its resources, taxpayers were provided with a listing of the current online account features for individuals. Taxpayers were generally favorable toward the existing IRS online account, although most were not aware of its existence. Interviewees were not generally surprised by the features of the IRS's current individual online account but believed it could be beneficial, and many planned to consider using it. The interviewees commented on these features, which they felt were especially useful:

- A secure and convenient way to make payments;
- The option to pay without creating an account is a positive for those who are mistrustful of the IRS; and
- Easier recordkeeping with personal historical tax documents all in one place.

However, some of the beneficial features taxpayers mentioned seem to have confused the IRS individual online account with the IRS website. Some taxpayers thought the online account was potentially an avenue to:

- Anticipate upcoming tax liabilities; and
- Save them from needing to use a tax professional to answer questions.

Some taxpayers were underwhelmed with the existing individual online account services and were disappointed that the IRS online account did not have many features they had hoped to see. Specific negative aspects of the account included:

- Lacks customer-focused tools and resources, such as:
  - Tips for deductions;
  - Tools to forecast tax liabilities;

    - Filing tutorials; and
    - Easy ways to get answers to questions.
- Uses confusing terminology: "Economic impact payments" and "Tax Pro authorizations" were unfamiliar to some; and
- Geared to those who owe money to the IRS at the end of the year (*i.e.*, payments).

Most interviewees did not feel that the IRS individual online account would help them solve a current tax need, although some thought the ability to make payments, order transcripts, and have tax documents in one place would be convenient.

Interviewees were asked to rate the importance of IRS individual online account features. Overall, comments were positive. However, most individuals stated that the services didn't apply to their needs, although they generally agreed the services would be useful if needed. Several participants commented that the services offered seemed to be those that would help the IRS, such as allowing taxpayers to make payments. But they noted the IRS online account lacks some services that would assist taxpayers, such as giving specific tax advice or assisting with tax planning decisions, likely because the IRS would not benefit from those services.

Conclusions

- Taxpayers want a resource that will make their lives easier and reduce the anxiety induced by taxes and the IRS:
    - While information about various tax topics is available on IRS.gov, interviewees often expressed a need for more resources to be available through the IRS individual online account;
    - Interviewees commented on the importance of being able to communicate easily by chat, telephone, or email; and
    - Interviewees want a personalized individual online account experience based on historical personal data, with suggestions for completing their tax return.
- Common reasons taxpayers would seek to open an IRS individual online account include peace of mind, convenience, and a way to directly communicate with the IRS.
- Security and privacy are the two most frequent concerns mentioned regarding opening an online account with the IRS:
    - While security is important to taxpayers, they also want ease of access. They generally trust the IRS to protect their information. Multifactor authentication was the most mentioned security measure; and
    - Most taxpayers are comfortable sharing personal information to set up an IRS online account.
- Though reactions were generally positive, many taxpayers are not overly enthusiastic about the individual online account:
    - Most interviewees feel that many features are not personally relevant;
    - The current features of the IRS online account did not live up to many of their expectations about what features the IRS online account should have; and
    - Many interviewees felt that the descriptions of some online account features on the IRS website were confusing (*e.g.*, economic impact payments).

- Taxpayers interviewed reacted most positively to the make payment, sign-up for e-notifications, and monitor refund features of the IRS individual online account:
  - They believed the payment feature was time-saving and convenient while also eliminating uncertainty about whether the payment has been received;
  - Taxpayers believe the electronic notification to be a useful feature when the IRS needs to contact them; and
  - Most interviewees felt the refund monitoring feature would be beneficial; however, many commented they can access this feature through IRS.gov.

Individual Online Account Recommendations

- Consider posting tutorial videos on topics such as filing taxes and deductions in easy to comprehend plain language terms;
- Offer an easily locatable button to chat live with a representative or a way to schedule a phone or online call to speak with a live person;
- Create interactive tools for the account that taxpayers can use to plan for the year;
- Create a system that could send a notification if there is a red flag on a tax filing; and
- Provide an interactive tool that taxpayers would consider helpful in planning out their taxes, particularly one personalized to their prior filing history.

PART TWO: BUSINESS AND TAX PROFESSIONAL ACCOUNTS

Background

The National Taxpayer Advocate's 2020, 2021, 2022, and 2023 Annual Reports to Congress all identify online accounts, digital services, and barriers in electronic filing as three of the ten Most Serious Problems facing taxpayers. In the IRS's 2022 Comprehensive Taxpayer Attitude Survey, 86 percent of taxpayers wanted to email questions to the IRS. Ninety percent agreed with the statement, "The more information and guidance the IRS provides, the more likely people are to correctly file their tax returns."[9] TAS has a vested interest in the success of the IRS's online operations as it can provide individual or business taxpayers the ability to resolve issues without assistance from IRS or TAS employees, which can decrease workload demands and provide prompt answers. But more importantly, robust individual and business online accounts along with tax professional online accounts with the ability to access their taxpayers' information will provide the level of quality service taxpayers deserve.

According to the Organisation for Economic Co-operation and Development (OECD) 2022 Report, there has been a significant trend toward e-administration with an increasing uptake of online filing of tax returns, online payments, and in many jurisdictions, a move toward the full or partial prefilling of tax returns.[10] This report also highlighted that around 75 percent of administrations have a digital transformation strategy in place. In 2023, another OECD report provided examples of innovation and advancement across the globe.[11] TAS has worked with IRS Online Services to stress the needs of taxpayers and preparers for a robust

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9 IRS, Pub. 5296, Comprehensive Taxpayer Attitude Survey (CTAS) 2022, at 46, 48 (Apr. 2022).

10 OECD, Tax Administration 2022: Comparative Information on OECD and other Advanced and Emerging Economies, Executive Summary, https://www.oecd-ilibrary.org/sites/3991b5f3-en/index.html?itemId=/content/component/3991b5f3-en#section-d1e985.

11 OECD, Tax Administration 2023: Comparative Information on OECD and other Advanced and Emerging Economies, https://doi.org/10.1787/900b6382-en.

online system. TAS published a review of sites with an individual income tax in the 2022 Annual Report to Congress. As part of this study, TAS collected information on the online services offered by state and foreign country taxing authorities as a comparison to the online services available at the IRS.

We supplemented our review with input from focus groups held by TAS at the 2022 and 2023 IRS Nationwide Tax Forums to gather ideas from tax practitioners about taxpayers' needs and preferences for online services and authentication requirements. In 2022, many participants expressed feeling frustrated, exasperated, disappointed, and angry with their inability to effectively communicate with the IRS.[12] In focus groups held at the 2023 Tax Forums, practitioners were concerned IRS technology is not up to date and found it a major deterrent to working with the IRS. Items such as one database containing all systems used by the IRS, having everything on an electronic platform for both taxpayers and practitioners to access, making the website more user-friendly, using secure email, and communicating through their Tax Pro accounts were areas identified for the IRS to address. One participant suggested having a companion look-up to the Where's My Refund? tool that could be "Where's my return or balance due?" Another suggested having fillable simple returns that could self-populate and calculate tax at the end. A chatbot was suggested that could address non-specific how-to items or FAQs that could handle generic questions. Several practitioners mentioned state tax filing systems that have these capabilities, and it was suggested the IRS work to model systems like those already proven successful.[13]

The National Taxpayer Advocate has been consistently advocating for a robust online account for taxpayers and their representatives. As the IRS makes further technological upgrades, it must prioritize the customer experience and make its Online Account a hub for all taxpayer/IRS interactions. Through our research efforts, we hope the IRS continues to advance and improve desirable and easy-to-use online account features while ensuring the process to create an account is straightforward, secure, and simple.

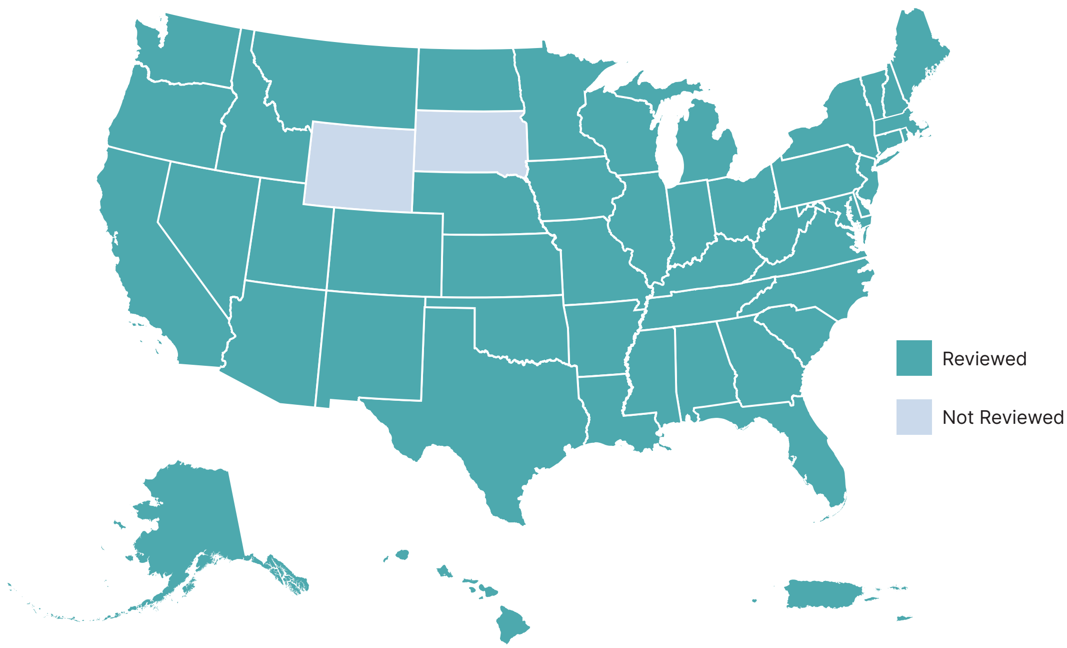
Introduction

Part Two of this report summarizes a 2023 review of state and foreign country taxing authority websites and compares them to the online services available on the IRS website for business taxpayers and tax professionals.[14] Our review included the taxing authority websites of 48 U.S. states, the District of Columbia, and Puerto Rico that have a corporate income tax, gross receipts, or similar tax. Figure 2.1.1 displays the states reviewed, with only Wyoming and South Dakota not having income taxes to review. We also reviewed the taxing authority websites of three countries – Canada, Australia, and the United Kingdom. See Appendix 1, Figures 2.1.5 and 2.1.6, for the states and countries reviewed and the links to their websites.

12 Observations from TAS's Focus Group Interviews, 2022 IRS Nationwide Tax Forums.
13 Observations from TAS's Focus Group Interviews, 2023 IRS Nationwide Tax Forums.
14 Forty-three states reviewed had both individual and business income taxes, and seven states had only business income taxes.

FIGURE 2.1.1

Map of States and Territories Reviewed



We reviewed each website to determine the online services available to business taxpayers and tax professionals, with some having many features, some having limited availability, and some having no service. The findings section first summarizes the availability of the online service among state taxing authority websites, followed by foreign country taxing authority websites, and lastly, services on the IRS website.

Methodology

TAS Research designed a data collection instrument (DCI) to capture information about online services offered on each entity website, similar to the DCI used for its 2022 study. A TAS Research analyst reviewed the sites and captured the data, and other analysts completed final reviews and provided needed updates or corrections.

Limitations and Disclaimer

Throughout this report, numerical references to U.S. states will include the District of Columbia and Puerto Rico in the count. The self-governing commonwealth of Puerto Rico's tax system is patterned after the U.S. tax system, but there are variations in law and tax rates. Though we considered other countries to include in this report – and their taxing authorities deserve future attention – language, time, and access barriers prevented further review.

The reviews were conducted throughout 2023 with a final review during the fourth quarter of 2023. Changes and enhancements to websites after that time are likely and expected but are not reflected in this report. For example, Maryland will launch a new system in February 2024, and the IRS is releasing frequent updates and improvements on an ongoing basis.

Limited interaction with the websites was possible, but we did not evaluate how well the websites worked in practice. TAS did not have account access to the states reviewed and relied on items posted on the website to determine services available for accounts. Many services and features were only available upon successfully logging into accounts so it is possible there were services we could not determine without account access.[15]

Findings: Business Accounts

We provide findings in several areas of online service functionality: account creation, filing, payment, notices (receipt, review, and response), third-party access, contact options, language options, and other features. In each area, we include subheadings, which discuss the online account functionality offered by state taxing authorities, three foreign countries, and the IRS.

