

NATIONAL TAXPAYER ADVOCATE

ANNUAL REPORT TO CONGRESS

Executive Summary – Preface & Highlights

2025



YOUR VOICE AT THE IRS



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Preface: Introductory Remarks by the National Taxpayer Advocate

HONORABLE MEMBERS OF CONGRESS:

It is my privilege to submit for your consideration the National Taxpayer Advocate's 2025 Annual Report to Congress. This report is intended to help Congress strengthen taxpayer rights, reduce taxpayer burden, and improve IRS performance. As required by law, the report identifies and discusses what I believe were the ten most serious problems taxpayers faced in their dealings with the IRS during fiscal year (FY) 2025, summarizes the tax issues most frequently litigated in the U.S. Tax Court (Tax Court) and other federal courts, and makes administrative and legislative recommendations to mitigate taxpayer problems and improve the taxpayer experience.¹ Our legislative recommendations are presented in a companion volume, the National Taxpayer Advocate 2026 Purple Book, *Compilation of Legislative Recommendations to Strengthen Taxpayer Rights and Improve Tax Administration*.²

I am pleased to report that during the final weeks of 2025, Congress enacted three recommendations from the National Taxpayer Advocate's 2025 Purple Book. The Internal Revenue Service Math and Taxpayer Help Act significantly improves the clarity of math error notices,³ and the Disaster Related Extension of Deadlines Act⁴ implements our recommendations to prevent taxpayers from losing refunds due to deadline confusion and to stop collection notices from being issued before the deadline for paying tax.⁵ Both bills passed with unanimous bipartisan support. Although neither is front page news, they meaningfully reduce avoidable disputes and provide important protections for millions of taxpayers.

The House has passed additional legislation drawn from the 2025 Purple Book that is now pending in the Senate. H.R. 1152, the Electronic Filing and Payment Fairness Act, would extend the "mailbox rule" applicable to mailed documents and payments to electronically submitted documents and payments. H.R. 5346, the Fair and Accountable IRS Reviews Act, would require supervisory approval of certain penalties before written communication imposing a penalty is sent to a taxpayer. H.R. 5349, the Tax Court Improvement Act, would implement two National Taxpayer Advocate Purple Book recommendations – one authorizing Tax Court judges to sign subpoenas to facilitate discovery before scheduled hearings and the other authorizing Tax Court judges to make exceptions to the 90-day deadline for filing a petition contesting a notice of deficiency for good cause, such as when a taxpayer misses the deadline due to a medical emergency.

1 IRC § 7803(c)(2)(B)(ii). As required by law, this report is submitted directly to the congressional tax-writing committees "without any prior review or comment from the Commissioner, the Secretary of the Treasury, the Oversight Board, any other officer or employee of the Department of the Treasury, or the Office of Management and Budget," except for the validation of statistical information. See IRC § 7803(c)(2)(B)(iii).

2 The National Taxpayer Advocate's annual report is due on December 31, and we generally make it available during the first week in January. The report is delayed this year due to the government shutdown, as most TAS employees were furloughed for over a month.

3 Pub. L. No. 119-39, 139 Stat. 659 (2025) (implementing National Taxpayer Advocate 2025 Purple Book, *Compilation of Legislative Recommendations to Strengthen Taxpayer Rights and Improve Tax Administration* 21 (Require That Math Error Notices Describe the Reason(s) for the Adjustment With Specificity, Inform Taxpayers They May Request Abatement Within 60 Days, and Be Mailed by Certified or Registered Mail), https://www.taxpayeradvocate.irs.gov/wp-content/uploads/2024/12/ARC24_PurpleBook_03_ImproveAssmtCollect_9.pdf).

4 Pub. L. No. 119-64, 139 Stat. 1984 (2025).

5 See National Taxpayer Advocate 2025 Purple Book, *Compilation of Legislative Recommendations to Strengthen Taxpayer Rights and Improve Tax Administration* 133 (Amend the Lookback Period for Allowing Tax Credits or Refunds to Include the Period of Any Postponement or Additional or Disregarded Time for Timely Filing a Tax Return), https://www.taxpayeradvocate.irs.gov/wp-content/uploads/2024/12/ARC24_PurpleBook_08_MiscRecs_55.pdf, and 2025 Purple Book 136 (Protect Taxpayers in Federally Declared Disaster Areas Who Receive Filing and Payment Relief From Inaccurate and Confusing Collection Notices), https://www.taxpayeradvocate.irs.gov/wp-content/uploads/2024/12/ARC24_PurpleBook_08_MiscRecs_56.pdf.

The Senate Finance Committee has also focused on taxpayer rights. Chairman Crapo and Ranking Member Wyden released a discussion draft of a far-reaching tax administration bill, the Taxpayer Assistance and Service Act (or “TAS Act”), containing over 65 provisions, more than half of which reflect Purple Book recommendations.⁶ Their staffs are working to incorporate public comments, and a bill is likely to be introduced in 2026.

Turning back to the IRS: In this preface, I will summarize key taxpayer service results from 2025, describe major challenges the IRS will face in 2026, and summarize the most serious problems and priority legislative recommendations I have identified.

TAXPAYER NEEDS WERE LARGELY MET DURING 2025, BUT 2026 PRESENTS CHALLENGES

Filing Season as a Year-Round System

Over the past five years, I have had the opportunity to closely observe the extraordinary amount of planning, coordination, and sustained effort required each year to deliver a successful filing season. Filing season is not a single event; it is a year-round undertaking that depends on the alignment of technology, staffing, training, legal guidance, and operational execution across the IRS that begins six to 12 months before the start of the filing season. When this alignment works well, taxpayers experience predictability and timely service. When it does not, the consequences are immediate and sometimes financially devastating.

I want to begin by acknowledging the dedication and professionalism of IRS employees and leadership. Throughout a period marked by unprecedented disruption, IRS employees continued to serve taxpayers under extraordinarily challenging conditions, often with limited resources and evolving guidance. Their commitment to public service was evident during some of the most difficult filing seasons in recent history and played a critical role in the operational improvements achieved more recently.

The COVID-19 pandemic fundamentally disrupted tax administration and reshaped filing season operations. Facility closures reduced on-site staffing, and the rapid transition to remote work, sweeping legislative changes, and delivery of multiple economic relief programs through the tax system placed extraordinary strain on IRS operations that impacted multiple filing seasons. These disruptions had direct and lasting consequences for taxpayers, including delayed refunds, unresolved correspondence, repeated and confusing notices, and limited access to assistance. Paper inventories, particularly amended returns, correspondence, and account adjustments, grew to levels not seen in decades, creating backlogs that persisted well beyond the immediate crisis. Although filing season performance has improved dramatically in recent years, inventories of amended returns and correspondence remained higher than normal as of the end of 2025.

For taxpayers, these operational challenges had real financial and emotional consequences. Delayed refunds disrupted household budgets, unresolved notices caused confusion and anxiety, and difficulty reaching the IRS eroded confidence in the tax system. The pandemic years underscored how closely taxpayers’ financial well-being is tied to the IRS’s ability to process work timely and resolve issues efficiently.

The more recent filing seasons have demonstrated meaningful improvement. Increased staffing, improved planning, and greater operational stability contributed to a smoother filing season and more timely refund processing for many taxpayers during 2025. These improvements underscore the value of sustained investment

6 Taxpayer Assistance and Service (TAS) Act, 119th Cong. (Discussion Draft 2025), <https://www.finance.senate.gov/download/tax-admin-bill>.

and thoughtful preparation. However, they should not obscure the structural and operational challenges that remain, particularly as the IRS enters the 2026 filing season facing workforce reductions and the implementation of major tax law changes enacted in the One Big Beautiful Bill (OBBA) Act.⁷

The convergence of two other major refund-related changes in the 2026 filing season is expected to affect millions of taxpayers and materially alter how and when they receive their refunds. First, pursuant to Executive Order 14247, refunds paid during the 2026 filing season generally will be delivered electronically, as the IRS phases out paper refund checks. Taxpayers who do not provide direct deposit information may experience significant refund delays, as the IRS will generally hold refunds for up to six weeks while requesting banking information or determining whether an exception applies, with paper checks only issued afterward. This transition is expected to disproportionately affect unbanked, underbanked, disabled, elderly, and other vulnerable taxpayers for whom paper checks have often been the only practical means of receiving refunds needed to cover basic living expenses.⁸

Second, the 2026 filing season may be the first in several years in which federal tax refunds are again subject to offset for defaulted federal student loan debt, although the timing of that change remains uncertain.⁹ During the pandemic, student loan offsets were suspended, and many taxpayers came to rely on receiving their full refunds to meet essential household expenses. When student loan offsets resume, some taxpayers will see their refunds reduced or eliminated, creating unexpected financial hardship and frustration. Unsurprisingly, many taxpayers will turn to the IRS seeking explanations or assistance, even though the IRS does not control offset decisions. This change is likely to increase taxpayer confusion and anxiety, generate higher call volumes, and complicate refund administration, particularly as offsets for student loan debt may reduce or displace refunds otherwise applied to other federal obligations during an already demanding filing season.

Taxpayer Service in 2025

Taxpayers generally fared well in their dealings with the IRS during 2025. The IRS processed more than 165 million individual income tax returns.¹⁰ About 94% were submitted electronically, and 6% (about 11 million) were filed on paper.¹¹ Approximately 104 million taxpayers (63%) received refunds, with an average refund amount of \$3,167.

7 An Act to Provide for Reconciliation Pursuant to Title II of H. Con. Res. 14, Pub L. No. 119-21, 139 Stat. 72 (2025) [hereinafter referred to as the “One Big Beautiful Bill Act”].

