

Introduction: The Most Serious Problems Encountered by Taxpayers

IRC § 7803(c)(2)(B)(ii)(III) requires the National Taxpayer Advocate to submit an annual report to Congress that contains a summary of the ten “Most Serious Problems” encountered by taxpayers.¹ While we use the method described below to identify the Most Serious Problems, the list remains inherently subjective in many respects.

METHODOLOGY OF THE MOST SERIOUS PROBLEMS LIST

The National Taxpayer Advocate is in a unique position to identify the most serious problems facing taxpayers because we receive input from a wide variety of sources. Through our Case Advocacy operations, TAS helps hundreds of thousands of taxpayers to resolve their account problems with the IRS every year. We help many types of taxpayers, including individuals, businesses, and exempt organizations, and we work with both unrepresented taxpayers and taxpayers represented by tax professionals. Some cases come to us directly while others come through referrals from congressional offices and the IRS.

As part of our Systemic Advocacy operations, TAS leaders meet frequently with organizations that work in the tax administration field, and we maintain an online portal through which members of the public and IRS employees can call our attention to systemic problems that affect groups of taxpayers or all taxpayers.² We receive hundreds of submissions each year. We review them all and create “advocacy projects” to address priority problems. TAS employees also work on cross-functional teams with other parts of the IRS to address areas that impact taxpayer rights and taxpayer service.

The National Taxpayer Advocate considers the input from these sources and assesses the following factors in selecting the Most Serious Problems encountered by taxpayers:

- Impact on taxpayer rights;
- Number of taxpayers impacted;
- Financial impact on taxpayers;
- Visibility, sensitivity, interest to stakeholders and Congress, and external indicators (*e.g.*, media);
- Barriers to tax law compliance, including cost, time, and burden;
- Taxpayer Advocate Management Information System inventory data;
- Emerging issues; and
- Input from TAS Local Taxpayer Advocates.

1 Prior to 2019, Congress tasked the National Taxpayer Advocate with identifying at least 20 of the most serious problems encountered by taxpayers. The Taxpayer First Act, enacted in 2019, amended the law to require the National Taxpayer Advocate to identify the ten most serious problems encountered by taxpayers. See Pub. L. No. 116-25, 133 Stat. 981 (2019).

2 The Systemic Advocacy Management System is a database through which IRS employees and members of the public can submit issues for TAS’s consideration and on which TAS employees record subsequent action on those issues. IRS, Systemic Advocacy Management System (SAMS), <https://www.irs.gov/advocate/systemic-advocacy-management-system-sams>. TAS reviews and analyzes all SAMS submissions and determines a course of action, which may include information-gathering projects, immediate interventions, and advocacy projects. Internal Revenue Manual 1.4.13.4.9.2, Systemic Advocacy Management System (SAMS) (July 16, 2021), https://www.irs.gov/irm/part1/irm_01-004-013.

#1 Employee Retention Credit

Congress created the Employee Retention Credit (ERC) to support struggling businesses and exempt organizations during the COVID-19 pandemic. Due to what the IRS believes is a high number of improper claims submitted by taxpayers, it implemented a moratorium on processing claims on September 14, 2023, and has been slow to process claims ever since. Taxpayers have been frustrated by the IRS's lack of information and transparency as to its plan for processing the remaining nearly 1.2 million claims as of October 26, 2024.



Considering ERC claims closed in 2024 through September, the IRS's average processing time for ERC claims is now more than a year.

#2 Return Processing

The IRS burdens millions of taxpayers each year with issues related to return processing, including rejections of electronically filed returns, slow processing of paper returns, difficulty correcting errors after filing, the glacial pace for processing of amended returns, challenges obtaining information from their online accounts, and confusion responding to notices and letters.



The IRS receives about 76 million paper-filed tax forms and information returns annually, but in 2024, it was only able to scan 58 percent of them electronically (as of October 2024).

#3 Identity Theft

Tax-related identity theft has long been a threat to tax administration for victims who are experiencing significant IRS processing and refund delays. The IRS's lengthy delays in resolving Identity Theft Victim Assistance (IDTVA) cases burden identity theft victims and is inconsistent with the fundamental rights of taxpayers.



Among cases closed in fiscal year 2024, identity theft victims waited on average over 22 months for the IRS to resolve their IDTVA cases – almost two years!

#4 IRS Service

When taxpayers need assistance from the IRS to meet their filing and payment obligations, many do not receive the quality experience that taxpayers and tax professionals need, leading to delays, frustration, and unnecessary costs. As the IRS continues to transform, it must develop measures of service that reflect the actual taxpayer experience across all communication methods and improve the service experience for all.



On the Accounts Management phone lines, only 32 percent of callers reached an IRS employee during the 2024 filing season.

#5 Tax-Related Scams

Every year, people from all walks of life fall victim to increasingly complex tax-related scams that are both sophisticated and financially devastating. Victims often experience shattered financial security, indefinitely frozen IRS refunds that disrupt their lives, and confusion due to a lack of understanding of the process and consequences.



As of the end of fiscal year 2024, approximately 739,000 taxpayers were still waiting for the IRS to unfreeze their refund due to potential frivolous credits, many of which likely resulted from tax scams or schemes.

#6 Hiring

The IRS faces significant challenges hiring and retaining the qualified employees essential for fulfilling its mission. Significant staffing shortages over the past decade have led to poor taxpayer service and operational inefficiencies, impacting both taxpayers and the agency's effectiveness.



Although the IRS has increased the number of customer service representatives, attrition for this position was 24 percent in fiscal year 2023 and 19 percent in fiscal year 2024, and 63 percent of the IRS workforce is eligible to retire within six years.

#7 Individual Taxpayer Identification Number Processing

Citing concerns about potential fraud, the IRS has long rejected recommendations to digitalize the Individual Taxpayer Identification Number (ITIN) application process, insisting on the use of paper applications and manual verification of identification documents. The result for taxpayers is long delays in processing times, inconsistent treatment of applications, mistakes by tax examiners that may permanently deprive taxpayers of benefits they qualify for under law, and sometimes the loss or destruction of taxpayer identification documents.



From fiscal years 2020 through 2023, the IRS received over a million ITIN applications annually.

#8 Tax and Financial Literacy

Tax literacy is a key component of financial literacy, and insufficient tax knowledge can lead to a range of financial and related consequences that negatively affect individuals, families, and small businesses. Insufficient tax literacy is a widespread problem that has significant costs to taxpayers and the government.



A recent Tax Foundation survey of U.S. taxpayers found that “on average, over 61 percent of respondents did not know or were not sure of basic concepts related to income tax filing.”

#9 Civil Penalty Administration

Though penalties are a necessary tool for tax compliance, the IRS does not always administer them according to its own policies or in a fair and consistent manner, which harms taxpayers and erodes their confidence in the U.S. tax system. Some of these penalties are immense, causing life-changing and even insurmountable events for taxpayers.



IRS records reflect over 55 percent of accuracy-related penalties proposed by Exam for calendar years 2018-2022 were either not sustained in Appeals or were abated.

#10 Criminal Voluntary Disclosure

The IRS's changes to its criminal voluntary disclosure practice (VDP) leave taxpayers in a quandary over whether and how to come into compliance. This does not effectively encourage voluntary compliance and therefore exacerbates the overall tax gap and makes it harder to collect the taxes owed.



As of August 31, 2024, the IRS has only completed 161 criminal VDP cases since the beginning of fiscal year 2019.