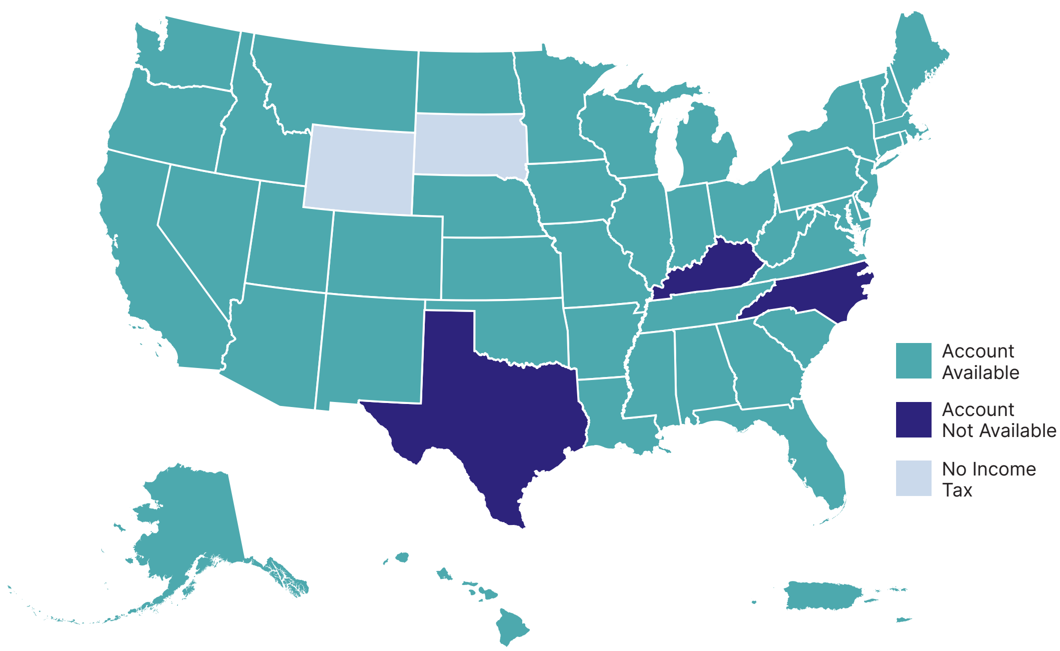
Creating Online Accounts

U.S. States

Ninety-four percent of states reviewed (47 of 50) offered an account setup using various verification methods.

FIGURE 2.1.2

Online Account Availability



At a minimum, taxpayers were asked for identifying information, such as name, address, and Employer Identification Number (EIN). Nineteen states required information from prior tax return filings as an authentication factor. Twenty-eight states offered account registrations by sending a letter to the taxpayer with an access code used for authentication. For some states, any tax-related notice provided a reference

15 While payment and filing options existed, we did not make actual payments or file actual returns. Some sites offered notice responses; however, we could not determine the effectiveness or timeliness of processing such responses. Additionally, we did not test chat and other communication features on some websites. Finally, we did not evaluate the complexity of the tax systems administered by the states and countries.

number while other entities sent specific account setup notices. Sixteen states requested information about prior payments made to the taxing agency. Ten required a ZIP code. Figure 2.1.3 shows the business online account establishment methods by state.

FIGURE 2.1.3, Account Authentication Methods by State[16]

ST	State	Tax Return Information	Account Registration Letter	Any Tax Account Letter	Past Payment Information	ZIP Code	Online Registration
AL	Alabama	X	X				
AK	Alaska	X	X		X		X
AZ	Arizona						X
AR	Arkansas				X	X	X
CA	California	X	X				
CO	Colorado	X		X			X
CT	Connecticut	X		X	X		X
DE	Delaware		X				
DC	District of Columbia	X		X	X		X
FL	Florida						X
GA	Georgia	X			X	X	X
HI	Hawaii	X		X	X	X	X
ID	Idaho		X			X	
IL	Illinois						X
IN	Indiana	X	X	X	X		X
IA	Iowa		X				
KS	Kansas						X
LA	Louisiana				X	X	X
ME	Maine	X		X			X
MD	Maryland						X
MA	Massachusetts	X	X				X
MI	Michigan	X	X				X
MN	Minnesota						X
MS	Mississippi						X
MO	Missouri						X
MT	Montana		X	X			X
NE	Nebraska						X

16 Tax Return Information: This can require specific line items from past filings, balance due, or refund amounts; Account Registration Letter: This indicates taxpayers can refer to a tax-related notice that includes a personal identification number or other code that the taxpayer can use to enable access; Past Payment Information: This indicates a taxpayer needs to verify a prior amount paid; Online Registration: This indicates taxpayers can sign up online without the need for receipt of a letter in the mail or other interaction. As the figure indicates, some states offer a choice of an online or letter receipt method while others such as California require a letter.

ST	State	Tax Return Information	Account Registration Letter	Any Tax Account Letter	Past Payment Information	ZIP Code	Online Registration
NV	Nevada	X	X		X		X
NH	New Hampshire	X		X	X		X
NJ	New Jersey						X
NM	New Mexico	X		X			X
NY	New York	X		X			X
ND	North Dakota		X				X
OH	Ohio						X
OK	Oklahoma			X		X	X
OR	Oregon	X		X	X	X	X
PA	Pennsylvania	X		X	X		X
PR	Puerto Rico						X
RI	Rhode Island		X				
SC	South Carolina	X		X	X		X
TN	Tennessee			X	X	X	X
UT	Utah						X
VT	Vermont						X
VA	Virginia				X	X	X
WA	Washington		X				X
WV	West Virginia					X	X
WI	Wisconsin	X		X	X		X

Countries

To create an online account in the Canada Revenue Agency Portal, taxpayers needed to:

- Provide personal information: social insurance number, date of birth, and postal code;
- Enter an amount from a filed and assessed income tax and benefit return from the current or previous tax year; and
- Create a user ID, password, and security questions and answers.

These initial steps provided access to limited features in the portal. As a final level of security, Canada would send taxpayers a security code they would then need to enter on the website to gain access to all features in the portal.

In Australia, taxpayers could create an online account to link to a range of services with the Australian Taxation Office. Information required included an email address that only the taxpayers had access to and an Australian mobile number to receive SMS security codes to sign in. Taxpayers verified their identity by taking a live photo and providing information from identity documents such as their passport and birth certificate.

In the United Kingdom, many government services are available through the Government Gateway account, requiring a name, email address, password, and a recovery word. Optional multifactor authentication is offered by receiving access codes by text message, voice call, or through an app.

IRS

The Business Online Account was only available for sole proprietors who file with an EIN or Partnership and S-Corporation partners or shareholders with a Social Security number (SSN) or an Individual Tax Identification Number with a 2019-2022 Schedule K-1 on file with the IRS. Sole proprietors using their SSN can still access their individual online account. The taxpayer must be at least 18 years old at signup. The process for creating an IRS account is to verify identity with ID.me, using either a self-service process requiring a photo of a government ID and a selfie or a live call with an ID.me video chat agent that doesn't require biometric data. If help is needed to verify identity, there is an ID.me IRS Help Site, but unspecified conditions may still preclude online access.

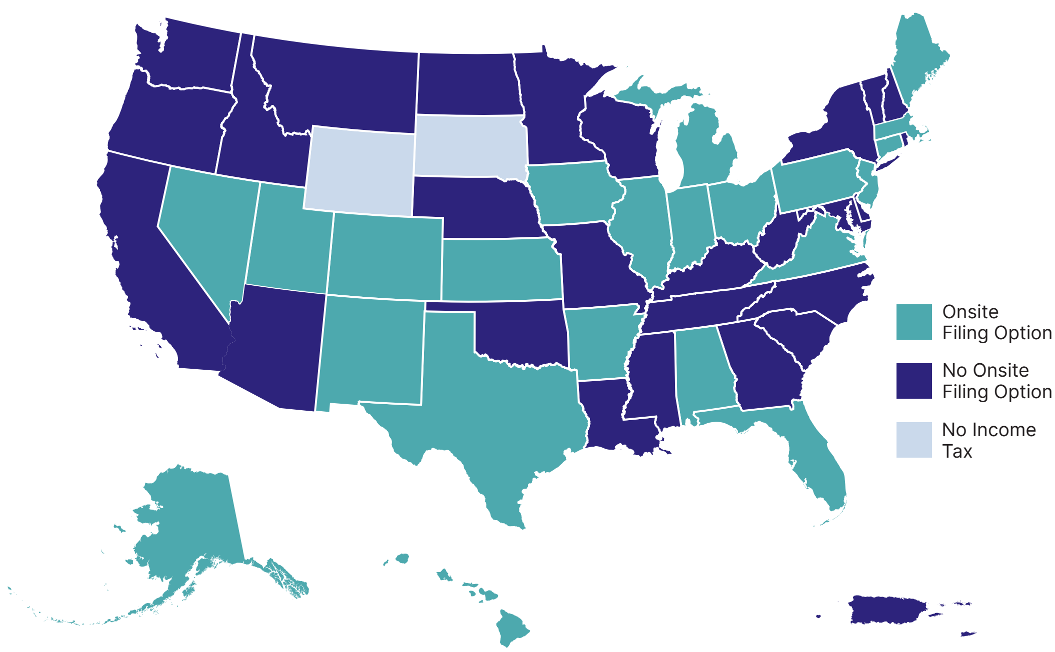
Online Filing Options

U.S. States

Twenty-three of the states reviewed (46 percent) offered an online filing option for corporate income tax. We did not include those websites that simply referred visitors to third-party filing options. Figure 2.1.4 displays the states with and without the online filing service on their taxing authority website.

FIGURE 2.1.4

Online Filing Option Availability



Countries

Australia and the United Kingdom offered online filing options on their websites, though it depended on the size and structure in the United Kingdom. Canada did not offer an onsite filing option.

IRS

No online filing option for businesses is available on the IRS site.

Online Payment Options

U.S. States

All states reviewed offered online payment options for individual taxpayers. Most states did not require taxpayers to create an account before accessing the payment portal. All 50 payment portals accepted direct payments from bank accounts, and 47 (94 percent) accepted credit cards. Only 23 (46 percent) accepted payments via debit cards. Maine only accepted payments from a bank account while Alaska and Virginia only allowed bank or wire transfer, though Virginia noted, “Wire transfers should only be used as a last resort and are strongly discouraged.” Additional payment methods included PayPal, Apple Pay, CheckFreePay in Wisconsin, and cryptocurrency and International Wire Transfer in Colorado.

Countries

All three countries provided online payment options. Australia and Canada accepted credit cards, debit cards, and direct transfers from bank accounts. In the United Kingdom, bank transfers and personal debit cards were accepted, but personal credit cards were not. Canada also accepted payments via mobile banking app or the website of Canadian banks and credit unions and wire transfers. Australia required logging into an account to pay, but Canada and the United Kingdom did not.

IRS

The IRS website did not require taxpayers to create an account before accessing the payment portal, but it is an option. The IRS accepted online payments via credit cards, debit cards, and digital wallets such as PayPal and Click to Pay. Not all form types were allowed, and the number of payment transactions per year is limited. For example, the Form 94x series, Form 1065, Form 1041, and Form 2290 can each be paid twice per year via card, but the Form 1120 series cannot. The most notable exception is that Federal Tax Deposits must be paid using the Electronic Federal Tax Payment System (EFTPS), and this system is also available for any other payments.

Online Payment Plans

U.S. States

Seventy-six percent of states reviewed (38 of 50) provided information on online payment plans for taxpayers who could not fulfill their tax obligations. Of those 38 states, 26 (68 percent) provided an option for requesting the payment plan directly through the website.

Countries

Australia offered online payment agreements for debts under $100,000, with the ability to apply, view, and revise the agreement.

The United Kingdom offered options to set up an online payment plan, depending on the tax type, amount, and time needed to pay. Otherwise, for companies in tax debt, His Majesty’s Revenue and Customs (HMRC) will ask taxpayers to propose how they’ll pay their tax bill as quickly as possible and ensure such proposal is realistic and affordable. HMRC may ask company directors to put personal funds into the business, accept lending, and extend credit.

Canada offers an online payment agreement, subject to limitations and review by the Canada Revenue Agency.

IRS

Business taxpayers were able to request online payment plans through the IRS website. The IRS noted that specific tax situations determine which payment plan options are available. A taxpayer could apply online for a monthly installment agreement if they filed all required returns and owed $25,000 or less in combined tax, penalties, and interest. Also, sole proprietors or independent contractors apply for payment plans as individuals. The IRS provided taxpayers the ability to view details of their payment plan (type of agreement, due dates, and amount to pay) by logging into the Online Payment Agreement tool. Taxpayers could also modify their payment plans under certain conditions, including a request for reinstatement if in default. Fees applied to plans and modifications depended on the outstanding amount, payment type, repayment length of time, and taxpayer income level.

Online Notice Receipt

U.S. States

Only 24 percent of the states (12 of 50) offered business taxpayers the option to receive notices within taxpayer online accounts instead of or in addition to mailing them. Not all notices were available for this option, and it did not necessarily opt taxpayers out of receiving such notices via U.S. mail.

Countries

Australia and Canada offered an option to receive notices in their online accounts. We could not determine if the United Kingdom offered this feature.

IRS

The IRS did not offer business taxpayers an option to receive notices in their online accounts.

Online Notice Viewing

U.S. States

Fifty percent (25 of 50) offered the ability to view notices sent. Not all notices were available for this option, and it did not necessarily opt taxpayers out of receiving such notices via U.S. mail.

Countries

Australia and Canada offered an option to respond to notices in their online accounts. We could not determine if the United Kingdom offered this feature.

IRS

For businesses, only sole proprietors with an EIN could view select digital notices. Sole proprietors with only SSNs could still use their individual online account.

Online Notice Response

U.S. States

Of the states that provided online notices, 17 of 25 (68 percent) offered business taxpayers the option to respond to notices with an online method of communication, such as replying by email, filling out an online form, or even using a chat function. For the remaining eight states, an online response option was not available. For eight other states, taxpayers could respond to notices through an online method of communication but not view them online.

Countries

Australia and Canada offered an option to view notices in their online accounts. We could not determine if the United Kingdom offered this feature.