8 For additional background on the phaseout of paper checks, see Erin M. Collins, As the IRS Phases Out Paper Checks, Vulnerable Taxpayers Must Not Be Left Behind, NATIONAL TAXPAYER ADVOCATE BLOG (Oct. 1, 2025), <https://www.taxpayeradvocate.irs.gov/news/nta-blog/as-the-irs-phases-out-paper-checks-vulnerable-taxpayers-must-not-be-left-behind/2025/10>.

9 In April 2025, the U.S. Department of Education announced that its Office of Federal Student Aid was resuming collections on defaulted federal student loans, including by using the Treasury Offset Program to withhold federal payments such as tax refunds and Social Security benefits for borrowers in default. See Press Release, U.S. Dep’t of Educ., *U.S. Department of Education to Begin Federal Student Loan Collections, Other Actions to Help Borrowers Get Back into Repayment* (Apr. 21, 2025), <https://www.ed.gov/about/news/press-release/us-department-of-education-begin-federal-student-loan-collections-other-actions-help-borrowers-get-back-repayment>. On January 16, 2026, however, the Education Department announced a “temporary delay” in enforced collections to give it time to implement student loan reforms enacted as part of the One Big Beautiful Bill Act. See Press Release, U.S. Dep’t of Educ., *U.S. Department of Education Delays Involuntary Collections Amid Ongoing Student Loan Repayment Improvements* (Jan. 16, 2026), <https://www.ed.gov/about/news/press-release/us-department-of-education-delays-involuntary-collections-amid-ongoing-student-loan-repayment-improvements>. The Department did not specify how long the temporary delay will remain in effect, so contrary to its April 2025 announcement, it is now uncertain whether tax offsets will be required in 2026.

10 IRS, Filing Season Statistics for Week Ending Dec. 26, 2025, <https://www.irs.gov/newsroom/filing-season-statistics-for-week-ending-dec-26-2025>.

11 *Id.*

In prior years, particularly during the pandemic, large numbers of taxpayers experienced refund delays because the IRS was slow to process paper-filed returns or suspended the processing of returns that fall into one of the categories shown in Figure 1.1.1. Even during a relatively smooth filing season, millions of taxpayers experience refund delays due to processing delays. More than 30 million individual income tax returns were suspended during processing in FY 2025, broken out as follows:¹²

FIGURE 1.1.1, Individual Taxpayer Submissions Suspended During Processing, FY 2025

Category	Volume
Unpostables	17,731,621
Error Resolution Cases	9,045,056
Processing Rejects	2,828,923
Suspected ID Theft Returns	2,914,180
Suspected Fraudulent Returns	1,025,132
Total	33,544,912

While most suspended returns did not result in significant refund delays, about 3.6 million taxpayers received their refunds beyond the IRS’s normal processing time, with an average wait time of seven weeks for e-filers and 14 weeks for paper filers.¹³ My office, the Taxpayer Advocate Service (TAS), continued to receive substantial volumes of cases involving these issues. TAS received approximately 34,000 pre-refund wage verification hold cases, 14,000 cases involving returned or stopped refunds, 7,000 cases involving lost or stolen refunds, and 7,000 Taxpayer Protection Program cases requiring identity verification before refunds could be released.¹⁴

Case Resolution Time for Identity Theft Victim Assistance Cases Remains Unconscionably Long at Nearly Two Years

In my 2023 annual report to Congress, I highlighted that the IRS was taking nearly 19 months to resolve self-reported identity theft cases in its Identity Theft Victim Assistance (IDTVA) unit. I called the delay “unconscionable,” and the IRS agreed to expedite the processing of these cases. In my 2024 report, I recommended the IRS keep all IDTVA employees working on identity theft cases – and not reassign them to answer telephone calls or perform other work – until the average time for resolving IDTVA cases is reduced to 90 days.

12 IRS, Submission Processing Filing Season Statistics Reports for the weeks ending Oct. 4, 2024 through Sept. 26, 2025; IRS, Compliance Data Warehouse (CDW), Individual Master File (IMF) (Jan. 6, 2026). Generally, unpostable returns are returns that cannot “post” to the taxpayer’s account due to errors or mismatched data (e.g., a recently married taxpayer signs her tax return using her new spouse’s last name so her name and Social Security number don’t match); Error Resolution cases arise when a taxpayer makes a math error on a return or an IRS employee makes an error transcribing a paper-filed return, and an IRS employee must review the return to address the identified issue; processing rejects are returns that cannot be processed, usually due to missing or incorrect information; suspected identity theft returns are returns flagged by IRS identity theft filters; and suspected fraudulent returns are returns flagged by IRS non-identity theft refund fraud filters. For additional explanation of these categories, see Erin M. Collins, Lifecycle of a Tax Return, NATIONAL TAXPAYER ADVOCATE BLOG (May 18, 2021), <https://www.taxpayeradvocate.irs.gov/news/nta-blog/nta-blog-lifecycle-of-a-tax-return/2021/05>.

13 IRS, CDW, Individual Returns Transaction File, IMF, and Notice Delivery System (Tax Year 2024 Form 1040 return filings).

14 Data obtained from Taxpayer Advocate Management Information System (TAMIS) (Oct. 1, 2023; Oct. 1, 2024; Aug. 1, 2025) and Phoenix (Nov. 17, 2025). Note: Phoenix is a dynamic system; the data could change based on when the query is run.

Resolution times for IDTVA cases remain unacceptably long – nearly two years on average – leaving affected taxpayers without refunds to which they are entitled and prolonging financial hardships. The IRS ended FY 2025 with an inventory of approximately 316,000 IDTVA cases and had taken an average of 21 months to resolve them.¹⁵ I reiterate my prior recommendation that the IRS keep IDTVA employees focused on identity theft casework until average resolution time is reduced to 90 days.

The 2026 Filing Season: Complexity Amid Constraint

Staffing Reductions May Impact Workload Capacity

Among the reasons the 2025 filing season went well was that the IRS had its largest workforce in many years and faced no major tax law changes that required implementation during the filing season. Entering 2026, the landscape is markedly different. The IRS is simultaneously confronting a reduction of 27% of its workforce, leadership turnover, and the implementation of extensive and complex tax law changes mandated by the OBBB Act, many of which apply retroactively and require significant IRS programming, guidance, changes to tax forms and instructions, and taxpayer education.

Staffing reductions have been significant. In January 2025, the IRS workforce consisted of more than 102,000 employees. By December, that number had been reduced to about 74,000 employees. The impact of these departures is not merely numeric. Many departing employees were experienced workers whose institutional knowledge and technical expertise cannot easily be replaced.

As shown in Figure 1.1.2, staffing levels have decreased in virtually every IRS Business Operating Division (BOD) and function.¹⁶

¹⁵ IRS, Accounts Management Weekly Identity Theft Report (week ending Oct. 4, 2025); IRS, Accounts Management Research, Analysis and Data, Correspondence Imaging System Closed Case Cycle Time Report (FY 2025).

¹⁶ IRS, Chief Financial Officer data as of Dec. 18, 2025.

FIGURE 1.1.2, IRS Personnel Losses by BOD/Function (as of December 18, 2025)

IRS Business Operating Division/Function	Staffing as of January 25, 2025	Staffing as of December 18, 2025	Percent Change From January 25, 2025
Chief Counsel	2,741	2,260	▼ -17.55%
Chief Financial Office (CFO)	578	414	▼ -28.37%
Chief Operating Officer (COO)	139	366	▲ 163.31%
Chief Tax Compliance Officer (CTCO)	10	4	▼ -60.00%
Communications and Liaison (C&L)	379	205	▼ -45.91%
Criminal Investigation (CI)	3,588	3,118	▼ -13.10%
Direct File (DF)	26	3	▼ -88.46%
Enterprise Case Management Office (ECMO)	51	12	▼ -76.47%
Facilities Management and Security Services (FMSS)	1,212	889	▼ -26.65%
Human Capital Office (HCO)	2,927	2,057	▼ -29.72%
Independent Office of Appeals (Appeals)	1,775	1,263	▼ -28.85%
Information Technology (IT)	8,647	5,954	▼ -31.14%
IRS Headquarters (HQ)	50	17	▼ -66.00%
Large Business and International (LB&I)	6,763	5,023	▼ -25.73%
Office of Chief Risk Officer (CRO)	37	21	▼ -43.24%
Office of Civil Rights and Compliance (OCRC)	177	85	▼ -51.98%
Office of Professional Responsibility (OPR)	21	14	▼ -33.33%
Online Services (OLS)	220	0	▼ -100.00%
Privacy, Governmental Liaison and Disclosure (PGLD)	656	457	▼ -30.34%
Procurement	585	306	▼ -47.69%
Research, Applied Analytics and Statistics (RAAS)	619	453	▼ -26.82%
Return Preparer Office (RPO)	119	81	▼ -31.93%
Small Business/Self-Employed (SB/SE)	24,122	15,012	▼ -37.77%
Tax Exempt/Government Entities (TE/GE)	2,286	1,590	▼ -30.45%
Taxpayer Advocate Service (TAS)	1,971	1,475	▼ -25.16%
Taxpayer Experience Officer (TXO)	106	48	▼ -54.72%
Taxpayer Services (TS)	42,122	33,264	▼ -21.03%
Transformation and Strategy Office (TSO)	80	0	▼ -100.00%
Whistleblower Office (WO)	94	74	▼ -21.28%
TOTAL	102,101	74,465	▼ -27.07%

Leadership attrition has compounded these challenges. As of November 12, the IRS leadership chart listed 28 positions classified as “top officials,” the majority of which were either vacant or filled by acting officials. The loss of experienced managers has been mirrored throughout the agency and inevitably affects planning, coordination, and execution during filing season.

Among key functions IRS employees perform is programming the IRS’s tax return processing systems to reflect changes in the tax law, answering taxpayer telephone calls, and processing taxpayer correspondence. There has been a significant reduction of employees in each of these areas, including a 22% reduction in customer service representatives.¹⁷ Although the Taxpayer Services division has been given authority to backfill some of these positions, the numbers will be smaller, and new hires generally need to be trained from scratch.

