

## Most Serious Problems: At a Glance

### Services Taxpayers Want and the Problems the IRS Faces in Delivering Them

This “At a Glance” covers each of the ten Most Serious Problems we identify in this report. It summarizes the problems taxpayers face, notes why the problem is serious, and provides some key statistics. The “Taxpayer Perspective” for each Most Serious Problem includes statistics primarily sourced from the IRS-sponsored Comprehensive Taxpayer Attitude Survey regarding taxpayer attitudes and preferences.

IRS employees have been working admirably to improve IRS service. However, the IRS still has much work to do including addressing processing delays; mitigating staffing challenges like hiring and training employees to meet the growing volume of taxpayer needs; transparently delivering clear and timely taxpayer guidance; developing qualitative metrics to better assess and improve taxpayer telephone and in-person service delivery; better educating taxpayers to the importance of relying on credentialed return preparers while vigorously enforcing preparer penalties; providing prompt resolution for taxpayers affected by identity theft; expanding IRS online account functionality; protecting international taxpayers from harsh penalties; supporting taxpayers living overseas; and ensuring taxpayers and tax professionals perceive the IRS Independent Office of Appeals as sufficiently independent.

\* IRS Filing Statistics for the week ending Oct. 27, 2023. All other “Taxpayer Perspectives” are preferences or attitudes expressed in the “Comprehensive Taxpayer Attitude Survey 2022;” IRS: Research, Applied Analytics, and Statistics.

### Most Serious Problem: Processing

#### Taxpayer Perspective

**65%**

of returns resulted in refunds\*

**Why This Is a Most Serious Problem:** In 2023, millions of taxpayers once again experienced significant burden and frustration while awaiting refunds or other IRS actions necessary to comply with their tax obligations and resolve tax account issues. These delays not only have negative financial implications for taxpayers awaiting refunds but also for the government, as the IRS must pay interest on overpayments it does not timely refund.

**Key Statistics:** The IRS had an inventory backlog of over six million pieces of Accounts Management correspondence and amended tax returns as of October 28, 2023. This backlog was identical in size to the backlog of these items at the end of 2022, but nearly 70% of this inventory was overage, almost 20% higher than last year. Refund processing delays resulted in the IRS paying approximately \$1.4 billion in additional interest on individual and business amended returns and applications for tentative refunds.

### Most Serious Problem: IRS Hiring, Recruitment, and Training

#### Taxpayer Perspective

**26%**

do not trust the IRS to fairly enforce tax laws

**92%**

agree that the IRS should focus on improving in-person and phone assistance

**Why This Is a Most Serious Problem:** IRS staffing levels in the past decade have fallen to lows not seen since the 1970s. Insufficient staffing has caused the quality of taxpayer service to decline on telephone lines and at Taxpayer Assistance Centers and significant IRS processing delays to arise.

**Key Statistics:** In FY 2023, the IRS hired 30,742 employees (including internal hires), but 18% of current IRS employees are eligible for retirement, with estimates of 37% in the next five years. The IRS's time to hire averaged 134 days overall but was over 193 days for external hires where no direct hiring authority exists, likely causing the IRS to lose qualified candidates.

### Most Serious Problem: IRS Transparency

Taxpayer Perspective

**90%**  
agree that the more information and guidance the IRS provides, the more likely people are to correctly file their tax returns

**Why This Is a Most Serious Problem:** Some taxpayers and tax professionals still struggle to access information from the IRS, including finding clear and timely guidance on which they can rely, determining the status of pending issues, understanding IRS correspondence and whether they must respond to it, and reaching an IRS employee with the knowledge to answer their questions and the authority to resolve their problems.

**Key Statistic:** Through April 22, 2023, the IRS achieved an 85% Level of Service on key toll-free lines but had only answered 35% of the calls it received. Achieving this high level of service resulted in customer service representatives being idle 34% of the time, contributing to a growth in the backlog of Forms 1040-X. As of the end of the 2023 filing season, it took the IRS about seven months to process Forms 1040-X.

### Most Serious Problem: Telephone and In-Person Service

Taxpayer Perspective

**92%** agree the IRS should focus on improving in-person and phone call assistance

**83%** agree it is important for the IRS to provide office locations with an onsite IRS representative

**Why This Is a Most Serious Problem:** The way the IRS calculates its Level of Service is far more optimistic than the reality taxpayers face when calling the IRS. Several states have just one Taxpayer Assistance Center location for in-person service, and many are not fully staffed or operate on a limited schedule.

**Key Statistics:** Although the IRS reported a 51% Level of Service in FY 2023, live assistors answered only 29% of total calls. Automated responses answered 18% of the total calls, and the IRS did not answer the rest, or the caller disconnected. The IRS initiated a disconnect on 16.3 million calls in FY 2023. The IRS answered only 34% of the calls seeking an appointment at a Taxpayer Assistance Center.