IRS

Business account taxpayers could not respond with an online method of communication.

Providing Access to Third Parties

U.S. States

Eighty-eight percent of states (44 of 50) offered online methods to authorize third-party representatives to access business online accounts. For many, it was a matter of adapting an authorization form for online submission. Others had specific user login features for third parties.

Of the 44 states with an online method to authorize third parties, 38 states (89 percent) allowed the taxpayer to view the authorization online.

Countries

Australia and Canada provided online methods for approving, viewing, and changing access to third parties. The United Kingdom provided an online request option, but such a request resulted in a letter sent with a code to complete signup online.

IRS

The IRS allowed two methods for authorizing third-party representatives. Taxpayers could submit a paper version of Form 2848, Power of Attorney and Declaration of Representative, or Form 8821, Tax Information Authorization, via fax or U.S. mail or submit the forms online to the IRS securely with an electronic or handwritten signature. Those methods were available for individual or business taxpayers for any tax matter or period. Third-party representative authorizations for business taxpayers cannot currently be accomplished though the IRS's online account.

Contact Options

U.S. States

State websites displayed several methods for contacting the tax organizations for assistance. All states provided a contact option by telephone. Most state websites displayed this option prominently, though a few required some searching to find the phone number. Forty-three (86 percent) of state websites listed email as another contact option via a specific address or through an online contact form. An online chat feature was a contact option on several state websites. Office visits were available in 41 of 50 states, though the specific services provided were not always listed.

Countries

Each country's taxing authority website provided a telephone number for assistance. In Australia, online and phone methods were promoted first. Further options include office visits with or without an appointment and mail. The website also offered the opportunity to participate in online discussion groups via social media platforms, though with several cautions about privacy and information sharing. In Canada, taxpayers could use their online account, call by phone, use postal mail, or visit an office in person. In the United Kingdom, options varied by topic, with options to use telephone or online services. Its website presented an extensive list of topics with specific methods allowed. Methods included online forms, email, and webchat. Taxpayers could also call by telephone or send postal mail.

IRS

The IRS website included phone and in-person contact options for taxpayers to seek assistance. Phone numbers were listed on the IRS.gov homepage. The website listed phone and address information for each walk-in Taxpayer Assistance Center nationwide along with a national number for requesting appointments. Even though the website included phone and address information, according to the IRS's 2021 Comprehensive Taxpayer Attitude Survey, 86 percent of taxpayers surveyed wanted the ability to email questions to the IRS. Despite such preferences, there was no option to email the IRS.

Language Options

U.S. States

Thirty-one state websites (62 percent) offered language translations from English. The most common option offered was translation via Google Translate. While many languages were offered, a disclaimer was commonly added to note that incorrect translation that misrepresented the intended meaning was not the responsibility of the taxing authority. The taxing authority website for Puerto Rico was readily available in Spanish and English.

Countries

Australia provided 35 language options in addition to English: Arabic, Assyrian, Bengali, Burmese, Chaldean, Chinese, Hrvatski Croatian, Dari, Dinka, Filipino, Greek, Gujarati, Hazaragi, Hindi, Indonesian, Italian, Japanese, Karen, Khmer, Korean, Macedonian, Nepali, Persian (Farsi), Portuguese, Punjabi, Russian, Serbian, Sinhalese, Somali, Spanish, Tamil, Thai, Turkish, Urdu, and Vietnamese.

Canada provided an option for a version of their website in French, and the United Kingdom provided a version in Welsh. No disclaimers were noted on the three country websites.

IRS

The IRS website displayed answers to basic tax questions in 20 languages, and the homepage allowed taxpayers to select from eight languages in a dropdown list: English, Spanish, Chinese (Simplified), Chinese (Traditional), Korean, Russian, Vietnamese, and Haitian Creole. Unlike most states, the website did not have a disclaimer.

Other Website Features

U.S. States

Several state websites featured interesting methods for providing taxpayer assistance.

- A speaker service was available in a few states. For example, the Ohio Department of Taxation recognized the value of better informing the public by providing speakers for public, civic, school, or other types of group events. New York offered consumer advocacy groups, tax professional organizations, and business groups information and speakers for events.
- Ohio had a Telefile option (using a telephone) for their Commercial Activity Tax.
- Hawaii provides online site statistics (sign-ups and usage) called HTO Metrics.
- South Carolina had a new QR code option for payment notices.

Countries

- Canada provided scam alerts, with examples of fraudulent communications (letters, texts, emails, and refund forms).
- Australia had a page similar to Canada.

Findings: Tax Professional Accounts

Practitioners are a vital part of the U.S. tax system. In 2023, approximately 800,000 tax professionals had active Preparer Tax Identification Numbers, which are required for all persons paid to prepare nearly all federal tax returns.[17] They also assist with other tax administration issues, alleviate taxpayer barriers to compliance, and assist with examinations, Appeals consideration, and litigation. Through a Tax Pro Online Account and appropriate authorization, tax professionals should have the ability to perform actions on behalf of their client such as request an installment payment agreement; view the status of a tax return; view and respond to a taxpayer's notice; request penalty relief or abatement for their client; apply for an extension of time to file; calculate tax, interest, and penalties; obtain a tax balance; and much more. While the IRS ultimately plans to expand additional functionality, a robust Tax Pro Online Account must be a priority as the agency and the public move toward a digital tax system. Participants from the IRS Nationwide Tax Forums focus groups shared a desire to review a list of all client accounts to which they have access in one location. Additionally, practitioners want to request and receive Power of Attorney (POA) access through their online accounts without the need for their clients to establish their own online account.[18]

In this part of the report, we provide findings on online service functionality for tax professionals, specifically on account creation, access, and actions they can take for individual and business clients.

Creating Online Accounts

U.S. States

Ninety-two percent of states (46 of 50) offered an online Tax Professional account using various verification methods. At a minimum, tax professionals were asked for identifying information, such as name and EIN. Once verified, most were required to submit a request for access online that the taxpayer must approve from their own online account.

Twenty-nine of the 46 (63 percent) appeared to have account access to individual and business accounts. Seventeen only appeared to have access to business accounts, but six of those states did not have an individual income tax. It was common to require clients to approve any access request via their own online account, but the requirements varied. Most states allowed the taxpayer to grant access online, though other states required a letter to be mailed to the taxpayer.

In California, after approving a relationship via a Tax Information Authorization or POA, the tax professional has limited online account access to the taxpayer's information. If the tax professional requests full online account access, the state mails the taxpayer an Authorization Code they can use to approve the request.

In Mississippi, tax professionals can gain access to account information clients from one login. First, they create their own online account (only one per federal EIN). Once registered, they select *Add Access to Existing Account* and need the client's Account ID (mailed to the client) and the Letter ID from any letter sent to the client. The client (taxpayer) must provide information to the tax professional to allow access to their accounts. All accounts set up for third-party access are found in a listing under "Who do you work with?"

17 IRS, Compliance Data Warehouse (CDW), Return Preparers and Providers Database (Dec. 2023).
18 Observations from TAS's Focus Group Interviews, 2022 IRS Nationwide Tax Forums.

In Pennsylvania, when signing up for a myPATH login as a third party, the client was no longer required to have a myPATH first party/owner login. Third parties gained access to accounts they manage on behalf of their client(s) by verifying details about the account if the client has not signed up for a myPATH profile. If the client signed up for a myPATH profile, the client must grant the third-party access to their account(s).

Countries

All three countries offered an online account for tax professionals.

In Australia, tax professionals must meet minimum security and computer requirements and need to use both myGovID, a digital identity credential to prove who they are, and online Relationship Authorization Manager (RAM), an authorization service that allows them to act on behalf of a business. Before anyone can act on behalf of a business, a principal authority (person responsible for the practice) needs to link their myGovID to the practice in RAM. A principal authority or authorization administrator will issue an authorization request via email. Once the tax professional accepts the authorization request, the myGovID can be used to log in to online services on behalf of the practice.

In Canada, tax professionals register online as a representative and are authorized by an individual or business. Once authorized, they will have secure and controlled online access to the personal income tax and benefit information and/or business account information seven days a week.

In the United Kingdom, taxpayers can authorize someone to deal with HMRC, such as an accountant, friend, or relative. Taxpayers who have to fill in a Self-Assessment tax return will have HMRC send all correspondence to the person authorized – except tax bills or refunds. Once the tax professional is registered as a tax agent, they must then get authorization from the client so they can transact for them.

IRS

For the IRS Tax Pro Account, tax professionals need to have:

- A Centralized Authorization File (CAF) number in good standing, assigned to them as an individual; and
- A CAF address in the 50 United States or the District of Columbia.

For POA requests, the tax professional also was required to have authority to practice before the IRS as an attorney, certified public accountant, enrolled agent, enrolled actuary, or enrolled retirement plan agent.

As with individuals and businesses, the process for creating an IRS account was to verify identity with ID.me, either a self-service process requiring a photo of a government ID and a selfie or a live call with an ID.me video chat agent that doesn't require biometric data. If help was needed to verify a person's identity, there was a credential service provider help site.

Online Notice Receipt

U.S. States

Only 24 percent of the states (12 of 50) offered tax professionals the option to receive notices within taxpayer online accounts instead of or in addition to mailing them. Not all notices were available for this option, and it did not necessarily opt taxpayers out of receiving such notices via U.S. mail.

Countries

Australia and Canada offered an option to receive notices in their online accounts. We could not determine if the United Kingdom offered this feature.

IRS

Tax professionals with approved access could not receive online notices for clients in their online accounts.

Online Notice Viewing

U.S. States

Fifty percent (25 of 50) offered the ability to view notices sent. Depending on the state, some or all notices were available with this feature.

Countries

Australia and Canada offered an option to view notices in their online accounts. We could not determine if the United Kingdom offered this feature.

IRS

Tax professionals with approved access could not view notices for clients in their online accounts.

Online Notice Response

U.S. States

Twenty-five of 50 (50 percent) offered tax professionals the option to respond to notices with an online method of communication, such as replying by email, filling out an online form, or even using a chat function. Eight of these states offered a response feature without a view option while eight additional states with a view option did not provide an online response option. Iowa offered this option for business account notices at the time of review but promised response options for individual accounts in the near future.

Countries

Australia and Canada offered tax professionals an option to view notices in their online accounts. We could not determine if the United Kingdom offered this feature.

IRS

Tax professionals with approved access could not respond to notices for clients in their online accounts.

Other Website Features

Louisiana has a page on *The Importance of Protecting Client Tax Information*. The page lists reminders and suggestions to ensure their clients' data is secure.

Most sites had unlimited hours of operation, but the IRS Tax Pro Account was only available from Monday at 6 a.m. ET to Saturday at 9 p.m. ET as well as Sunday 10 a.m. to 12 p.m. ET (with occasional downtime for maintenance).

PART TWO: BUSINESS AND TAX PROFESSIONAL ACCOUNTS: SUMMARY OF FINDINGS AND DISCUSSION

Overall, the IRS offered several services in common with U.S. states and the three foreign countries reviewed, but there were notable differences.

The most notable difference was the IRS's more stringent requirements for identity proofing to access an online account through ID.me. While this partnership with a private entity raised concerns from Congress and others, it is in place, active, and meets the required National Institute of Standards and Technology (NIST) standards. More stringent verification by other government entities is a trend attracting more adherents, such as the requirement to obtain a REAL ID by the Department of Homeland Security.[19] Compared to the IRS website, Canada, Australia, and the United Kingdom had similar processes for taxpayers to create online accounts. All three countries required taxpayers to provide personal information such as full name, date of birth, and an email address. Like the IRS, taxpayers were required to complete a multistep authentication process, either by entering a code sent to their email or phone or by receiving a voice call through an app. Only Australia required taxpayers to take a live photo, similar to the registration process at the IRS.

A second difference between the IRS and other entities was the lack of online filing options. But the IRS was not alone, as less than half of the states and two of the three countries offered an online filing option for corporate income tax.

Another difference was the lack of online notice receipt, viewing, and response options through an online account, though the IRS was not the only entity lacking such an option. Further, the existing and expanding IRS Document Upload Tool, independent of online accounts, does offer options to taxpayers and tax professionals to provide electronic responses. Adding online capabilities would provide taxpayers access to key data, provide a portal for responses and chats, and reduce the need for telephone contacts.

The option to provide third-party access to taxpayer accounts was commonly available for nearly all sites, including the IRS. Over half of individual federal income tax returns are prepared by a tax professional.[20] However, these professionals cannot generally interface online with the IRS regarding their clients' returns unless their clients access their online account. This prevents many tax professionals from providing adequate service to their clients. Ideally, through a Tax Pro Account and appropriate authorization, tax professionals should have the ability to access all their clients' tax information in one portal. That would be a gamechanger for tax administration and for taxpayers.

As for payment options, the IRS exceeded or matched the options offered by the entities reviewed. The IRS offered online payment options whether or not a taxpayer had established an online account. Taxpayers could pay online or over the phone, using bank transfers, credit cards, debit cards, digital wallets such as PayPal and Click to Pay, or a self-assisted voicebot to create an installment agreement with a payment plan. The option for setting up a payment plan was common to most, including the IRS.