To fulfill its mission, the IRS must align hiring decisions with operational needs and emerging challenges, rather than target a predetermined staffing level. Workforce planning should be guided by the work necessary to provide timely, accurate service to taxpayers and to protect taxpayer rights, as well as by the most effective ways to deliver those outcomes. As the IRS considers its hiring model, it should emphasize process improvements and strategic investments in technology that improve the taxpayer experience, reduce unnecessary burden, and ensure staffing resources are aligned with mission-critical functions that support both compliance and fair treatment of taxpayers.

Significant Changes in Tax Law Made by the One Big Beautiful Bill Act Create Implementation Challenges for the IRS and Compliance Challenges for Taxpayers

The OBBB Act made more than 100 changes in the tax code.¹⁸ Many are complex and have required significant IRS programming, guidance, changes to tax forms and instructions, and taxpayer education. While the OBBB Act is generally taxpayer-favorable in that it expands eligibility for certain deductions and benefits, the deductions and benefits are subject to complex eligibility rules, income thresholds, and phaseouts that will be difficult for many taxpayers to understand and for the IRS to administer accurately during the filing season. By the end of 2025, the IRS had programmed the changes associated with the OBBB Act provisions impacting the 2026 filing season, including a new Schedule 1-A, Additional Deductions. This schedule was created to enable taxpayers to claim several new “above the line” deductions (meaning deductions taxpayers can claim even if they do not itemize their deductions). Taxpayers claiming deductions related to tips, overtime pay, car loan interest, and an additional senior citizen deduction will need to fill out the new schedule and carry the totals to Form 1040.

To illustrate the scope and intricacy of the changes that must be implemented before the 2026 filing season, the following examples highlight several new deductions for which many taxpayers may qualify and the detailed rules that taxpayers, practitioners, and IRS systems must navigate correctly:

- **Tax deduction for interest paid on auto loans.**¹⁹ Taxpayers may claim an above-the-line deduction for interest paid on auto loans, but only if numerous conditions are met. The vehicle must be new (used car purchases don’t qualify); the vehicle must have been purchased for personal use (lease payments don’t qualify); the loan must have originated after December 31, 2024; the loan must be secured by a lien on the vehicle; the vehicle must carry a gross vehicle weight rating of less than 14,000 pounds; the vehicle identification number must be included on the tax return; the loan must not have been obtained from a related party; and the vehicle must have undergone “final assembly in the United

¹⁷ IRS, CFO data as of Dec. 18, 2025 (reduction from pay period 23 in 2024 to pay period 23 in 2025).

¹⁸ One Big Beautiful Bill Act, Pub L. No. 119-21, 139 Stat. 72, 74-77 (2025) (listing of tax provisions, which are included in Title VII, Subtitle A of the bill).

¹⁹ *Id.* at § 70203.

States.²⁰ The deduction is capped at \$10,000 and begins to phase out for taxpayers with modified adjusted gross income (MAGI) over \$100,000 for single taxpayers and \$200,000 for married filing jointly taxpayers at a rate of 20% for each additional dollar of income, fully phasing out for single filers with MAGI over \$150,000 and joint filers with MAGI over \$250,000. Each of these requirements must be verified, increasing the risk of errors and delays based upon the taxpayer's filings.

- **Tax deduction for certain tip income.**²¹ Employees and self-employed individuals may claim tips as an above-the-line deduction, but only if they receive them in occupations the IRS lists as having customarily and regularly received tips on or before December 31, 2024, and that are reported to the taxpayer and the IRS on an information reporting return. To qualify, a tip must be “paid voluntarily without any consequence in the event of nonpayment” (“mandatory gratuities” added by some restaurants and other businesses are ineligible), and the deduction applies only for income tax purposes. Employment taxes still must be reported and paid on amounts deducted. The deduction is capped at \$25,000 and is subject to an income phaseout. The deduction begins to phase out for taxpayers with MAGI over \$150,000 for single taxpayers and \$300,000 for married filing jointly taxpayers at a rate of 10% for each additional dollar of income, fully phasing out for single filers with MAGI over \$400,000 and joint filers with MAGI over \$550,000. These distinctions are likely to confuse taxpayers and increase disputes, particularly when employer practices or information reporting are inconsistent.
- **Tax deduction for certain overtime pay.**²² Taxpayers may claim an above-the-line deduction for the portion of overtime pay that exceeds their regular rate of pay. For example, if an employee is normally paid \$20 an hour and is paid \$30 for overtime (time-and-a-half), the employee will be able to deduct the \$10 amount that exceeds the regular rate of pay, but not the \$20 amount that is the same as the regular rate of pay. The deduction is capped at \$12,500 (\$25,000 for joint filers) and begins to phase out for taxpayers with MAGI over \$150,000 for single taxpayers and \$300,000 for married filing jointly taxpayers at a rate of 10% for each additional dollar of income, fully phasing out for single filers with MAGI over \$275,000 and joint filers with MAGI over \$550,000. Implementing this deduction will require coordination among employers, payroll systems, tax software, and IRS processing filters, increasing the likelihood of mismatches and taxpayer telephone calls or correspondence.
- **Additional standard deduction for senior citizens.**²³ Seniors will be able to deduct \$6,000 (\$12,000 for seniors who elect “married filing jointly” filing status) in addition to the current deduction for individuals age 65 and over. While the current deduction is only available to taxpayers who take the standard deduction, the new additional deduction will be available to all taxpayers (meaning taxpayers who itemize their deductions will also be eligible to claim it). The deduction begins to phase out for taxpayers with MAGI over \$75,000 for single taxpayers and \$150,000 for married filing jointly taxpayers at a rate of 6% for each additional dollar of income, fully phasing out for single filers with MAGI over \$175,000 and joint filers with MAGI over \$250,000. Taxpayers who elect “married filing separately” filing status may not claim the additional deduction. Taxpayers must understand how this new deduction interacts with existing age-based deductions and filing status rules, increasing complexity for a population that often relies heavily on accurate IRS guidance and telephone calls to the IRS.

20 Final assembly is defined as “the process by which a manufacturer produces a vehicle at, or through the use of, a plant, factory, or other place from which the vehicle is delivered to a dealer with all component parts necessary for the mechanical operation of the vehicle included with the vehicle, whether or not the component parts are permanently installed in or on the vehicle.” One Big Beautiful Bill Act, Pub L. No. 119-21, § 70203(a), 139 Stat. 72, 176 (2025).

21 One Big Beautiful Bill Act, Pub L. No. 119-21, § 70201, 139 Stat. 72, 170 (2025).

22 *Id.* at § 70202.

23 *Id.* at § 70103.

- **Increased maximum tax deduction for state and local taxes.**²⁴ The maximum deduction for state and local taxes will increase from \$10,000 to \$40,000 for both single filers and taxpayers filing jointly (half for married taxpayers filing separate returns). The deduction will only be available to taxpayers who itemize their deductions, and it is subject to an income limitation but not a full phaseout. The deduction begins to phase down for taxpayers with MAGI over \$500,000 at a rate of 30% for each additional dollar of income, but it will remain at \$10,000 for taxpayers with MAGI of \$600,000 or more.

Other taxpayer-favorable but complex provisions include the creation of Trump retirement accounts.²⁵

It takes considerable work for IRS technology personnel to program IRS systems to administer each of these changes (*e.g.*, to distinguish vehicles that underwent final assembly in the United States from those that did not). At the same time, taxpayers and tax professionals must learn and correctly apply dozens of new rules. Major law changes of this scope historically increase return errors, false positive rates in processing filters, taxpayer correspondence, and taxpayer contacts. These changes will place additional strain on IRS systems and employees at the very moment when staffing levels have been significantly reduced, heightening the risk that the 2026 filing season will be more difficult, frustrating, and costly for taxpayers, practitioners, and the IRS. The good news is the IRS leadership and its employees have worked hard to provide guidance, implement changes to its forms and instructions, and program its systems for the OBBB Act changes in advance of the filing season. The question remains whether taxpayers will understand these benefits and claim them correctly.

The IRS Plans to Outsource the Processing of a Large Portion of Paper-Filed Tax Returns to Private Contractors, Which Creates Risks

The overwhelming majority of individual taxpayers file their returns electronically. But about 11 million individuals continue to file on paper. IRS submission processing employees historically have transcribed paper-filed returns by keying every relevant digit from the returns into IRS systems. I have criticized the IRS in the past for continuing to rely on manual data transcription and have urged it to implement scanning technology to automate the data intake process.²⁶

In April, the IRS launched a “Zero Paper Initiative” to digitize a wide swath of the agency’s operations, including return processing. Rather than do the work itself, the IRS entered into contracts with several private companies to scan returns using optical character recognition technology. While this approach has the potential to reduce processing times for paper returns, it introduces operational and confidentiality risks, particularly because most of these contractors have not previously worked with the IRS.

Historically, IRS submission processing employees transcribed paper-filed returns on IRS campuses within a culture that places overriding emphasis on safeguarding tax return information. Although contracts require vendors to implement confidentiality protections and to require their employees who handle tax returns to take the same training as IRS employees, contractors doing this work for the first time may take shortcuts or otherwise fail to maintain adequate systemic safeguards. It was just a few years ago that an employee of an IRS contractor, Charles Littlejohn, stole the return information of thousands of taxpayers and sent it to media outlets. In the Purple Book, I make a recommendation to enhance penalties on contractors if they fail to protect taxpayer return information.²⁷ While I am pleased to see movement toward the use of scanning technology, the progress of this outsourcing initiative is still in its infancy stage and bears watching.