### Most Serious Problem: Return Preparer Oversight

Taxpayer Perspective

**89%**  
categorized paid tax professionals as a valuable source of getting tax advice or information

**Why This Is a Most Serious Problem:** Even though tax return preparers prepare over half of the individual returns filed each year, many have no credentials and are subject to no minimum standards. Because taxpayers bear responsibility for the accuracy of their own returns, inept or dishonest preparers harm taxpayers by subjecting them to unanticipated tax deficiencies, penalties, interest, overpaid taxes, or lost refunds.

**Key Statistics:** For TY 2022, almost 60% of Preparer Tax Identification Numbers, which the IRS requires a tax return preparer to use to file a return, belonged to non-credentialed preparers. In the prior tax year, non-credentialed preparers filed about 79% of prepared returns claiming the Earned Income Tax Credit (EITC); their returns account for 91% of the associated audits and generate 94% of EITC audit adjustments.

### Most Serious Problem: Identity Theft

Taxpayer Perspective

**77%**  
trust the IRS to protect their tax account records from cyber criminals

**Why This Is a Most Serious Problem:** Each year, the IRS flags millions of returns for potential fraud. Before receiving their refunds, taxpayers who have filed legitimate returns deal with inadequate notices and difficulties authenticating their identity. Meanwhile, victims of tax related identity theft experience long delays to have their returns processed and receive their refunds.

**Key Statistics:** In 2022, the IRS suspended processing of 4.8 million tax returns, most with adjusted gross incomes less than 250% of the Federal Poverty Level and requested these taxpayers authenticate their identities before it would release their refunds. In 2023, victims of tax-related Identity theft waited nearly 19 months to have their returns processed and receive their refunds.

### Most Serious Problem: Online Account Access for Taxpayers and Tax Professionals

**Taxpayer Perspective**

**90%**

find a personal online account valuable

**86%**

want to be able to email questions to the IRS

**Why This Is a Most Serious Problem:** Taxpayers and tax professionals lack a comprehensive online account with integrated digital communication tools to access tax information and services. When taxpayers cannot quickly communicate with the IRS to resolve issues digitally, it negatively affects the taxpayer experience, which in turn impacts taxpayers' overall satisfaction and trust in the IRS.

**Key Statistics:** During FY 2023, nearly 17 million individuals accessed their online accounts; however, that represents only 11% of the taxpayers who filed a TY 2022 return. Since the IRS launched online services for tax professionals and their clients, Tax Pro, in July 2021, tax professionals and their clients have completed only 11,342 power of attorney authorizations and 3,705 tax information authorizations through Tax Pro while over 3.5 million were filed by paper, e-fax, or Taxpayer Digital Communication.

### Most Serious Problem: International

**Taxpayer Perspective**

**44%**

feel the IRS devotes too many resources to enforcement

**Why This Is a Most Serious Problem:** U.S. persons who receive money from abroad or who have certain foreign financial interests and cross-border business activities are potentially subject to a wide range of U.S. reporting requirements. Many of these requirements come with significant penalty exposure when a filing is late, incomplete, or inaccurate. Moreover, the IRS automatically assesses and broadly applies these harsh and often unexpected penalties.

**Key Statistics:** Between 2018 and 2021, the IRC § 6039F penalty for undisclosed gifts from foreign sources created over 4,000 penalties totaling \$1.7 billion, with an average penalty of over \$425,000 and 92% assessed against individuals most commonly earning \$400,000 or less. During this same period, a yearly average of over 10,000 IRC §§ 6038 and 6038A penalties were assessed against both sole proprietors, over 71% with incomes not exceeding \$400,000, and other business structures, over 60% with less than \$1 million of total assets, for failure to file certain documents totaling nearly \$435 million per year.

### Most Serious Problem: Compliance Challenges for Taxpayers Abroad

**Taxpayer Perspective**

**90%**

agree that the more guidance from the IRS, the more likely people are to correctly file taxes

**89%**

want a toll-free number to ask questions

**Why This Is a Most Serious Problem:** Taxpayers abroad face vast difficulties in complying with their U.S. tax obligations, as they face filing requirements not typically applicable to taxpayers living in the United States. The IRS offers limited assistance and guidance, and taxpayers often lack accessible, real-time customer service assistance from the IRS.

**Key Statistics:** According to the U.S. Department of State, roughly nine million U.S. citizens reside abroad as of 2020. The IRS issued over 1.3 million notices and other correspondence to foreign addresses in FY 2021 and over 1.6 million in FY 2022.

### Most Serious Problem: Appeals

**Taxpayer Perspective**

**74%**

trust the IRS to fairly enforce the tax laws

**Why This Is a Most Serious Problem:** The lack of independence and operational efficiency in the IRS Independent Office of Appeals (Appeals) undermines taxpayer trust and prolongs dispute resolution.

**Key Statistics:** In FY 2023, Appeals hired 91 new Appeals Officers. Of those, 87% were current IRS employees, and only 13% were external hires. Of the internal hires, 77% came directly from IRS Compliance positions. From FY 2022 to FY 2023, the average wait for a taxpayer to receive an Appeals conference after assignment to an Appeals Officer increased from 116 days to 146 days, a nearly 26% increase in states with a permanent Appeals presence. In areas with little or no Appeals presence assigned, the average wait time doubled from 120 days to 243 days.