Reviewing in-person or electronic contact options, we found several differences between offerings on the IRS website and the options available on state and foreign country websites. One difference was that the IRS generally required a phone call to set up an in-person appointment, made difficult by consistently low levels of telephone customer service.[21] Several states offered taxpayers the ability to schedule an in-person appointment via an online appointment system while others did not require an appointment. Another difference captured

19 U.S. Department of Homeland Security, REAL ID information page, https://www.dhs.gov/real-id (last visited Jan. 17, 2024).
20 IRS, CDW, Individual Returns Transaction File (Dec. 2023).
21 For FYs 2022 and 2023, the Levels of Service on the Taxpayer Assistance Center appointment line were 15 percent and 49 percent, respectively. IRS, JOC, Snapshot Reports: Product Line Detail, TAC Appointment (week ending Sept. 30, 2023).

was how non-IRS entities allowed in-app communications that included account information. This was another contact option not available in IRS online accounts. Finally, the District of Columbia and Australia went above and beyond by providing taxpayers with contact options via social media platforms. Unfortunately, despite the clear demand for the ability to contact the IRS via email, the IRS did not make this a contact option for general information or request for appointments.

The IRS emerged as a leader in offering language translation options, with information for basic tax questions in 20 languages and the homepage in eight languages, including English.

Throughout the review process, we saw the advancement of offerings on the websites, as many seemed to add or refine features as we collected the information. The IRS was no exception, with more features expected to roll out. Additional reviews of those websites in this report as well as from additional countries and taxing authorities beyond income tax-based agencies can provide further information. The IRS should be the gold standard for tax agencies and needs to find innovative ways to successfully interact with taxpayers and their representatives in the digital environment while also ensuring it provides the online functionality that taxpayers need, expect, and deserve in a secure environment.

Appendix 1

FIGURE 2.1.5, State Taxing Authorities and Their Websites: Businesses and Tax Professionals

State	Website
Alabama	https://revenue.alabama.gov/
Alaska	https://tax.alaska.gov/
Arizona	https://azdor.gov/
Arkansas	https://www.dfa.arkansas.gov/
California	https://www.ftb.ca.gov/
Colorado	https://tax.colorado.gov/
Connecticut	https://portal.ct.gov/drs
Delaware	https://revenue.delaware.gov/
District of Columbia	https://otr.cfo.dc.gov/
Florida	https://floridarevenue.com/taxes/Pages/default.aspx
Georgia	https://dor.georgia.gov/
Hawaii	https://tax.hawaii.gov/
Idaho	https://tax.idaho.gov/index.cfm
Illinois	https://www2.illinois.gov/rev/Pages/default.aspx
Indiana	https://intime.dor.in.gov/eServices/
Iowa	https://tax.iowa.gov/
Kansas	https://www.ksrevenue.gov/
Kentucky	https://revenue.ky.gov/Pages/index.aspx
Louisiana	https://revenue.louisiana.gov/
Maine	https://www.maine.gov/revenue/
Maryland	https://www.marylandtaxes.gov/index.php
Massachusetts	https://www.mass.gov/orgs/massachusetts-department-of-revenue
Michigan	https://www.michigan.gov/taxes
Minnesota	https://www.revenue.state.mn.us/businesses
Mississippi	https://www.dor.ms.gov/
Missouri	https://dor.mo.gov/online-services
Montana	https://mtrevenue.gov/
Nebraska	https://revenue.nebraska.gov/
Nevada	https://tax.nv.gov
New Hampshire	https://www.revenue.nh.gov/faq/business-profits.htm
New Jersey	https://www.nj.gov/treasury/taxation/
New Mexico	https://www.tax.newmexico.gov/

State	Website
New York	https://www.tax.ny.gov/
North Carolina	https://www.ncdor.gov/
North Dakota	https://www.tax.nd.gov/
Ohio	https://tax.ohio.gov/
Oklahoma	https://oklahoma.gov/tax.html
Oregon	https://www.oregon.gov/dor/Pages/index.aspx
Pennsylvania	https://www.revenue.pa.gov/Pages/default.aspx
Puerto Rico	https://hacienda.pr.gov/
Rhode Island	https://tax.ri.gov/
South Carolina	https://dor.sc.gov/
Tennessee	https://www.tn.gov/revenue.html
Texas	https://comptroller.texas.gov/taxes/
Utah	https://tax.utah.gov/business
Vermont	https://tax.vermont.gov/
Virginia	https://www.tax.virginia.gov
Washington	https://dor.wa.gov/
West Virginia	https://tax.wv.gov/Business/Pages/Business.aspx
Wisconsin	https://www.revenue.wi.gov/Pages/Businesses/home.aspx

FIGURE 2.1.6, Countries and Their Websites: Businesses and Tax Professionals

Country	Website
Australia	https://www.ato.gov.au/
Canada	https://www.canada.ca/en/revenue-agency.html
United Kingdom	https://www.gov.uk/browse/business/business-tax and https://www.gov.uk/government/organisations/companies-house

Appendix 2

Data Collection Instrument – State and Country Website Reviews

A. **State or Country** (if outside the United States)

B. **Organization Name**

C. **Web Link for organization**

D. **Are other languages offered?** If yes, please list if any in addition to English.

E. **Is website available to the following user type? Choose only one and complete a separate DCI for each**.
   - Individual
   - Business
   - Tax Professional

F. **Can an account be established on the website?** Describe process for setting up account.
   - Are communication preferences available?

G. **Can a POA be designated on the website?**
   - Can user view any authorization requests from tax professionals?
   - Can user approve and electronically sign Power of Attorney and Tax Information Authorization for your tax professional?
   - How can the POA expire?

H. **Is a Terms of Service available to read?**

I. **Is account information available on the website?**
   - What can be viewed?
   - What can be changed?

J. **What communication options are available?**

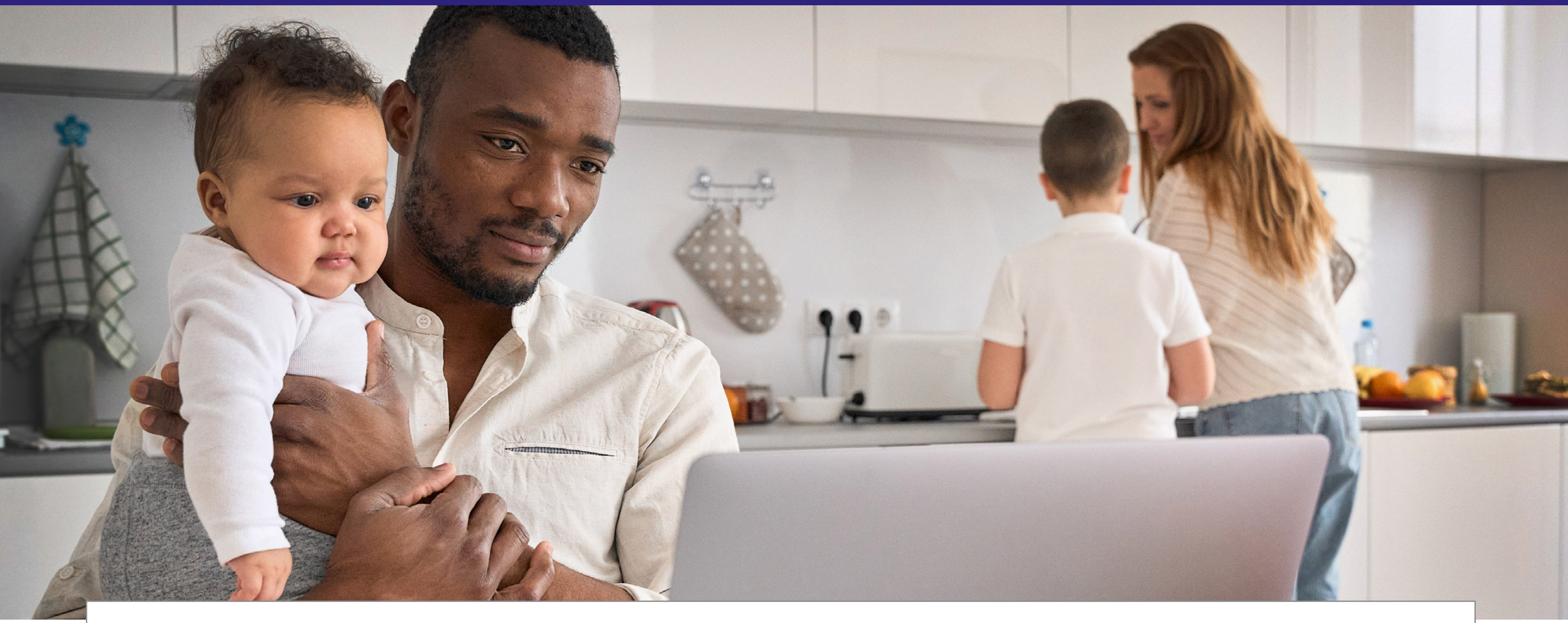
K. **Can user receive digital copies of notices?**
   - Can user view digital copies of notices?
   - Is a Notice Response option available?

L. **Describe Authentication Requirements. What are the Authentication Methods?**

M. **Can a payment be made from the website? What payment methods are available?**
   - Credit Card
   - Debit Card
   - Direct from Bank Account
   - PayPal or other online service
   - Other (If other, please describe)

N. **What are Payment Plan Options?**
- Learn about payment plan options
- Apply for a new payment plan
- View details of your existing payment plan
- View any pending or scheduled payments
- Renegotiate or Reinstate Plan
- What is cost to set up plan?

O. **Can a user file on the website?**
- Are there qualifications to file?
- What are the costs to follow?



Study of the Two-Year Bans on the Earned Income Tax Credit, Additional Child Tax Credit, and American Opportunity Tax Credit

EXECUTIVE SUMMARY

The IRC authorizes the IRS to ban taxpayers from claiming certain refundable credits (the Earned Income Tax Credit (EITC), the Additional Child Tax Credit (ACTC), or the American Opportunity Tax Credit (AOTC)) for two years if it determines that the taxpayer claimed the credit due to reckless or intentional disregard of rules and regulations.[1] The IRS also may impose a ten-year ban on taxpayers who fraudulently claim these credits; however, it imposes the ten-year ban infrequently, and this study will focus exclusively on the two-year ban. A review of a representative sample of cases in which the IRS imposed the bans as a result of audits closed in fiscal year (FY) 2022 or through the first eight months of FY 2023 shows the IRS often did not follow its own procedures:[2]

- In 76 percent of the cases where managerial approval was required, the IRS failed to secure such approval for imposing the ban;[3]
- In 81 percent of the cases, the IRS did not adequately explain to the taxpayer why the ban was imposed, as required;
- In 30 percent of the cases, the IRS did not previously disallow the same credit for the same reason for which it imposed the ban; and
- At least 50 percent of the prior audits took place more than three years from when the IRS imposed the two-year ban.[4]

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1 IRC § 32(k).
2 TAS did not complete the data collection instruments and associated analyses in time for the IRS to review the data. However, TAS will provide the data for IRS review upon request.
3 The confidence intervals for subsamples of the 352 cases reviewed will be provided in the Findings section.
4 Data is from a TAS review of 352 cases where the IRS implemented a two-year ban during FY 2022 or the first eight months of FY 2023, preventing the taxpayer from claiming one or more of EITC, ACTC, or AOTC for the next two tax years.

Improperly imposed bans deprived taxpayers of significant tax benefits if they were otherwise eligible for a credit in the ensuing two years. For example, the median dollar amount of EITC for taxpayers in the sample banned from claiming this credit was $3,619. This is a significant amount of credit to lose if the taxpayer were otherwise eligible for EITC in the following two years.[5]

INTRODUCTION

The EITC, enacted in 1975, is a tax credit targeted at low-income workers – primarily workers with children. It has become one of the government's largest means-tested anti-poverty programs. During 2022, nearly 32 million eligible workers and families received almost $66 billion in EITC.[6] The ACTC, enacted in 1997, is also a means-tested tax credit available to working families.[7] Together, the EITC and ACTC lift millions of individuals and families out of poverty. The AOTC, enacted in 2009, is a tax credit for those who incur qualified education expenses.[8] The credit is available for a student enrolled at least half-time in a college, university, or other accredited post-secondary educational institution who is pursuing a degree or education credential.

The Rules for Claiming the Earned Income Tax Credit, Additional Child Tax Credit, and American Opportunity Tax Credit Are Complex, Differ From Each Other, and Were Confused With the Rules for Claiming a Dependency Exemption[9]

The amount of allowable EITC and ACTC is a function of a taxpayer's earned income or "modified adjusted gross income" and the number of "qualifying children" in the household.[10] A "qualifying child" is a person who meets age requirements, bears a specified relationship to the taxpayer, and has the same principal residence as the taxpayer for more than half the year.[11]

The EITC and ACTC age requirements differ, and disabled dependents may meet the definition of a qualifying child for the dependency exemption and the EITC but not for the ACTC.[12] The dependency exemption was available not only for a "qualifying child" but also for a "qualifying relative."[13] The amount of allowable AOTC, like the ACTC, is a function of "modified adjusted gross income," and like the ACTC but unlike the EITC, is only partially refundable.[14]

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5 IRS, Compliance Data Warehouse (CDW), Individual Returns Transaction File (IRTF) (Nov. 23, 2023). This dollar amount only included the claiming of credits in the two years after the ban on the credits for which the IRS imposed the ban.