24 One Big Beautiful Bill Act, Pub L. No. 119-21, § 70120, 139 Stat. 72, 170 (2025).

25 One Big Beautiful Bill Act, Pub L. No. 119-21, § 70204, 139 Stat. 72, 179 (2025).

26 See, *e.g.*, Erin M. Collins, IRS Deputy Commissioners Respond to Taxpayer Advocate Directive on Scanning Technology; National Taxpayer Advocate Appeals Decision to Commissioner, NATIONAL TAXPAYER ADVOCATE BLOG (Aug. 4, 2022), <https://www.taxpayeradvocate.irs.gov/news/nta-blog/nta-blog-irs-deputy-commissioners-respond-to-taxpayer-advocate-directive/2022/08>.

27 See National Taxpayer Advocate 2026 Purple Book, *Compilation of Legislative Recommendations to Strengthen Taxpayer Rights and Improve Tax Administration* 175 (*Strengthen Incentives for IRS Contractors to Ensure Their Employees Keep Taxpayer Return Information Confidential*).

Measuring What Matters

From the taxpayer’s perspective, a successful filing season is measured by outcomes rather than internal IRS metrics. Taxpayers want to file accurately, receive acknowledgment of filing, receive refunds quickly, resolve issues without prolonged delays, and obtain assistance when needed. While telephone accessibility is an important component of service, access alone does not resolve most taxpayer problems.

Historically, the IRS’s primary measure of taxpayer service has been a telephone metric known as the “Accounts Management Customer Service Representative Level of Service” (LOS), which generally measures the percentage of calls answered by a live assistor among calls routed to live assistors. Although the LOS loosely measures access, it does not measure whether taxpayers receive accurate information, whether their issues are resolved, or whether they must call back repeatedly about the same unresolved problem. It is also a misleading measure, because taxpayers often assume the LOS reflects the percentage of callers who reach an IRS employee. It does not. During FY 2025, the LOS was 60% on the Accounts Management (AM) telephone lines, yet only 26% of callers spoke with an IRS employee.²⁸ We have written extensively about the flaws in this measure in past reports.²⁹ Even among calls answered, a call that does not resolve the taxpayer’s issue is not a successful interaction. The Treasury Inspector General for Tax Administration (TIGTA) has also been critical of the IRS’s use of the LOS measure. In a report released in August 2025 on IRS telephone service, TIGTA concluded that the LOS and average wait times, key performance metrics, do not reflect the actual taxpayer experience.³⁰

Many of the issues that most directly affect taxpayers, such as amended returns, correspondence responses, penalty abatement requests, and account adjustments, require manual processing that IRS employees cannot complete during a telephone call. When underlying inventories remain unresolved, taxpayers often have no choice but to call the IRS for updates or clarification, increasing call volumes without resolving the root problem. One of the most persistent challenges facing the IRS is balancing the demand for telephone service with the need to process paper and manual workloads. The same AM employees who answer taxpayer calls are also responsible for resolving paper cases. When staffing is limited and call volumes increase, resources are often shifted to maintain a high telephone LOS. While this may improve reported access in the short term, it is often a net negative overall, as it exacerbates paper backlogs, delays refunds and account resolutions, and ultimately increases repeat contacts from taxpayers seeking updates.

In recent years, the IRS has set a goal of achieving an LOS of 85% during the filing season. While that goal is laudable, it results in over a million hours of idle employee time each filing season. That’s because to answer 85% of calls routed to telephone assistors, the IRS must staff the phone lines to meet call demand at peak times. As a consequence, the phone lines are substantially overstaffed at other times. The IRS has not yet found a way to shift its customer service representatives seamlessly between answering the phones at peak periods and processing correspondence at other times, so representatives in recent years have spent as much as 34% of their time simply waiting for the phone to ring.³¹ During the 2023 filing season, that translated to nearly 1.3 million hours.³² Customer service representatives closed an average of 1.21 cases per hour in the

28 The LOS measure only reflects calls that the IRS telephone system routes to customer service representatives. During FY 2025, about 27 million calls were routed to voice bots and about 11 million were reported as “primary abandons” (where taxpayers hung up before they were placed into a calling queue, often because they didn’t believe they would receive timely or satisfactory service). These roughly 38 million calls and certain others were excluded from the LOS calculation. Taking into account all calls received on the Accounts Management telephone lines, only 26% reached a customer service representative. IRS, Joint Operations Center, Snapshot Reports: Enterprise Snapshot, Accounts Management (week ending Sept. 30, 2025); IRS response to TAS information request (Dec. 22, 2025).

29 See, e.g., National Taxpayer Advocate 2023 Annual Report to Congress 48 (Most Serious Problem: *Telephone and In-Person Service: Despite Improvements in Its Service Levels, the IRS Still Does Not Provide Taxpayers and Tax Professionals with Adequate, Timely Telephone and In-Person Service*), https://www.taxpayeradvocate.irs.gov/wp-content/uploads/2024/01/ARC23_MSP_04_Telephone-InPerson.pdf.

30 TIGTA, Ref. No. 2025-100-040, *Telephone Level of Service and Average Wait Times Do Not Fully Reflect the Taxpayer Experience* (2025).

31 IRS, Ready Agent Hours Report (Jan. 1 – Apr. 22, 2023).

32 IRS, Ready Agent Hours Report (Jan. 1 – Apr. 22, 2023).

tax adjustments inventory that year.³³ Therefore, if the telephone idle time of nearly 1.3 million hours had been allocated to resolving paper inventories, the IRS would have processed and closed more than 1.5 million additional cases.

It is not practical to eliminate all idle time, but if the IRS set a lower LOS goal, it would get more bang for the buck; AM employees would have considerably less idle time and would resolve more taxpayer issues more quickly. In essence, an overly high LOS can create a self-perpetuating cycle: Customer service representatives spend significant time idle rather than resolving underlying account issues, those unresolved issues prompt taxpayers to call repeatedly or submit duplicative correspondence, and the resulting increase in calls and correspondence further strains IRS resources and delays resolution.

The recent workforce reductions have heightened the need to maximize productivity and reduce idle time. Although the IRS has received authorization to hire additional AM employees, delays have limited its success. What was already a lengthy hiring process is now lengthier, with additional approvals required by the Treasury Department and the Office of Personal Management adding many weeks or months to the process. As a result, the IRS sought to hire about 3,500 customer service representatives for the upcoming filing season, but it fell over 1,000 employees short.

Lessons Learned

When staffing is limited, shifting resources to maintain telephone access may improve reported LOS in the short term, but it exacerbates paper backlogs, delays refunds and account resolutions, and ultimately increases repeat contacts. A high LOS achieved at the expense of timely case resolution can worsen the overall taxpayer experience rather than improve it, and combined with recent workforce reductions, it is likely to create a big hole from which the IRS will spend months or years digging out. I recommend the IRS eliminate the LOS as a benchmark performance measure and replace it with a suite of performance measures that better reflect the taxpayer experience and drive improvements in the quality of taxpayer service.

In recent years, the IRS has consistently managed to navigate formidable challenges to deliver relatively successful filing seasons. Despite unprecedented obstacles, it even managed to run the filing season and issue timely refunds to most taxpayers during the COVID-19 pandemic. I am optimistic it will do so again in 2026. For the significant majority of taxpayers who file their returns electronically, who include their direct deposit information, and whose returns are not stopped by IRS processing filters, the process will be seamless. Their returns will be processed quickly, and if they are due a refund, they will receive it without delay. But as always, the success of the filing season will be defined by how well the IRS is able to assist the millions of taxpayers who experience problems.

MOST SERIOUS PROBLEMS ENCOUNTERED BY TAXPAYERS

As required by statute, this report describes the ten most serious problems taxpayers experienced in their dealings with the IRS over the past year and makes recommendations to address them. A quick summary of the “Top 10” follows:

- **Refund delays and unclear and confusing disallowance notices harm taxpayers and jeopardize their rights to administrative and judicial review.** During FY 2025, the IRS processed about 1.6 million business amended returns and took an average of over 13 months to do so. Although delays for individual amended returns were less extreme, it took the IRS an average of over five months to process 3.7 million such returns. Refund delays can cause financial harm for taxpayers, as businesses may need their refunds for cash flow purposes and individuals, particularly low-income individuals,

³³ IRS, Accounts Management Research, Analysis and Data, FY24 Paper Efficiency Target Report (week ending Sept. 28, 2024) (showing 1.21 cases closed per employee per hour in the Adjustments inventory).

may require refunds to pay their basic living expenses. When the IRS disallows a refund claim, it often issues a notice that is unclear and does not provide vital information, including the deadline by which the taxpayer must either file a refund suit in court or get the IRS to execute an extension of the filing deadline. We recommend the IRS take additional steps to automate the processing of amended tax returns so it can process them more quickly, and we recommend it improve the clarity of the information it provides in notices of claim disallowance and establish procedures to execute Form 907, Agreement to Extend the Time to Bring Suit, to protect taxpayer rights from harm caused by IRS delays.