6 *Id.*

7 IRC § 24.

8 IRC § 25A.

9 Tax Cuts and Jobs Act (TCJA), Pub. L. No. 115-97, § 11022, 131 Stat. 2054, 2073 (2017); TCJA, Pub. L. No. 115-97, § 11041, 131 Stat. 2054, 2082 (2017) added a new credit for other dependents under IRC § 24 for a dependent who is not a qualifying child for purposes of the Child Tax Credit (CTC), significantly increased the CTC, and suspended dependency exemptions. These changes to the tax law are effective for tax years (TYs) 2018-2025.

10 See IRC §§ 32(c)(1) and 24(a) relating to eligibility to claim the credit and IRC §§ 32(b) and 24(b) for the calculation of the amount of allowable credit.

11 IRC §§ 32(c)(3), 24(c), 152(c) (providing that a qualifying child is an individual who is the taxpayer's son, daughter, stepchild, foster child, or a descendant of any of them (*e.g.*, a grandchild), or a child who is a sibling, stepsibling, or halfsibling of the taxpayer, or a descendant of any of them).

12 See IRC § 24(c)(1), requiring a qualifying child to not have attained the age of 17, and IRC § 152(c)(3)(B), providing an exception to the general age requirements, for purposes of IRC § 152(c)(3)(A) but not for purposes of IRC § 24, for individuals who are permanently and totally disabled. For the National Taxpayer Advocate's recommendation that Congress remove this inconsistency, see National Taxpayer Advocate 2018 Annual Report to Congress 421 (Legislative Recommendation: *Child Tax Credit: Amend Internal Revenue Code § 24(c)(1) to Conform With § 152(c)(3)(B) for Permanently and Totally Disabled Individuals Age 17 and Older*), https://www.taxpayeradvocate.irs.gov/wp-content/uploads/2020/07/ARC18_Volume1_LR_10_CTC.pdf.

13 *See* IRC §152(a)(2), (d). A qualifying relative includes, for example, the taxpayer's sibling, father, and mother.

14 *See* IRC §§ 25A(i), 24(d).

Taxpayer Recklessness or Intentional Disregard of Rules and Regulations Rather Than Mere Negligence Is Required to Trigger a Ban

The IRC authorizes the IRS to impose two-year bans following "a final determination that the taxpayer's claim of credit was due to reckless or intentional disregard of rules and regulations."[15] Neither the IRC nor Treasury regulations define the terms "reckless or intentional disregard" to impose the ban, and there is no judicial interpretation of those terms for the two-year bans.[16] However, IRS Chief Counsel guidance provides that a "taxpayer's failure to respond (or failure to provide an adequate response) to a request for substantiation and verification of EITC does not, in and of itself, constitute reckless or intentional disregard of the rules and regulations."[17] If the IRS determines that a taxpayer improperly claimed the EITC, ACTC, or AOTC "due to reckless or intentional disregard of rules and regulations," then the IRS may ban the taxpayer from claiming the credit for two years.

Background

The IRS has had the authority to ban taxpayers from claiming the EITC since 1997. It acquired the same authority regarding ACTC and AOTC in 2016. In 2013, the National Taxpayer Advocate raised concerns about the IRS's practices and procedures for imposing the two-year ban on claiming the EITC. The concerns were based on IRS data showing that the IRS frequently – almost 40 percent of the time – imposed the ban without making the statutorily required determination about the taxpayer's state of mind. A 2013 TAS study of a representative sample of two-year ban cases found:

- The IRS frequently – 19 percent of the time – imposed the ban solely because the EITC had been disallowed in the previous year;
- The IRS often – 69 percent of the time – did not obtain managerial approval before imposing the ban, as required by its own procedures; and
- Almost 90 percent of the time, neither IRS work papers nor communications to the taxpayer contained an adequate explanation of why the IRS imposed the ban.[18]

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15 IRC §§ 32(k)(1)(B)(ii), 24(g)(1)(B)(ii), and 25A(b)(4)(a)(ii)(II). Under IRC §§ 32(k)(1)(B)(i), 24(g)(1)(B)(i), and 25A(b)(4)(a)(ii)(I), the IRS is also authorized to impose a ten-year ban on taxpayers who fraudulently claim these credits, but it imposes the ten-year ban infrequently (*e.g.*, audits of 2016 returns resulted in the imposition of ten-year bans on 162 taxpayers). IRS, Compliance Data Warehouse, Individual Master File.

16 "Neither the statutes nor the regulations thereunder cross reference any other Code section or regulations that contain similar language." National Taxpayer Advocate 2019 Annual Report to Congress vol. 2, at 244 (*Study of Two-Year Bans on the Earned Income Tax Credit, Child Tax Credit, and American Opportunity Tax Credit*), https://www.taxpayeradvocate.irs.gov/wp-content/uploads/2020/11/ARC19_Volume1_TRRS_02_EITCban.pdf.

17 IRS Service Center Advice 2002-45051, Request for Significant Service Center Advice Earned Income Credit (Nov. 8, 2002), https://www.irs.gov/pub/irs-wd/0245051.pdf.

18 National Taxpayer Advocate 2013 Annual Report to Congress 103 (Most Serious Problem: *Earned Income Tax Credit: The IRS Inappropriately Bans Many Taxpayers from Claiming EITC*), https://www.taxpayeradvocate.irs.gov/wp-content/uploads/2020/08/2013-ARC_VOL-1_S1-MSP-9.pdf. The National Taxpayer Advocate renewed her concerns in 2019. *See* National Taxpayer Advocate Fiscal Year 2020 Objectives Report to Congress vol. 3, at 44 (Special Report: *Earned Income Tax Credit: Making the EITC Work for Taxpayers and the Government, Improving Administration and Protecting Taxpayer Rights*), https://www.taxpayeradvocate.irs.gov/wp-content/uploads/2020/08/JRC20_Volume3.pdf.

IRS Procedures Require Auditors' Work Papers to Contain a Detailed Explanation for Imposing a Ban, Managers Must Approve Bans, Auditors Must Speak to Taxpayers Who Are Being Audited for the First Time Before Imposing a Ban, and the IRS Must Explain to the Taxpayer Why It Is Imposing a Ban

Following the publication of TAS's research findings from the 2013 study on two-year EITC bans, the IRS revised the Internal Revenue Manual (IRM) to provide guidance to auditors about when to impose bans.[19] Both the current version of the IRM and the 2013 version require auditors who propose the two-year ban to note in their work papers, with more than just a cursory explanation, the reason for the decision.[20] However, the IRM explicitly directs auditors to review the documentation submitted by the taxpayer and determine whether to impose a ban based on law, the taxpayer's documentation, and research on IRS databases, including work papers for the prior year examination.[21]

Both the current version of the IRM and the 2013 version require the auditor's manager to approve the imposition of a ban.[22] However, the current IRM explicitly directs managers to review the entire case file and ensure that the work papers properly document the decision and reason to impose or not impose a ban.[23] Managers are also required to ensure that the decision to assert the ban is warranted and record approval of the ban on the IRS Correspondence Examination Automation Support (CEAS) database.[24]

One current IRM provision that was not part of the 2013 IRM requires the auditor to speak with the taxpayer before imposing the ban if this is the taxpayer's first audit regarding the disallowed credit and the taxpayer has responded to the audit.[25] Another IRM provision that was not part of the 2013 IRM requires auditors to "[w]rite an 886-A explanation to the taxpayer clearly explaining the reason for the assertion of the 2-year ban."[26] Form 886-A, Explanation of Items, is a schedule or exhibit to audit reports.

At the conclusion of the audit, a taxpayer may agree to the proposed additional assessment and ban. If the taxpayer does not agree and does not seek a conference with IRS Independent Office of Appeals (or does not prevail in an Appeals conference), the IRS issues a statutory notice of deficiency to which it should attach the Form 886-A sent to the taxpayer. The taxpayer can request Tax Court review of the IRS's final determination to decrease or disallow the credits, but the Tax Court may not have jurisdiction to consider whether the IRS properly imposed the ban.

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19 The applicable provision in 2013, EITC 2/10 Year Ban - Correspondence Guidelines for Examination Technicians (CET), was IRM 4.19.14.6.1. That IRM is now numbered as 4.19.14.7.1 (Jan. 3, 2023), https://www.irs.gov/irm/part4/irm_04-019-014r.

20 IRM 4.19.14.7.1(2), 2/10 Year Ban – Correspondence Guidelines for Examination Technicians (CET) (Jan. 3, 2023), https://www.irs.gov/irm/part4/irm_04-019-014r. This IRM provides "Note: Do not use standard statements such as, 'The 2-year ban is applicable because taxpayer showed intentional disregard of the rules and regulations for EIC/ACTC/AOTC.' Proper workpaper documentation should clearly outline the audit steps taken and fully explain the decision to assert or not assert the two-year ban."

21 IRM 4.19.14.7.1(2), 2/10 Year Ban – Correspondence Guidelines for Examination Technicians (CET) (Jan. 3, 2023), https://www.irs.gov/irm/part4/irm_04-019-014r.

22 *Id.*

23 *Id.*

24 *Id.*

25 IRM 4.19.14.7.1(8), 2/10 Year Ban – Correspondence Guidelines for Examination Technicians (CET) (Jan. 3, 2023), https://www.irs.gov/irm/part4/irm_04-019-014r. This IRM provides that "IF this is the first year EITC, CTC/ACTC/refundable CTC/ODC, or AOTC was audited; AND the TP has responded, you must speak with the taxpayer before you recommend assertion of the ban. Based on the information received and your conversation with the taxpayer, the taxpayer shows they had prior knowledge of the rules and regulations for claiming one or more of the credits, but chose to take it anyway; THEN Assert the ban on each of the credits to which it applies, and include the specific details that showed the taxpayer had prior knowledge of the rules and regulations." The IRM does not define what constitutes a first-time audit.

26 IRM 4.19.14.7.1(5), 2/10 Year Ban – Correspondence Guidelines for Examination Technicians (CET) (Jan. 3, 2023), https://www.irs.gov/irm/part4/irm_04-019-014r.

Once the ban has been imposed, the IRS must send the taxpayer Notice CP 79A, We Denied or Reduced One or More of the Credits Claimed on Your Tax Return and Applied a Two-Year Ban.[27] Notice CP 79A advises the taxpayer, "You don't need to take any action at this time," but it contains information on claiming the credits on future returns and refers the taxpayer to an IRS webpage for additional information.[28]

TAS Conducted a 2019 Study to Determine the Impact of Changes the IRS Made to the Procedures for Imposing the Two-Year Ban

To evaluate the effect of these changes, TAS conducted a research study in 2019 on imposing the two-year ban on taxpayers who claimed the EITC, ACTC, or AOTC.[29] A review of a representative sample of cases in which the IRS imposed the bans as a result of audits of tax year (TY) 2016 returns shows the IRS often did not follow its own procedures:

- In 53 percent of the cases, the auditor did not secure required managerial approval for imposing the ban;
- In 82 percent of the cases, the auditor did not adequately explain to the taxpayer why it imposed the ban as required;
- In 61 percent of the cases in which the auditor was required to speak to the taxpayer before imposing the ban, no such conversation took place; and
- In 54 percent of the cases in which taxpayers submitted documents, it appeared from the documents submitted that the taxpayer believed they qualified for the credit.

TAS tried to leverage its findings in this study to persuade the IRS to change its two-year ban procedures for EITC, ACTC, or AOTC credits, including:

- That a prior audit must address the same rule under consideration in the current audit; and
- That the IRS should not consider a prior audit of a refundable credit that the IRS conducted more than three years from the date of the current audit.

Unfortunately, the IRS declined to adopt these changes.

RESEARCH QUESTIONS

A 2013 TAS study demonstrated that the IRS often imposes EITC bans in error, and the IRS made some adjustments to its procedures due to that study. In 2019, TAS conducted a research study to evaluate the impact of these changes and determined that several issues in the 2013 study remained. A primary objective of this study is to determine if these issues persist, resulting in the continuation of erroneous bans.

27 IRM 4.19.14.7.1(6), 2/10 Year Ban – Correspondence Guidelines for Examination Technicians (CET) (Jan. 3, 2023), https://www.irs.gov/irm/part4/irm_04-019-014r (providing that "[w]hen the case closes and the ban is being imposed, Master File will mail CP 79A to the taxpayer explaining that the 2-year ban was applied and what they need to do in the future").

28 IRS, Understanding Your CP79A Notice, www.irs.gov/cp79a (last visited Jan. 18, 2024). On this webpage, the answer to the question "What do I need to do if I disagree with the two-year ban?" is "You may request a reconsideration of the audit. In your request, send us information that shows you are entitled to the credits for the audited year, or information that shows your claim for the credits wasn't due to reckless or intentional disregard of rules and regulations."

29 National Taxpayer Advocate 2019 Annual Report to Congress 244 (*Study of Two-Year Bans on the Earned Income Tax Credit, Child Tax Credit, and American Opportunity Tax Credit*), https://www.taxpayeradvocate.irs.gov/wp-content/uploads/2020/08/ARC19_Volume1_TRRS_02_EITCban.pdf.

1. Overview
    a. How many two-year bans has the IRS imposed during FY 2022 or through the first eight months of FY 2023 for EITC, ACTC, and AOC? How does the number of two-year bans imposed in FY 2019 compare to the number imposed in FY 2023?
    b. What are the income characteristics of taxpayers subjected to bans?
2. Overall, how often did the IRS impose bans even though the taxpayer either did not participate in the audit or mail to the taxpayer was returned undeliverable?
3. How often is the required managerial approval obtained before the ban is imposed?
4. How often is there an adequate explanation on Form 886-A of why the IRS imposed the ban as required by IRS procedures?
5. How often did the statutory notices of deficiency adequately explain the imposition of the two-year ban?
6. How often did the examiner's work papers state the reason the IRS imposed the two-year ban?
7. How often does it appear from documents taxpayers submit that they believe they qualify for the credit?
8. Did the IRS impose the two-year ban consistently when there was a prior disallowance and were prior disallowances for the same reason for which the IRS imposed the ban?

METHODOLOGY

In our 2013 study, we calculated the number of two-year bans according to when the ban appeared on IRS databases.[30] In our 2019 study, we provided data about the population of taxpayers on whom the IRS imposed a two-year ban as a result of an audit of a TY 2016 return. Our population for this current study included any taxpayer on whom the IRS imposed a two-year ban between FY 2022 and the first eight months of FY 2023.[31] To learn more about how the IRS imposes two-year bans, TAS Research extracted a random, statistically valid sample of cases in which the IRS imposed a ban on one of the credits, preventing the taxpayers from claiming the EITC, ACTC, or AOTC for the next two years as the result of an audit of one or more of these credits. We selected an original sample of nearly 400 cases; however, the final data collection only included 352 cases after omitting cases where we could not locate the complete case record and a few cases where the reviewer recorded the Taxpayer Identification Number incorrectly, preventing the ability to merge the sample results with other systemically available data, such as the amount of claimed refundable credit(s), the taxpayer's income, or other characteristics of the audit.

TAS used a data collection instrument (DCI) that was very similar to the DCIs used in TAS's 2013 and 2019 studies. TAS utilized nine reviewers from its Systemic Advocacy function to review the cases. All reviewers reviewed the same five cases to both ensure the adequacy of the DCI and to ensure the reviewers answered the DCI questions consistently. Subsequently, TAS Research held discussions with the reviewers to determine why inconsistencies occurred with the reviews of these five cases and to make appropriate changes to the DCI. After the reviews of these five cases, the reviewers reviewed three more cases to ensure that with the updated DCI the reviewers were consistently answering the DCI questions. After ensuring the DCI reviews were being conducted consistently, TAS Research provided about 40 cases to each reviewer.

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30 *See, e.g.*, National Taxpayer Advocate 2018 Annual Report to Congress 91 (Most Serious Problem: *Improper Earned Income Tax Credit Payments: Measures the IRS Takes to Reduce Improper Earned Income Tax Credit Payments Are Not Sufficiently Proactive and May Unnecessarily Burden Taxpayers*), https://www.taxpayeradvocate.irs.gov/wp-content/uploads/2020/07/ARC18_Volume1_MSP_06_ImproperEarnedIncome.pdf; National Taxpayer Advocate 2013 Annual Report to Congress 103 (Most Serious Problem: *Earned Income Tax Credit: The IRS Inappropriately Bans Many Taxpayers from Claiming EITC*), https://www.taxpayeradvocate.irs.gov/wp-content/uploads/2020/08/2013-ARC_VOL-1_S1-MSP-9.pdf. Updates in IRS databases allow us to identify the tax year at issue in audits that triggered a two-year ban.

31 The eighth month of FY 2023 was the most recent data available at the time we extracted the population of taxpayers where the IRS had imposed the two-year ban.

The reviewers completed their reviews using a DCI created in SharePoint. The completed reviews were compiled into an Excel file, and this data was merged with other data, such as the audit project and tracking codes. The final sample of 352 was sufficient to project the sample results to the entire population of 3,153 returns where the IRS proposed a two-year ban in FY 2022 or through the first eight months of FY 2023, and it is statistically valid at the 95 percent confidence level with a margin of error of plus or minus five percent. If we are discussing a subset of the sample, we will footnote the confidence level and margin of error for that analysis. We will also report on some characteristics of the taxpayers in the sample, including the average income level of the taxpayers and the amounts of the credits claimed prior to the IRS audit disallowance and subsequent two-year ban.

FINDINGS

Overview

In FY 2023, the IRS imposed the two-year ban against 2,724 taxpayers for improperly claiming the EITC, ACTC, or AOTC (or some combination thereof) compared to imposing the ban on 1,850 taxpayers in FY 2019 – a 47 percent increase.[32] The IRS often has imposed the ban against two or more credits claimed by the same taxpayer, most commonly EITC and ACTC. Figure 2.2.1 shows the imposition of the ban on the EITC, ACTC, or AOTC (or some combination thereof) in FY 2023 compared to FY 2019.

FIGURE 2.2.1, Comparison of Volumes of Two-Year Bans Imposed on EITC, ACTC, or AOTC, FYs 2019 and 2023[33]

Fiscal Year	Any of the Three Bans	EITC Two-Year Ban	ACTC Two-Year Ban	AOTC Two-Year Ban
2019	1,850	1,603	274	129
2023	2,724	1,423	2,481	216
Percent Change	47%	-11%	805%	67%

As Figure 2.2.1 illustrates, the IRS's imposition of the ban on taxpayers for improperly claiming the ACTC skyrocketed in FY 2023 to 2,481 taxpayers compared to just 274 in FY 2019 – an 805 percent increase.

Out of the 352 cases reviewed, taxpayers had a median adjusted gross income (AGI) of $18,501.

32 While the number of taxpayers receiving a ban increased 47 percent, the number of credits for which the ban was imposed increased 105 percent.

33 The FY 2023 row includes only those two-year bans imposed during FY 2023. Bans imposed in the last four months of FY 2023 were not included in the sample, as it was extracted prior to the completion of FY 2023.

In 46 Percent of the Cases in Which the IRS Imposed Bans, the Taxpayer Either Did Not Participate in the Audit or Mail Sent to the Taxpayer Was Returned as Undeliverable

IRS records may designate an account as "no show/no response" to indicate that the taxpayer did not participate in an audit, or the account may carry the notation that mail sent to the taxpayer was returned as undelivered. Out of the 352 cases reviewed, 162 taxpayers (or 46 percent) never responded to the audit, and only 16 percent of the no-responses were classified as undeliverable mail (*i.e.*, the audit notices were returned to the IRS).[34] The 46 percent is a significant increase from the results of the 2019 study, which had a no-response rate of only 19 percent.[35]

Under its own procedures, the IRS may consider the taxpayer's failure to respond to the audit notice as a reason for imposing the two-year ban when the IRS imposes the two-year ban systemically. Out of the 352 cases reviewed, the IRS systemically imposed the two-year ban 123 times, meaning in these cases the taxpayer's failure to respond could be considered by the IRS as a reason for imposing the ban. Seventy-two of the 123 systemically proposed ban cases (59 percent) were no show/no response cases. The question is whether this procedure results in an appropriate determination.

Required Managerial Approval of the Bans Was Often Lacking

The IRS imposed the two-year ban systemically in 123 out of 352 cases, or 35 percent of the time. Under procedures set out in the IRM, the IRS did not have to obtain managerial approval where the IRS imposed the ban systemically. This means that in the remaining 229 cases, the IRS was required to obtain managerial approval. However, out of the 229 cases reviewed, no managerial approval was obtained in 174 cases, or 76 percent.[36] This is a significant increase from the 54 percent finding in the 2019 study.[37]

Form 886-A, Explanation of Items, Often Did Not Contain an Adequate Explanation of Why the IRS imposed the Ban as Required by IRS Procedures

As Figure 2.2.2 shows, the explanation in Form 886-A was deemed inadequate in the majority of the cases reviewed.

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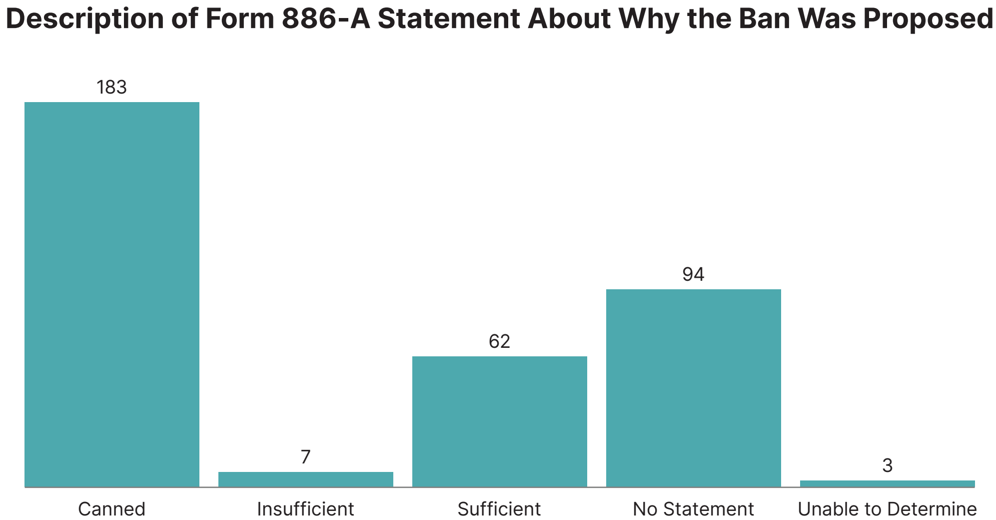
34 Data discussed in the remainder of this section of this study was determined by a TAS review of 352 cases where the IRS implemented a two-year ban during FY 2022 or through the first eight months of FY 2023, preventing the taxpayer from claiming one or more of EITC, ACTC, or AOTC for the next two tax years. Note: the data in this particular finding, which was based on the data TAS collected from its DCI, was slightly different than the IRS's data on the no-response rate for these cases found on the IRS's Audit Information Management System.

35 National Taxpayer Advocate 2019 Annual Report to Congress 249 (*Study of Two-Year Bans on the Earned Income Tax Credit, Child Tax Credit, and American Opportunity Tax Credit*), https://www.taxpayeradvocate.irs.gov/wp-content/uploads/2020/11/ARC19_Volume1_TRRS_02_EITCban.pdf.

36 To satisfy the managerial approval requirements, the CEAS database must indicate that the manager has reviewed the file and agrees with the auditor's proposal to impose the ban. *See* IRM 4.19.13.7.1.1, Supervisory Approval of Bans (Apr. 6, 2022), https://www.irs.gov/irm/part4/irm_04-019-013r. The margin of error for this subsample is 5.4 percent at the 95 percent confidence level.

37 National Taxpayer Advocate 2019 Annual Report to Congress 249 (*Study of Two-Year Bans on the Earned Income Tax Credit, Child Tax Credit, and American Opportunity Tax Credit*), https://www.taxpayeradvocate.irs.gov/wp-content/uploads/2020/11/ARC19_Volume1_TRRS_02_EITCban.pdf.

FIGURE 2.2.2



Of the 352 taxpayers in the sample, 349 were sent Form 886-A.[38] Out of these 349 cases, the explanation to the taxpayer on Form 886-A was deemed inadequate 81 percent of the time. Form 886-A had a canned statement in 48 percent of the cases. In five percent of the cases, the form had a canned statement along with some other explanation. Only 18 percent of the 349 Forms 886-A had a sufficient statement explaining the issue. The 2019 study determined that Form 886-A had an inadequate explanation 84 percent of the time.[39]

Examples of canned statements (no specific taxpayer information) provided to the taxpayer are:

> **Example 1:** Based upon the information we have available, we propose that you should be restricted from receiving the earned income credit for the following two years. This two-year ban is asserted for the reckless or intentional disregard of the rules and regulations regarding the EITC under Internal Revenue Code section 32(k)(1)(B)(ii).

> **Example 2:** We determined that you recklessly or intentionally disregarded the rules and regulations when you claimed the child tax credit, additional child tax credit, or credit for other dependents. Under Internal Revenue Code section 24(g)(1), you are restricted from receiving any of these credits for the two tax years after the most recent tax year of our final determination. If you claim any of the credit(s) after the two-year restriction expires, you must complete and include Form 8862 with your tax return. If you claim the credit(s) and include Form 8862, we will determine if you are entitled to the credit(s). We will delay any refund until we make the determination and may contact you for additional information. If you do not include Form 8862 with the first tax return on which you claim the credit(s) after the two-year restriction expires, we will disallow the credit(s).

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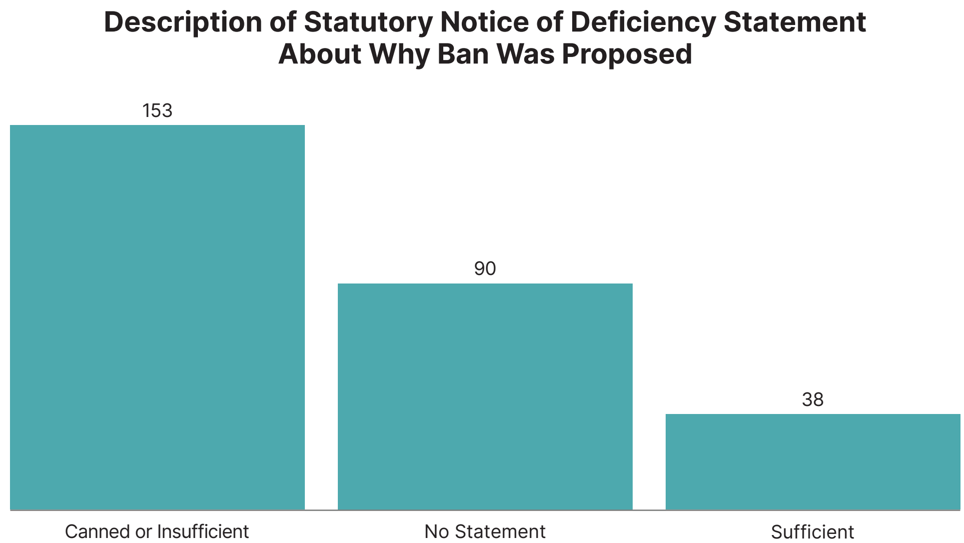
38 Out of the 352 cases in the sample, in two cases the Form 886-A was not sent, and in three cases it could not be determined if the Form 886-A was ever sent to the taxpayer. Thus, it could be determined that a Form 886-A was sent in 347 cases.