- **Outdated paper processes and procurement delays harm taxpayers.** The IRS’s challenges in modernizing its technology systems are longstanding, and as I discussed earlier, the need to digitize its operations is becoming more critical. When the IRS processes paper-filed original tax returns, amended tax returns, and taxpayer correspondence through paper processing methods, taxpayers must wait longer to receive their refunds or correspondence responses. In addition, transcription errors are often made that create problems and often require additional back-and-forth between the taxpayer and the IRS to resolve. The IRS’s struggles in modernizing its technology are largely attributable to the agency’s large number of data systems and the way they interact with each other. The agency’s Zero Paper Initiative is currently a top priority. We recommend the IRS conduct a comprehensive study of the pros and cons of contracting with external vendors as compared with building in-house capacity staffed by IRS employees to perform scanning and other digital operations, and we recommend the IRS refine its procurement processes to reduce bid protests and consequent delays.
- **The IRS does not accurately measure the quality of telephone service.** Telephone service remains the primary method by which taxpayers contact the IRS to ask questions or resolve account problems. Taxpayers called the IRS over 100 million times last year. Despite the importance of this communication method, the IRS does not have adequate measures to assess whether taxpayer needs are being met. Historically, the IRS has published the LOS performance measure, which we have criticized because most calls the IRS receives are excluded from the measure and the measure does not capture the quality or resolution of the calls. During 2025, the IRS routed about 35 million calls to new voicebot technology; these calls also are not included in its benchmark LOS telephone performance measure, except for calls transferred to telephone assistors.³⁴ So far, taxpayers generally have not been satisfied with the voicebots. In taxpayer satisfaction surveys, only about half of taxpayers reported that they found the *Where’s My Refund?* bot helpful and only 40% found the *Where’s My Amended Return?* bot helpful. We recommend the IRS implement comprehensive outcome-based measures for all telephone lines, including measurement of “first contact resolution.”
- **Taxpayers and tax professionals continue to raise concerns about the independence of the Independent Office of Appeals (Appeals), undermining public confidence in the appeals process.** One of the ten rights in the Taxpayer Bill of Rights is the *right to appeal a decision of the Internal Revenue Service in an independent forum*.³⁵ It is critical that taxpayers receive a prompt and independent review of determinations made by the IRS compliance functions and, equally important, that taxpayers have confidence that Appeals’ reviews are independent and do not merely rubber stamp compliance actions. Among our concerns: taxpayers often experience significant delays in obtaining Appeals hearings; Appeals personnel sometimes lack adequate training; an Alternative Dispute Resolution (ADR) mediation process is vastly underutilized; and concerns about independence persist, particularly when Appeals Officers invite Compliance or Chief Counsel personnel to attend taxpayer conferences. We recommend the IRS establish binding timeline standards, require annual training on hazards-of-litigation analysis, reinvigorate and publicize the ADR program, update

³⁴ IRS response to TAS information request (Dec. 22, 2025).

³⁵ See Taxpayer Bill of Rights (TBOR), <https://www.taxpayeradvocate.irs.gov/taxpayer-rights> (last visited Dec. 26, 2025). The rights contained in TBOR are also codified in IRC § 7803(a)(3).

procedures to emphasize independence, and require Appeals Officers to obtain taxpayer consent to include Compliance or Chief Counsel personnel in taxpayer conferences.³⁶

- **Online accounts for tax professionals lack critical functionality required to enable them to effectively represent taxpayers.** About 11 million taxpayers have active tax professional authorizations with the IRS, either authorizing a tax professional to receive their tax information or authorizing a tax professional to represent them in tax controversies. Tax professionals assist taxpayers with a wide range of issues, including responding to IRS notices, representing them in audits and collection cases, and providing support on other account-related matters. Yet the online account for tax professionals (Tax Pro Account) is far more limited than taxpayer online accounts, often requiring tax professionals to communicate with the IRS via snail mail or telephone. The limitations on their ability to access taxpayer information online delays case resolution, allows penalties and interest to accumulate, and drives up representation costs. We recommend the IRS expand Tax Pro Account functionality so representatives can access the same features and information that their clients can access through their individual and business online accounts.
- **Taxpayers face delays and inadequate responses to their administrative requests for records from the IRS.** The Freedom of Information Act (FOIA) was enacted in 1966 to increase transparency about federal policies and decision-making.³⁷ At the IRS, however, taxpayers more frequently rely on FOIA to obtain their own tax records. When a taxpayer receives a notice proposing additional tax or penalties or receives a collection notice, the taxpayer or representative may want to review all documents the IRS received or created in making its determination to help them advocate for their position. Filing a FOIA request is often the only way to get those documents. The FOIA process is cumbersome and often results in significant delays and failure to obtain the information the taxpayer is entitled to receive. We recommend the IRS make more information available directly to taxpayers or their representatives without the need to file FOIA requests and improve IRS digital records systems to ensure consistency in providing responses.
- **Systemic failures undermine taxpayer rights to representation, due process, and quality service.** The IRS maintains the Centralized Authorization File (CAF) to manage and track the authority of tax professionals to represent taxpayers before the IRS. It must balance processing taxpayer authorization forms efficiently with preventing unauthorized access to taxpayer records. Practitioners report that the authorization process still relies heavily on manual processing and, as a result, is slow and error prone. In addition, some practitioners have had their CAF numbers suspended or deactivated. This makes it nearly impossible for practitioners to communicate with the IRS on behalf of their clients, harming the taxpayer and effectively preventing the practitioners from doing their jobs. We recommend the IRS take several steps to improve CAF processing, including improving operational efficiencies, notifying practitioners if their CAF numbers are suspended, and developing procedures to limit the harm to taxpayers and practitioners when a CAF suspension occurs.
- **The negative tax influence of social media harms taxpayers.** Taxpayers understandably want to minimize their tax burden, and social media abounds with tempting but false information, such as purported tax credits that don't exist or claims that income not reported on a Form W-2 does not need to be reported on a tax return. At the same time, the IRS now uses social media to communicate

36 The Purple Book contains a legislative recommendation to require that Appeals Officers obtain taxpayer consent in order to include Compliance or Chief Counsel personnel in taxpayer conferences. See National Taxpayer Advocate 2026 Purple Book, *Compilation of Legislative Recommendations to Strengthen Taxpayer Rights and Improve Tax Administration* 87 (*Require Taxpayers' Consent Before Allowing IRS Counsel or Compliance Personnel to Participate in Appeals Conferences*).

37 Lyndon B. Johnson, Statement by the President Upon Signing the "Freedom of Information Act," The American Presidency Project (July 4, 1966), <https://www.presidency.ucsb.edu/documents/statement-the-president-upon-signing-the-freedom-information-act>. FOIA is codified at 5 U.S.C. § 552.

accurate information to taxpayers. To maximize the benefits of social media and minimize its downsides, we recommend the IRS conduct an analysis of how strategies used to identify and deter ghost preparers may be adapted to address social media misinformation, partner with trusted community organizations to develop and distribute accurate and helpful content, work with secondary school systems to teach tax and financial literacy, and continue to improve its own social media outreach.

- U.S. taxpayers living abroad face severe compliance burdens.** U.S. taxpayers living abroad face both statutory and administrative burdens. From a statutory perspective, the United States is one of very few countries that taxes its citizens on income earned overseas, and it requires many taxpayers to file a Report of Foreign Bank and Financial Accounts (FBAR) and comply with the reporting requirements of the Foreign Account Tax Compliance Act (FATCA).³⁸ From an administrative perspective, taxpayer service is difficult to obtain overseas. There are no Taxpayer Assistance Centers, no free Volunteer Income Tax Assistance and Tax Counseling for the Elderly programs except on certain military bases, no toll-free telephone option, no callback option, and no ability to make tax payments from or receive tax refunds in foreign bank accounts. We recommend the IRS take several steps to improve the accessibility of IRS services for taxpayers living abroad, and in our Purple Book, we recommend Congress eliminate duplicative FBAR and FATCA reporting requirements and remove the reporting requirement for financial accounts a U.S. person maintains in the country in which the person is a *bona fide* resident.³⁹
- Taxpayers face long delays and hardships with IRS processes designed to offer relief from international withholding requirements.** The U.S. tax system requires payors of certain income to foreign taxpayers to withhold tax that, in some cases, far exceeds the taxpayer's tax liability. Foreign income recipients may spend years trying to recover funds unnecessarily withheld. At the same time, U.S. payors who fail to comply with withholding obligations may face personal liability, plus penalties and interest. Common problems include long processing delays, lack of e-filing options, IRS errors that seem to arise from manual data entry, and lack of access to IRS employees who can help to resolve problems. We recommend the IRS create a timeline for developing e-filing capability, online portals, and other digital tools to assist taxpayers with withholding programs, study the causes of unwarranted failure-to-file and failure-to-pay penalty assessments under the Foreign Investment in Real Property Tax Act (FIRPTA), and post and update processing times on IRS.gov, so taxpayers know what to expect.⁴⁰

LEGISLATIVE RECOMMENDATIONS

The National Taxpayer Advocate Purple Book this year makes 71 recommendations to strengthen taxpayer rights and improve tax administration. Most recommendations in this volume are non-controversial, common-sense reforms. I highlight the following ten legislative recommendations for particular attention:

- Authorize the IRS to establish minimum standards for federal tax return preparers and revoke the identification numbers of sanctioned preparers (Recommendation #5).** The IRS receives over 160 million individual income tax returns each year, and most are prepared by paid tax return preparers. While some tax return preparers must meet licensing requirements (*e.g.*, certified public accountants, attorneys, and enrolled agents), most tax return preparers are not credentialed. Numerous studies have found that non-credentialed preparers disproportionately prepare inaccurate returns, causing some taxpayers to overpay their taxes and other taxpayers to underpay, which subjects them to penalties and interest charges. Non-credentialed preparers also drive much of the high improper

38 Pub. L. No. 111-147, Title V, Subtitle A, § 511, 124 Stat. 71, 109-10 (2010).

39 See National Taxpayer Advocate 2026 Purple Book, *Compilation of Legislative Recommendations to Strengthen Taxpayer Rights and Improve Tax Administration* 19 (*Eliminate Duplicative Reporting Requirements Imposed by the Bank Secrecy Act and the Foreign Account Tax Compliance Act*).

40 Foreign Investment in Real Property Tax Act of 1980, Pub. L. No. 96-499, §§ 1121-1125, 94 Stat. 2599, 2682-2691 (1980).

payment rate attributable to wrongful Earned Income Tax Credit (EITC) claims. In FY 2024, 27.3% of EITC payments, amounting to \$15.9 billion, were estimated to be improper, and among tax returns claiming the EITC prepared by paid tax return preparers, 96% of the total dollar amount of EITC audit adjustments was attributable to returns prepared by non-credentialed preparers.

Federal and state laws generally require lawyers, doctors, securities dealers, financial planners, actuaries, appraisers, contractors, motor vehicle operators, barbers, and beauticians to obtain licenses or certifications. The Obama, first Trump, and Biden administrations each recommended that Congress authorize the Treasury Department to establish minimum standards for federal tax return preparers. To protect taxpayers and the public fisc, we likewise recommend that Congress provide the Treasury Department with this authorization as well as authorization to revoke the Preparer Tax Identification Numbers (PTINs) of preparers who have been sanctioned for improper conduct.⁴¹

- **Expand the Tax Court’s jurisdiction to hear refund cases (Recommendation #43).** Under current law, taxpayers seeking to challenge an IRS tax due adjustment can file a petition in the Tax Court, while taxpayers who have paid their tax and are seeking a refund must file suit in a U.S. district court or the U.S. Court of Federal Claims. Litigating in a U.S. district court or the Court of Federal Claims is generally more challenging – filing fees are more costly, rules of civil procedure are complex, the judges generally do not have tax expertise, and proceeding without a lawyer is difficult and uncommon. By contrast, taxpayers litigating their cases in the Tax Court face a low \$60 filing fee, face less formal procedural rules, are generally assured their positions will be fairly considered, even if they don’t present them well, because of the tax expertise of the Tax Court’s judges, and thus they can more easily represent themselves without a lawyer. For these reasons, the requirement that refund claims be litigated in a U.S. district court or the Court of Federal Claims effectively deprives many taxpayers of the right to judicial review of an IRS refund disallowance. In FY 2024, about 97% of all tax-related litigation was adjudicated in the Tax Court.⁴² We recommend Congress expand the jurisdiction of the Tax Court to give taxpayers the option to litigate all tax disputes, including refund claims, in that forum.
- **Enable Low Income Taxpayer Clinics to assist more taxpayers in controversies with the IRS (Recommendation #64).** The Low Income Taxpayer Clinic (LITC) Program assists low-income taxpayers and taxpayers who speak English as a second language. When the LITC Program was established as part of the IRS Restructuring and Reform Act of 1998, the law limited annual grants to no more than \$100,000 per clinic.⁴³ The law also imposed a 100% “match” requirement, so a clinic cannot receive more in grants than it raises from other sources. The nature and scope of the LITC Program have evolved considerably since 1998, and those requirements are preventing the program from expanding assistance to a larger universe of eligible taxpayers. We recommend Congress remove the per-clinic cap and allow the IRS to reduce the match requirement to 25%, where doing so would expand coverage to additional taxpayers.
- **Require the IRS to timely process claims for credit or refund (Recommendation #2).** Millions of taxpayers file refund claims with the IRS each year. Under current law, there is no requirement that the IRS pay or deny them. It may simply ignore them. A taxpayer’s only remedy in that circumstance is to file suit in a U.S. district court or the U.S. Court of Federal Claims. For many taxpayers, that is not a realistic or affordable option. The absence of a processing requirement is a poster child for non-responsive government. While the IRS generally does process refund claims, the claims can and

41 In general, a PTIN must be obtained by a tax return preparer who is compensated for preparing or assisting in the preparation of all or substantially all of a federal tax return or claim for refund. The preparer must then include the PTIN on any returns or claims for refund prepared.

42 Data compiled by the IRS Office of Chief Counsel (Nov. 8, 2024). IRS, Counsel Automated Tracking System, TL-711 and TL-712. This data does not include cases on appeal and declaratory judgments.

43 Pub. L. No. 105-206, § 3601, 112 Stat. 685, 774 (1998). In recent years, Congress has increased the per-clinic maximum grant to \$200,000 through annual appropriations legislation.

sometimes do spend months and even years in administrative limbo within the IRS. We recommend Congress require the IRS to act on claims for credit or refund within one year and impose certain consequences on the IRS if it fails to do so.

- **Allow taxpayers to claim the Child Tax Credit and Earned Income Tax Credit for a child who meets all statutory requirements except having a Social Security number by the due date of the tax return (Recommendation #58).** For taxpayers to claim their children for purposes of the Child Tax Credit (CTC) or EITC, their children must have Social Security numbers (SSNs) by the tax return filing deadline. The intent of this requirement is to limit the tax credits to U.S. persons, but in a variety of circumstances, taxpayers cannot or do not obtain SSNs for their children in time and lose out on thousands of dollars of tax credits for which they otherwise qualify. For example, a taxpayer may otherwise be eligible to claim a child born on December 31 but not receive the child's SSN by April 15 and therefore miss out on the credits.

Among taxpayers who lose out on the credits: military and other expatriate families stationed overseas who must take additional steps to obtain SSNs; parents who don't obtain SSNs in time when a birth takes place outside a hospital setting and the parents don't file a timely SSN application, a hospital misplaces the paperwork, the Social Security Administration (SSA) makes a processing error, or the parents move and their mail isn't forwarded; parents of adopted children who have not yet received SSNs; parents of children who are born and die before the SSA issues an SSN; and taxpayers who do not obtain SSNs for their children due to religious beliefs (*e.g.*, some Amish sects). In these circumstances, U.S. citizens are being denied valuable benefits intended by Congress. We recommend Congress allow taxpayers who obtain SSNs after the filing deadline to timely file amended returns to claim CTC and EITC benefits or, in the case of those opposed to SSNs for religious reasons, to submit other forms of substantiation.⁴⁴

- **Provide consistent and predictable tax relief for victims of federally declared disasters (Recommendation #53).** After a hurricane, flood, wildfire, or other natural disaster has destroyed homes or businesses, Congress often passes legislation to provide tax relief to those affected. But there is no consistency regarding whether or which forms of tax relief are granted. Taxpayers may receive extensive relief, some relief, or no relief at all. Relief, even when granted, generally is not authorized until months later. The current *ad hoc* approach creates uncertainty for disaster victims and their communities and often means that similarly situated taxpayers receive different results. We recommend Congress determine which forms of tax relief to grant in the case of federally declared disasters and provide that relief automatically. In the alternative, and recognizing that different types of disasters may warrant different forms of relief, we recommend Congress authorize a menu of relief options and direct the Treasury Department to prescribe regulations for determining which forms of relief to provide based on the nature and severity of the disaster.
- **Extend the reasonable cause defense for the failure-to-file penalty to taxpayers who rely on return preparers to e-file their returns (Recommendation #31).** The tax law imposes a penalty of up to 25% of the tax due for failing to file a timely tax return, but the penalty is waived where a taxpayer can show the failure was due to "reasonable cause." Most taxpayers pay tax return preparers to prepare and file their returns for them. In 1985, when all returns were filed on paper, the Supreme Court held that a taxpayer's reliance on a preparer to file a tax return did not constitute reasonable cause to excuse the failure-to-file penalty if the return was not timely filed. In 2023, a U.S. Court of Appeals held that reasonable cause is also not a defense when a taxpayer relies on a preparer to file a tax return electronically.

For several reasons, it is often much more difficult for taxpayers to verify that a return preparer has e-filed a return than to verify that a return has been paper-filed. Unfortunately, many taxpayers are not familiar with the electronic filing process and do not have the tax knowledge to ask for the right document or

44 The IRS is currently making an administrative exception in the case of children who die before an SSN is issued.

proof of filing. Penalizing taxpayers who engage preparers and do their best to comply with their tax obligations is grossly unfair and undermines the congressional policy to encourage e-filing. Under the court's ruling, astute taxpayers would be well advised to ask their preparers to give them paper copies of their prepared returns and then transmit the returns by certified mail themselves so they can ensure compliance. We recommend Congress clarify that reliance on a preparer to e-file a tax return may constitute reasonable cause for penalty relief and direct the Secretary to prescribe regulations detailing what constitutes ordinary business care and prudence for purposes of evaluating reasonable cause requests.

- **Promote consistency with the Supreme Court's *Boechler* decision by making the time limits for bringing all tax litigation subject to equitable judicial doctrines (Recommendation #45).** Taxpayers who seek judicial review of adverse IRS determinations generally must file petitions in court by statutorily imposed deadlines. The courts have split over whether filing deadlines may be waived under extraordinary circumstances. Most tax litigation takes place in the Tax Court, where taxpayers are required to file petitions for review within 90 days of the date on a notice of deficiency (150 days if addressed to a person outside the United States). The Tax Court has held it lacks the legal authority to waive the 90-day (or 150-day) filing deadline even, to provide a stark example, if the taxpayer had a heart attack on Day 75 and remained in a coma until after the filing deadline. The Supreme Court has held that filing deadlines are subject to "equitable tolling" in the context of Collection Due Process hearings. We recommend Congress harmonize the conflicting court rulings by providing that all filing deadlines to challenge the IRS in court are subject to equitable tolling where timely filing was impossible or impractical.
- **Strengthen incentives for IRS contractors to ensure their employees keep taxpayer return information confidential (Recommendation #70).** The IRS annually receives about 11 million paper-filed Forms 1040, U.S. Individual Income Tax Return, nine million paper-filed Forms 941, Employer's Quarterly Federal Tax Return, and two million paper-filed Forms 940, Employer's Annual Federal Unemployment (FUTA) Tax Return. In the past, IRS employees have transcribed these returns on IRS campuses. Beginning in 2026, the IRS plans to send a large portion of these returns to private contractors to scan in their own facilities. Particularly in light of the recent case involving Charles Littlejohn, a contractor's employee who stole the tax return information of thousands of taxpayers and provided it to news organizations, we recommend Congress strengthen penalties applicable to government contractors whose employees improperly inspect or disclose tax return information to incentivize them to implement and maintain more stringent systemic safeguards.
- **Provide that assessable penalties are subject to deficiency procedures (Recommendation #14).** The IRS ordinarily must issue a notice of deficiency giving taxpayers the right to appeal an adverse IRS determination in the Tax Court before it may assess tax.⁴⁵ In limited situations, however, the IRS may assess penalties without first issuing a notice of deficiency. These penalties are generally subject to judicial review only if a taxpayer first pays the penalties and then sues for a refund. Assessable penalties can be substantial, sometimes running into the millions of dollars. Under current IRS interpretation, these penalties include but are not limited to international information reporting penalties under IRC §§ 6038, 6038A, 6038B, 6038C, and 6038D. The inability of taxpayers to obtain judicial review on a preassessment basis and the requirement that taxpayers pay the penalties in full to obtain judicial review on a post-assessment basis can effectively deprive taxpayers of the right to judicial review. To ensure taxpayers have an opportunity to obtain judicial review before they are required to pay often-substantial penalties they do not believe they owe, we recommend Congress require the IRS to issue a notice of deficiency before imposing assessable penalties.