39 National Taxpayer Advocate 2019 Annual Report to Congress 251 (*Study of Two-Year Bans on the Earned Income Tax Credit, Child Tax Credit, and American Opportunity Tax Credit*), https://www.taxpayeradvocate.irs.gov/wp-content/uploads/2020/11/ARC19_Volume1_TRRS_02_EITCban.pdf. These results are within the margin of error of both samples at the 95 percent confidence level.

In the Majority of Cases, the Statutory Notice of Deficiency Either Did Not Inform the Taxpayer Why the IRS Imposed the Ban, Provided Only a Canned Statement, or Provided an Original Statement That Was Insufficient

Out of the 352 cases reviewed, the IRS issued statutory notices of deficiency in 281 cases. As Figure 2.2.3 illustrates, the explanation of the issue received by the taxpayer in the statutory notice of deficiency was typically insufficient or not included.

FIGURE 2.2.3



Out of the 281 issued, 148 used canned statements, and five cases used original statements that were deemed insufficient for explaining the disallowance and why the IRS imposed the ban for a total of 153 cases, or 54 percent.[40] The IRS did not include an explanation of the disallowance or ban in 90 cases, or 32 percent, of the 281 statutory notices of deficiency. Only 38 out of the 281 cases, or 14 percent, contained sufficient statements.[41]

Examiners' Work Papers Did Not Always Clearly State Why the IRS Imposed the Two-Year Ban

Out of the 352 cases reviewed, in 161 cases (46 percent) the examiners' work papers had no statement as to why the IRS imposed the ban. In 54 (15 percent) of the 352 cases, the work papers indicated that the same credit had been disallowed in a prior year.

40 The margin of error for this subsample is 5.6 percent at the 95 percent confidence level.
41 The margin at the 95 percent confidence level is no more than 5.8 percent for this subsample of 281 cases.

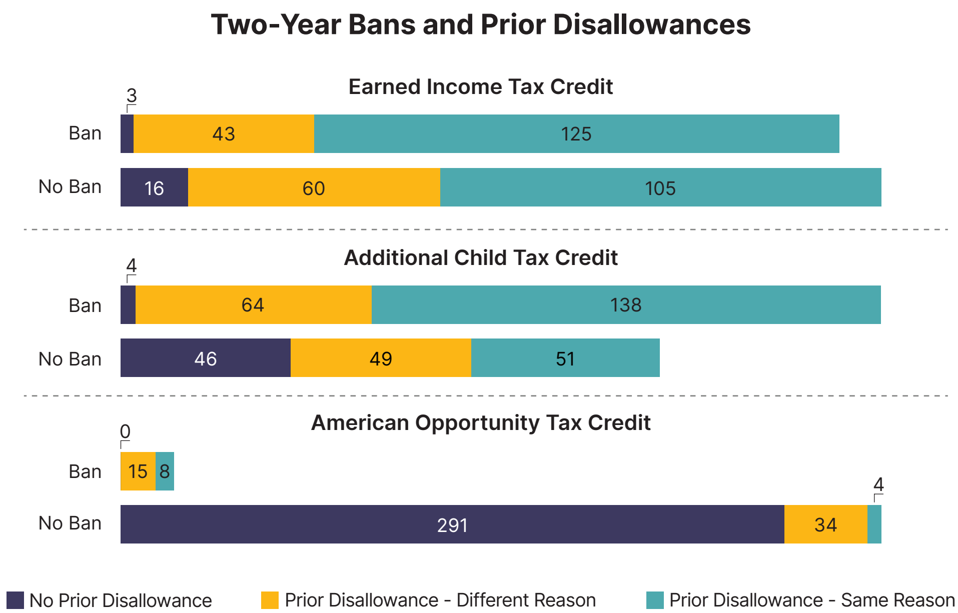
Sometimes Taxpayers Provided Documents to the IRS Showing They Believed They Qualified for the Credit

Taxpayers submitted some of the requested documents in 85 of the 352 cases, or 24 percent of the time. This is far lower than the 65 percent finding in the 2019 study.[42]

The IRS Inconsistently Imposed the Ban When There Were Prior Disallowances on the Credit and Frequently Imposed the Ban Even When a Prior Disallowance Was for a Different Reason for Which the IRS Applied the Ban

Figure 2.2.4 shows when the IRS did or did not impose the ban on either the EITC, ACTC, or AOTC and whether there was a prior disallowance associated with imposing a ban or the lack thereof.

FIGURE 2.2.4



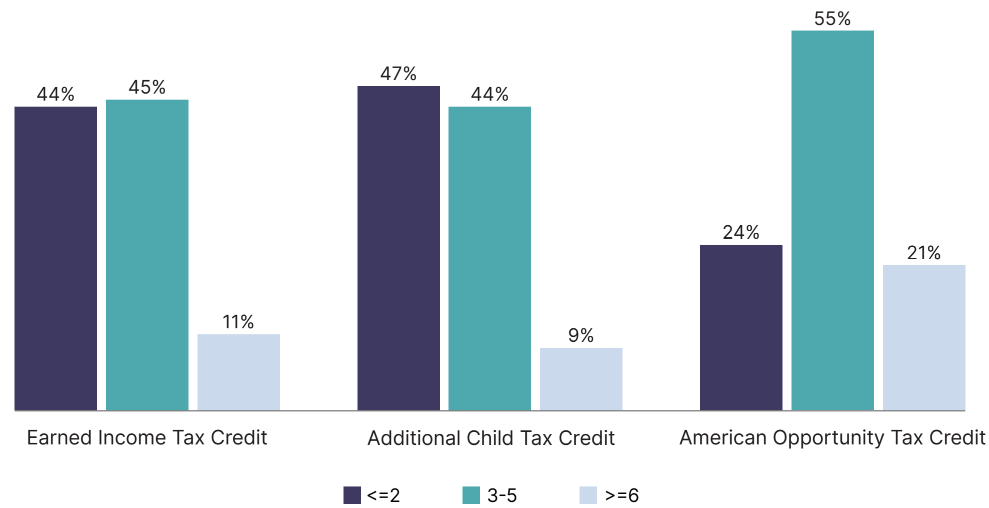
As Figure 2.2.4 illustrates, there are inconsistencies about when the IRS applies or does not apply the ban. For example, out of the 352 cases reviewed, no ban was applied in 105 cases (30 percent) even though there was a prior disallowance for the same reason for which the EITC was being audited. Additionally, the figure illustrates the IRS imposed the ban in several cases, even though the prior disallowance was for a different reason for which the IRS imposed the ban. Specifically, in 107 of the 352 cases (30 percent), the IRS did not previously disallow the same credit for the same reason for which the ban was imposed.

42 National Taxpayer Advocate 2019 Annual Report to Congress 254 (*Study of Two-Year Bans on the Earned Income Tax Credit, Child Tax Credit, and American Opportunity Tax Credit*), https://www.taxpayeradvocate.irs.gov/wp-content/uploads/2020/11/ARC19_Volume1_TRRS_02_EITCban.pdf.

Figure 2.2.5 shows the proximity of the prior audit resulting in a disallowance to the year in which the IRS imposed the ban.

FIGURE 2.2.5

Years Elapsed From Prior Audit Disallowance for Same Reason



Prior audits resulting in a disallowance for EITC, ACTC, and AOTC took place three years or more prior to the imposition of the ban more than 50 percent of the time.

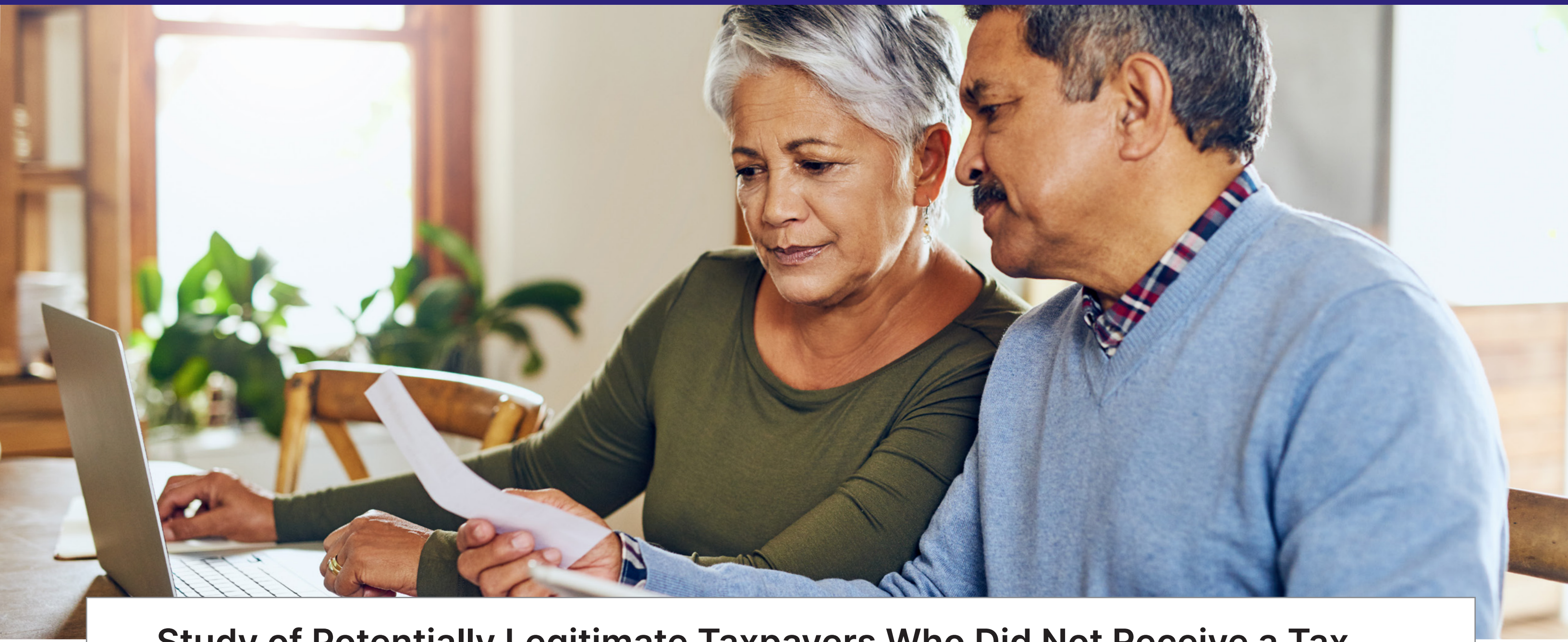
CONCLUSION

The IRS does not follow its own procedures when imposing the two-year ban. In a large number of cases, the auditor never obtained managerial approval when imposing the ban and failed to provide taxpayers with an adequate explanation as to why it was imposing the ban. Additionally, the IRS was inconsistent in imposing the two-year ban when considering prior disallowances. In over a quarter of the cases, it is unclear why the IRS imposed the ban, as there was no prior audit of any of the credits for which the two-year ban can be imposed (*i.e.*, EITC, ACTC, or AOTC). And, in more than half the cases where there was a prior audit of one of these credits, the audit occurred more than three years from when the IRS imposed the ban.

RECOMMENDATIONS

The National Taxpayer Advocate recommends that the IRS:

1. Require managerial review and approval of all language in Form 886-A and the statutory notice of deficiency explaining the reason for the two-year ban.
2. Only impose a ban where the prior audit addresses the same rule under consideration in the current audit.
3. Not consider a prior audit of a refundable credit conducted more than three years from the date of the current audit.
4. In cases where the IRS imposes the two-year ban systemically, make additional attempts to reach the taxpayer when the taxpayer has not responded to the audit notice before considering the taxpayer's failure to respond as reckless or intentional disregard of the rules and regulations.
5. Require IRS managers to conduct regular reviews of employees' cases and imposition of the two-year ban to ensure that they are following all IRS procedures.



Study of Potentially Legitimate Taxpayers Who Did Not Receive a Tax Year 2020 Refund Because They Did Not Respond to an IRS Letter Requesting They Verify Their Identity

EXECUTIVE SUMMARY

This brief report summarizes a recently implemented TAS Research study on taxpayers likely eligible for refunds the IRS froze because of suspected identity theft.[1] Each year, the IRS freezes millions of refund returns with characteristics indicative of a potential identity thief having filed the return. However, about half of these returns are false positives and are authenticated by the legitimate taxpayer as properly filed returns.[2] Since 2021, the IRS only sends a single letter asking the taxpayer filing a return suspected of identity theft to authenticate their identity and verify their tax return information before it will release the claimed refund.[3] But each year, some taxpayers wait months to complete this process with the IRS, and many other taxpayers contact TAS months after they should have received their refund to find out where it is; others do not know or understand why they never received their refund check.

TAS believes many legitimate taxpayers may be entitled to refunds still frozen and continue to be in limbo while the IRS has not processed their returns. As IRS procedures only require one letter notifying the taxpayers of a possible issue, TAS is exploring the effect of sending subsequent letters to a sample of likely legitimate taxpayers. The letter offers TAS assistance for taxpayers to aid in the completion of the IRS identity verification process for their tax year (TY) 2020 refund, which remains frozen by the IRS. TAS mailed these outreach letters in early December 2023 and will send a follow-up letter in early January 2024 to those

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1 The methodology to identify the population of likely legitimate filers was discussed with the IRS prior to its use. At the completion of the study, TAS will share the results with the IRS for its review and validation.

2 This study does not focus on taxpayers who are victims of identity theft refund fraud; rather, the focus is on taxpayers who filed legitimate returns but never responded to the IRS letter requesting the taxpayer authenticate their identity. For a discussion of the delays faced by taxpayers who were victims of tax-related identity theft refund fraud, see National Taxpayer Advocate 2023 Annual Report to Congress 78 (Most Serious Problem: *Identity Theft: Lengthy Issue Resolution Delays and Inadequate Notices Burden Taxpayers Who Are Victims of Identity Theft or Whose Returns the IRS Has Flagged for Possible Identity Theft*), https://www.taxpayeradvocate.irs.gov/wp-content/uploads/2024/01/ARC23_MSP_06_Identity-Theft.pdf.

3 As a result of paper shortages and the significant increase in fraudulent returns during the pandemic, the IRS made the decision to only send a single notice in 2021 (generally affecting TY 2020 returns) requesting the taxpayer verify their identity. Notes from Systemic Advocacy and Refund Integrity and Compliance Services Executive call (Oct. 26, 2021) (on file with TAS).

taxpayers who did not respond to the first outreach letter. TAS will track both the number of respondents and whether the taxpayer could successfully verify their identity and tax return information to release the frozen refund. TAS will report the results of this study in a future report.

INTRODUCTION

This report describes a TAS project recently initiated to determine if taxpayers with characteristics indicating likely eligibility for their claimed TY 2020 refund are indeed legitimate taxpayers entitled to the refund. The requested funds remain frozen because the taxpayer did not respond to an IRS letter requiring identity verification. On December 1, 2023, TAS mailed letters to nearly 4,000 taxpayers likely to be eligible for the refund from their TY 2020 return.[4] This letter offered the taxpayer TAS assistance with completing the IRS identity verification process. The taxpayer will be required to meet all IRS identity verification criteria but can work with TAS to walk them through the process to free up their refunds. TAS will send a follow-up letter to those taxpayers who do not respond to our first letter within about 30 days. This study will determine the percentage of taxpayers likely eligible for their frozen refunds who respond to the TAS letter, and of these individuals, how many can successfully verify their identity.

Beginning in 2021, the IRS began a procedure of only issuing one letter requesting the taxpayer authenticate. Unless special circumstances exist, such as the taxpayer resides in a federally declared disaster zone or the taxpayer requests the IRS reissue a request to authenticate identity letter, the IRS continues to only send a single letter requesting the taxpayer authenticate their identity before the IRS will issue the claimed refund.[5]

TAS believes that the results of this study will help determine whether lack of taxpayer response to the IRS's single letter requesting identity verification is often indicative of an illegitimate refund claim. Alternately, the results may show many of these returns are legitimate refund claims, strongly indicating the IRS needs to take additional actions to ensure it processes returns and sends refunds to legitimate taxpayers. If this study shows that many taxpayers are entitled to their originally claimed refund, the IRS may use this data to help modify its filters selecting refund returns likely submitted by identity thieves or modify its procedures for notifying taxpayers.

BACKGROUND

Through September 29, 2021, the IRS had selected 3.7 million returns into its Taxpayer Protection Program (TPP) because of suspected identity theft. The vast majority of these pertained to TY 2020 returns.[6] In calendar year 2021, the IRS suspected legitimate refund returns of being submitted by identity thieves over 60 percent of the time.[7]

The IRS continues to hold TY 2020 refunds (generally submitted in 2021) because the taxpayer never responded to the IRS's single letter notifying them of the need to authenticate their identity within 30 days before the refund would be released. When there is no response to the IRS letter requiring verification, the IRS presumes the refund is being claimed by an identity thief and continues to hold the refund and takes no further action. While the IRS will ultimately archive a return when a taxpayer response is not received, it generally does not complete the archiving process until the year after the return was initially due.

4 The criteria to determine likely legitimate taxpayers is described later in the Methodology section.

5 Internal Revenue Manual (IRM) 25.25.6.1.7, Taxpayer Protection Program Overview (Nov. 22, 2023), https://www.irs.gov/irm/part25/irm_25-025-006r. IRM 25.25.6.6.2, Procedures for when the Caller Has Not Received or Lost the Taxpayer Protection Program (TPP) Letter (May 23, 2023), https://www.irs.gov/irm/part25/irm_25-025-006r.

6 IRS, Wage and Investment (W&I) Business Performance Review (BPR) Q3, FY 2021 (Nov. 2021).

7 IRS, W&I BPR Q3, FY 2023 (Aug. 2023).

Each year, thousands of legitimate taxpayers contact the IRS after the 30-day time period specified in the letter. Figure 2.3.1 depicts the number of TY 2020 returns where the taxpayer authenticated their identity well after the return filing or issuance of the IRS letter requesting authentication. Eventually, most of these taxpayers received their refunds, but some are still waiting for the IRS to finish processing their return and associated refund.

FIGURE 2.3.1, TY 2020 Returns Determined to Be Legitimate After the IRS Archived the Return Because of No Response to the IRS Request for Identity Authentication[8]

Tax Year	Number of Accounts Reversed With Refund	Average Processing Time in Months for Taxpayer to Authenticate Identity	Median Refund Amount
2020	19,261	20	$1,915

Figure 2.3.1 shows that thousands of legitimate taxpayers took an average of 20 months to authenticate their identity so that they could receive their TY 2020 refund.[9] At this time, we do not know why taxpayers waited so long. It could be they never received the letter, the taxpayer could have moved, the letter was returned undeliverable, the taxpayer did not understand what was required, or the taxpayer did not comply with the authentication criteria.[10]

Taxpayers are often unaware of the IRS letter requesting the taxpayer authenticate their identity before their refund would be released and continue to wait for the processing of their refunds. TAS opens many cases each year from taxpayers who do not understand why they have not received their claimed refund.

These occurrences establish that legitimate taxpayers may not authenticate their identity for many months after the IRS froze the refund. Therefore, the concern that a sizeable number of taxpayers never contact the IRS to authenticate their identity, even though they are the rightful individual, is not unreasonable. The IRS should consider taking additional steps to verify the taxpayer's identity.

OBJECTIVES

- Determine the percent of taxpayers who will respond to a TAS outreach letter offering to assist them with navigating the IRS identity authentication process to receive a claimed refund, which is still frozen by the IRS.
- Determine the percent of respondents to TAS's outreach letter offering to assist the taxpayer with the IRS identity authentication process who can successfully complete the authentication process and quantify the amount of refunds issued as a result of taxpayer responses to the TAS letter.

8 IRS, Compliance Data Warehouse (CDW), Individual Master File (IMF) (Dec. 2023). The IRS generally archives frozen refund returns after not receiving a response from its letter requesting the taxpayer authenticate their identity. Taxpayers who respond to the IRS after it archives the return must wait for the IRS to establish the archived return on the Individual Master File. The average time is computed from the received date of the tax return to the input of the first transaction code (TC) 972 action code (AC) 124 or 129. The actual average time for a taxpayer to authenticate may be longer. In some cases, the IRS inputs a TC 972 AC 124 or 129 although no other actions are taken, and many months later inputs a new TC 972 AC 124 or 129 and then issues the refund.

9 The IRS archives frozen refund returns after not receiving a response from its letter requesting the taxpayer authenticate their identity. Taxpayers who respond to the IRS after the return is archived must wait for the IRS to establish the archived return on the Individual Master File. IRM 25.25.6.7.1, Taxpayer Protection Program (TPP) Assistors, Taxpayer Assistance Center (TAC) Assistors, and Identity Theft Victims Assistance (IDTVA) Assistors MFT 32 Reversal Criteria & Procedures (May 23, 2023), https://www.irs.gov/irm/part25/irm_25-025-006r.

10 The IRS destroys letters to authenticate if returned as undeliverable. IRM 25.25.5.2.1.2, General Correspondence Identity Theft Response (Oct. 6, 2022), https://www.irs.gov/irm/part25/irm_25-025-005r.

METHODOLOGY

TAS Research identified a population of individual taxpayers whose TY 2020 return triggered the fraud filters, and the IRS held the refund due to potential identity theft. These taxpayers, however, received their refund claimed in TY 2021, which indicates the possibility that identity theft was incorrectly identified in TY 2020, and the taxpayer did not respond to IRS notices and follow the remedial procedures for the IRS to release their TY 2020 refund. We also used several other characteristics and supporting data points to identify and refine the population of taxpayers most likely to be eligible for the refund still being held by the IRS. Criteria incorporated in the methodology include:

- The taxpayer claimed a refund in both TYs 2020 and 2021.
- Taxpayer must be 18 or older and with no taxable Social Security entered on Form 1040, unless the taxpayer's age is at least 62.
- There is no processing code on the taxpayer's account that indicates identity theft case resolution is complete.
- Wages from the Form W-2 for the primary or secondary taxpayer must be greater than zero.
- Withholding specified on the taxpayer's return must be no greater than $100 more than the taxpayer's withholding shown on their Form W-2.[11]
- The taxpayer has not submitted Form 14039, Identity Theft Affidavit, and the taxpayer's TY 2020 original return has not posted to the IRS Master File.

From the identified population, we created a stratified random sample by state and territory in combination with adjusted gross income (AGI) percentile ranges. The sample included nearly 4,000 taxpayers, 100 of whom were designated as a Spanish-speaking taxpayer or household.

TAS crafted an outreach letter, which was sent to the sample of taxpayers on December 1, 2023.[12] TAS provided taxpayers receiving these letters with a telephone number to contact the Local Taxpayer Advocate office in the District of Columbia for assistance with navigating the IRS identity authentication process. TAS began receiving calls and opening advocacy cases in response to its outreach letter on December 11, 2023. A follow-up letter was sent to non-respondents to the first letter during the first week of 2024.

ANALYSIS AND DISCUSSION

As indicated, we incorporated the specified criteria, indicative of returns with a high likelihood that the claimed refund was legitimate, identifying a population of over 88,000 individual taxpayers. These taxpayers reported a median AGI of less than $7,500 and claimed over $500 million in total unreceived refunds with a median refund of about $1,800.[13] Over a quarter of these taxpayers claimed the Earned Income Tax Credit (EITC) with a median EITC claim of more than $400. As these data points show, a substantial number of taxpayers with low or modest incomes likely in need of claimed refunds and credits are affected by the IRS's broad identity theft filters and potential gaps in customer service.

11 Higher withholding reported on the tax return relative to the Form W-2 may be a greater indication of identity theft.
12 The TAS outreach letters were two-sided with an English and Spanish version of the text on opposing sides of the letter.
13 IRS, CDW, Individual Returns Transaction File and IMF (Sept. 2023). The average refund amount is over $5,500.

CONCLUSION

The primary purpose of this study is to determine if legitimate taxpayers are not receiving the refund to which they are entitled due to IRS fraud filters freezing their accounts and withholding payment. Specifically, TAS is exploring whether taxpayers will respond to TAS's outreach letter offering assistance with navigating the IRS's identity authentication process so they can receive their TY 2020 refund. The study will explore the frequency with which taxpayers receiving the letter respond to TAS, how often respondents can successfully complete the IRS identity authentication process, and the amount of money refunded to taxpayers. TAS understands that the IRS has a difficult task trying to prevent the issuance of refunds to identity thieves while also ensuring that legitimate taxpayers receive their refunds. But the IRS's identity theft filters have consistently resulted in a high false positive rate, forcing many taxpayers with valid returns to complete verification steps they may not understand or that they require assistance in resolving. IRS procedures assume the taxpayer received the one letter it sent requesting the taxpayer contact the IRS to verify their identity.

Through our outreach efforts, TAS can better determine the frequency with which the IRS is denying legitimate taxpayers the refunds they deserve. While taxpayers need to be willing to respond to IRS letters requesting identity authentication, the IRS must ensure that it takes all steps necessary to ensure legitimate taxpayers receive and respond to these requests. TAS is concerned that the IRS's single letter requesting the taxpayer authenticate their identity, which the IRS is not even sure the taxpayer received, is not sufficient effort. To add even more complexity, for the past three years, taxpayers with questions about verifying their identity have faced extremely low levels of service on the IRS's TPP line.[14] Taxpayers have the *rights to quality service*, *to pay no more than the correct amount of tax*, and *to a fair and just tax system*. TAS has concerns that the IRS procedures do not adequately protect taxpayers' rights.

14 The IRS's Levels of Service on its TPP line for fiscal years 2021, 2022, and 2023 were 13.2, 12.6, and 31.0 percent, respectively. IRS, Joints Operations Center Snapshot Reports: Product Line Detail (weeks ending Sept. 30, 2021; Sept. 30, 2022; Sept. 30, 2023).

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