⁴⁵ In the case of "mathematical or clerical errors," the IRS may issue a "math error" notice that assesses tax without providing the right to judicial review. The taxpayer has 60 days to request that the IRS abate the math error assessment. If the taxpayer makes the request, the IRS is required to abate the assessment, and if the IRS decides to challenge the taxpayer's position, it must then issue a notice of deficiency. See IRC § 6213(b).

CONCLUSION

Taxpayers ultimately judge the tax system the same way they judge any essential public service – by whether it works when they need it. For most people, filing is straightforward. But when something goes wrong – a refund delayed, an identity theft case unresolved, an amended return unprocessed, an unclear or inaccurate notice received, or a penalty assessed in error or without adequate safeguards – the consequences are not abstract. When taxpayers experience delays in receiving their refunds, particularly lower-income taxpayers who qualify for significant refundable tax credits, they may be unable to meet their basic living expenses or, in the case of business taxpayers, they may face cash flow problems and be unable to pay their employees or other expenses. Timely delivery of taxpayer refunds is a core IRS responsibility.

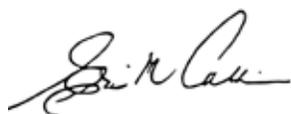
The past year has been one of extraordinary transition for the IRS. The agency began the year with its largest workforce in recent memory, and then after absorbing a 27% reduction, it ended the year with one of its smallest. Reductions of this magnitude almost surely will affect operations, particularly in areas that already depend heavily on manual work and experienced employees, such as processing correspondence, amended returns, and other account adjustments, including identity theft cases. As the IRS enters the 2026 filing season while implementing extensive changes enacted by the OBBB Act, the agency's challenge will be to ensure that taxpayers continue to receive timely service and fair treatment, even as it operates with fewer resources.

I have been encouraged by the IRS's renewed focus on modernizing its technology. If the agency follows through by automating high-volume tasks, digitizing paper workflows, and connecting online tools to real-time account information, it can deliver service that matches what taxpayers already experience in their dealings with private sector financial institutions. Taxpayers want, and deserve, a 21st century tax administration – one that provides clear communication, transparent processing timeframes, secure digital options that resolve problems, and a smooth handoff to live assistance when automation is not sufficient.

The good news is that improvement is achievable. The operational gains seen in 2024 and 2025, along with Congress's enactment of targeted bipartisan taxpayer protections, show that practical reforms can translate into better outcomes for millions of taxpayers. The task now is to make those gains durable so that service not only improves when conditions are unusually favorable but remains reliable through workforce constraints, major law changes, and inevitable future disruptions. That requires sustained modernization and, equally important, modern performance measurement. Success should be defined by what taxpayers deserve: timely refunds, accurate information, first-contact resolution where possible, and timely processing of cases that cannot be resolved on a phone call.

I look forward to working with Congress and the IRS as the agency refines and implements its modernization plans. Together with my TAS team, we stand ready to help strengthen taxpayer service and tax administration for the benefit of all taxpayers – and to continue to serve as the taxpayer's safety net when the system falls short.

Respectfully submitted,



Erin M. Collins
National Taxpayer Advocate
January 26, 2026

Taxpayer Rights and Service Assessment: IRS Performance Measures and Data Relating to Taxpayer Rights and Service

INTRODUCTION

The Taxpayer Rights and Service Assessment provides the IRS, Congress, and other stakeholders with an annual “report card” to evaluate how the agency protects taxpayer rights and provides various services to taxpayers, while promoting compliance with the tax laws. This report card highlights the enormous volume of returns and information documents processed by the IRS, the breadth of services provided to taxpayers, and key compliance actions undertaken during the three recently completed fiscal years (FYs). Each performance measure is examined through the lens of the Taxpayer Bill of Rights (TBOR) to assess how effectively the IRS is meeting its obligations to taxpayers. A comparison of the services provided by the IRS and its compliance actions across three FYs provides insight into the agency’s progress – and continued challenges – in embedding the TBOR into the administration of the tax system.¹

The Taxpayer Bill of Rights Has Been Law for the Past Ten Years – But IRS Actions Are What Make Taxpayers Rights a Reality

At the urging of the National Taxpayer Advocate, the IRS incorporated the TBOR into its official policy on June 10, 2014 – a milestone the National Taxpayer Advocate celebrated in her Annual Report to Congress last year.² This year, the National Taxpayer Advocate commemorates ten years since the TBOR was codified into law as IRC § 7803(a)(3).³ The IRS explains these rights in Publication 1, Your Rights as a Taxpayer, which accompanies nearly all IRS correspondence to taxpayers. These rights spell out what taxpayers can expect when dealing with the IRS, including good service, prompt resolution of issues, and fair application of the tax laws.

FIGURE 1.2.1



Your Rights as a Taxpayer

Publication 1

This publication explains your rights as a taxpayer and the processes for examination, appeal, collection, and refunds. Also available in Spanish.

The Taxpayer Bill of Rights

1. The Right to Be Informed
Taxpayers have the right to know what they need to do to comply with the tax laws. They are entitled to clear explanations of the laws and IRS procedures in all tax forms, instructions, publications, notices, and correspondence. They have the right to be informed of IRS decisions about their tax accounts and to receive clear explanations of the outcomes.

2. The Right to Quality Service
Taxpayers have the right to receive prompt, courteous, and professional assistance in their dealings with the IRS, to be spoken to in a way they can easily understand, to receive clear and easily understandable communications from the IRS, and to speak to a supervisor about inadequate service.

3. The Right to Pay No More than the Correct Amount of Tax
Taxpayers have the right to pay only the amount of tax legally due, including interest and penalties, and to have the IRS apply all tax payments properly.

4. The Right to Challenge the IRS's Position and Be Heard
Taxpayers have the right to raise objections and provide additional documentation in response to formal IRS actions or proposed actions, to expect that the IRS will consider their timely objections and documentation promptly and fairly, and to receive a response if the IRS does not agree with their position.

5. The Right to Appeal an IRS Decision in an Independent Forum
Taxpayers are entitled to a fair and impartial administrative appeal of most IRS decisions, including many penalties, and have the right to receive a written response regarding the Office of Appeals' decision. Taxpayers generally have the right to take their cases to court.

6. The Right to Finality
Taxpayers have the right to know the maximum amount of time they have to challenge the IRS's position as well as the maximum amount of time the IRS has to audit a particular tax year or collect a tax debt. Taxpayers have the right to know when the IRS has finished an audit.

7. The Right to Privacy
Taxpayers have the right to expect that any IRS inquiry, examination, or enforcement action will comply with the law and be no more intrusive than necessary, and will respect all due process rights, including search and seizure protections, and will provide, where applicable, a collection due process hearing.

8. The Right to Confidentiality
Taxpayers have the right to expect that any information they provide to the IRS will not be disclosed unless authorized by the taxpayer or by law. Taxpayers have the right to expect appropriate action will be taken against employees, return preparers, and others who wrongfully use or disclose taxpayer return information.

9. The Right to Retain Representation
Taxpayers have the right to retain an authorized representative of their choice to represent them in their dealings with the IRS. Taxpayers have the right to seek assistance from a Low Income Taxpayer Clinic if they cannot afford representation.

10. The Right to a Fair and Just Tax System
Taxpayers have the right to expect the tax system to consider facts and circumstances that might affect their underlying liabilities, ability to pay, or ability to provide information timely. Taxpayers have the right to receive assistance from the Taxpayer Advocate Service if they are experiencing financial difficulty or if the IRS has not resolved their tax issues properly and timely through its normal channels.

The IRS Mission | Provide America's taxpayers top-quality service by helping them understand and meet their tax responsibilities and enforce the law with integrity and fairness to all.

Publication 1 (Rev. 9-2017) Catalog Number 64731W Department of the Treasury Internal Revenue Service www.irs.gov

The codification of the TBOR was a significant step toward ensuring that the IRS treats taxpayers appropriately and that its policies and actions focus on meeting taxpayers' needs. Although these rights were already in existence prior to becoming law, formalizing the rights was an important step for the IRS, as the TBOR highlights the IRS's commitment to maintaining taxpayer rights, most visibly by the service it provides to taxpayers. The TBOR also enables taxpayers to have confidence the tax laws will not only be administered impartially, but also in a manner that emphasizes the value of the taxpayer. Since the adoption of the TBOR, the IRS has incorporated TBOR guidance and references within nearly every chapter of the Internal Revenue Manual, established an IRS.gov TBOR page, and provided IRS employees with annual training regarding taxpayer rights and the role of the Office of the Taxpayer Advocate as required by statute.⁴

TAS recognizes the IRS's ongoing promotion of the TBOR. However, the TBOR must be more than a framework of guiding principles. The IRS must deliver quality service to taxpayers and their representatives, protect the confidentiality of taxpayer data, and administer and enforce the tax law justly. While the IRS is

exploring and implementing new technologies to improve taxpayer service, in FY 2025 the IRS eliminated about 25% of its staffing, reducing service, increasing the time spent conducting many of its audits, and limiting its enforcement actions against noncompliant taxpayers.⁵ These results have the potential to relegate the TBOR to a group of tenets or aspirational goals rather than rights guaranteed by law. The IRS must do more than advise taxpayers of their ten rights guaranteed by the TBOR when interacting with the IRS. It must also take the necessary actions to ensure the TBOR permeates the daily work of IRS employees and guides employee interactions with taxpayers. In fact, the TBOR should guide the IRS as it develops policy and procedures and puts them into practice. Failing to do otherwise would be an act of hypocrisy and undermine the agency's stated commitment to taxpayer rights.

Taxpayer Rights Must be More Than Words on a Page

From FY 2010 to FY 2021, the IRS struggled to fully integrate the TBOR into its administration of the tax laws, largely due to ongoing decreases in its funding. The IRS's inflation-adjusted budget appropriation declined by about 20% from FY 2010 through FY 2021,⁶ impairing its ability to deliver on taxpayers' *right to quality service*.⁷

In August 2022, Congress provided billions of dollars in additional IRS funding. However, the amounts allotted to taxpayer services and business modernization were only about 10% of the nearly \$80 billion.⁸ Even so, this funding allowed the IRS to implement numerous service improvements. During filing seasons 2023 through 2025, the IRS maintained at least an 85% Level of Service (LOS) on its Accounts Management (AM) lines, which include the telephone numbers that taxpayers call to obtain answers to tax law questions and make account inquiries.⁹ In April 2023, the IRS released its Strategic Operating Plan (SOP), outlining how it would deploy the multiyear Inflation Reduction Act (IRA) funds to improve tax administration, especially by emphasizing the customer service experience.¹⁰ About a year later, the IRS presented the first annual update, reporting on important improvements made during its first year of this increased funding. Specifically, the IRS had improved live assistance for taxpayers, reduced call wait times, expanded online services, and simplified taxpayer notices.¹¹ The IRS is continuing to improve its suite of digital services offered to taxpayers and their representatives. These improvements include additional online account functionality for individuals and tax professionals as well as providing an online account for business taxpayers.¹² Although the IRS implemented several service improvements for taxpayers with the IRA funding, neither the SOP nor the following annual update mentioned the rights afforded to taxpayers by the TBOR. This omission is concerning. Expansion of digital tools and modernized systems is essential, but such investments must support taxpayer rights – not substitute for them.

The expansion of IRS digital service and the deployment of better technology are both important steps to providing quality service to taxpayers. However, the IRS now faces a significant decrease in funding. While technology may help mitigate staffing losses, the IRS must remain committed to providing personal service to taxpayers who need to speak directly with IRS representatives, either due to the complexity of the issue or a taxpayer's inability to effectively use methods that rely on less personal means to address their tax issues. The IRS must remain accountable to Congress, taxpayers, and other stakeholders as it allocates its remaining IRA funding to improve service to taxpayers, enforce the tax laws, and maintain taxpayer rights, while collecting over \$5 trillion of federal revenue annually.¹³

Although the National Taxpayer Advocate acknowledges the IRS's progress, sustaining these improvements with roughly 25% fewer employees than at the start of FY 2025 will be challenging.¹⁴ Furthermore, while providing quality customer service is one of the most important taxpayer rights, the IRS cannot forget that it is responsible for the privacy and confidentiality of taxpayer information. The IRS must continue to efficiently spend its remaining IRA funding to foster the reality of taxpayer rights, while compensating for fewer staff resources. This means that the IRS must be able to process taxpayer calls and correspondence more efficiently

while providing more online resources for those taxpayers who can avail themselves of this technology. Yet, current IRS reporting on IRA spending does not articulate how the agency will maintain quality service or honor the TBOR amid reduced staffing.

The measures reported in the following sections shed light on the IRS's recent performance and ongoing challenges. While the IRS has made improvements, it must ensure that all future strategies – in technology, staffing, and service delivery – are anchored in the TBOR. The IRS must consider these questions as it implements improvements:

1. How will new technologies affect taxpayer rights?
2. How will the IRS ensure taxpayers unable to use new technology receive the same level of service?
3. Will these new initiatives and applications raise new risks to the taxpayer *rights to privacy and to confidentiality*?
4. How will the IRS balance taxpayer service and compliance to maintain taxpayers' *right to a fair and just tax system*?
5. Will new technologies only benefit the IRS, or will they also provide a similar benefit to taxpayers?¹⁵
6. How will the IRS measure the quality of service taxpayers receive?

Taxpayer rights must guide IRS decision-making, not simply serve as statements of principle. Taxpayers should experience their rights through their interactions with the IRS – not merely read about them.

TAXPAYER SERVICE: TAX RETURN PROCESSING

Each year, taxpayers file over 250 million returns with the IRS. Return processing represents one of the most fundamental taxpayer services and is often the sole interaction many taxpayers have with the agency.

Millions of returns will contain errors or other deficiencies that must be resolved before processing. Additionally, the IRS must evaluate the returns to ensure their legitimacy, detect unreported income and overstated expenses, initiate appropriate audits, and collect unpaid liabilities.

Taxpayers expect the IRS to adhere to the tenets of the TBOR during their interaction with the agency. Tax return processing is a fundamental IRS service and return filing metrics are an important measure of IRS workload and taxpayer service. The IRS meets the rights and expectations of taxpayers by timely processing their returns, including issuing claimed refunds. Taxpayers have the responsibility to timely file and pay their taxes; however, the IRS must in turn meet its responsibility by quickly and accurately processing the returns, issuing appropriate refunds, and conducting any necessary compliance actions. Each of these IRS actions demonstrate its level of commitment to provide taxpayers their *rights to quality service* and *to a fair and just tax system*.

The IRS's projected number of tax returns filed in FY 2025 has decreased slightly, from over 271 million tax returns (including supplemental documents such as extensions to file federal income tax returns) received in FY 2023 to about 270 million returns in FY 2025. Even though the percentage of returns filed electronically continues to increase, taxpayers are expected to file over 10 million individual income tax returns on paper in FY 2025. Paper processing remains labor-intensive, time-consuming, and vulnerable to long delays and backlogs.¹⁶ Although the IRS has announced its intent to digitally process all paper-filed returns by the 2025 filing season, it has not yet met this goal.¹⁷

The cost of filing is another key aspect of taxpayer service. In FY 2025, only about 3 million taxpayers elected one of the IRS's free filing options. The IRS estimates that 44% of taxpayers, about 68.5 million, will use commercial software to self-prepare and file their 2024 Forms 1040. Subtracting taxpayers who use one of the

free options to file their returns, means that about 65.5 million taxpayers will self-prepare their income tax returns using software. If the software to prepare and file these returns costs only \$50, as a whole, taxpayers will spend over \$3.3 billion.¹⁸

The high volume of returns processed by the IRS each year shows the size of the task laid upon the IRS's shoulders. However, in addition to all these tax returns, the IRS must also process billions of information returns to enable it to review the compliance of the more than 160 million individual income tax returns. While the increased use of electronic filing greatly reduces the IRS resources necessary to process returns, taxpayers bear more of this cost.¹⁹ The IRS must balance its resource constraints with its obligation to protect taxpayer rights. Timely return processing, transparent issuance of refunds, and appropriate detection and resolution of filing errors all reflect the agency's commitment to the TBOR, including the *rights to quality service* and *to a fair and just tax system*.

FIGURE 1.2.2, Income Tax Returns and Information and Reporting Documents Filed, FYs 2023-2025

Measure/Indicator	FY 2023	FY 2024	FY 2025
Returns Filed (Primary Types) ²⁰	271,462,415	266,580,671	269,568,400
Total Individual Income Tax Returns ²¹	163,124,867	161,052,673	163,173,500
Total Individual Income Tax Returns Filed on Paper ²²	15,159,438	10,785,093	9,649,200
Total Individual Income Tax Returns Filed Electronically ²³	147,965,429	150,267,580	153,037,300
Free File Consortium (Tax Year) ²⁴	2,437,000	2,569,472	2,702,389
Fillable Forms (Tax Year) ²⁵	449,653	399,181	367,371
Total Corporation Income Tax Returns ²⁶	8,269,075	8,281,313	8,210,200
Total Corporation Income Tax Returns Filed on Paper ²⁷	1,356,072	944,939	910,100
Total Corporation Income Tax Returns Filed Electronically ²⁸	6,913,003	7,336,374	7,300,100
Total Forms W-2 ²⁹	278,908,239	275,028,211	270,623,300
Total Forms 1099 ³⁰	4,669,826,769	3,904,183,196	4,041,175,200

Observation: The percentage of electronically filed individual income tax returns continues to rise. In FY 2025, the IRS expects over 94% of individual taxpayers to file their income tax returns electronically, which is an increase of nearly 3 million returns from FY 2024. Meanwhile, the IRS expects the volume of paper-filed individual income tax returns to decrease to less than 10 million. Overall, the IRS expects fewer corporate returns to be filed, and it expects the percentage of corporate returns filed electronically to remain relatively constant. The IRS Form W-2 submissions dropped by approximately 1.4% from 2023 to 2024 and is expected to drop by about 1.6% in 2025. On the other hand, after over a 16% decrease in Forms 1099 filed from 2023 to 2024, the number is expected to rise by about 4% in 2025. However, the volume is still expected to be over 600 million documents below the 2023 level. The IRS should continue pursuing solutions that reduce the volume of paper returns, including ensuring that all return types can be filed electronically. This step would improve processing speed, reduce backlogs, and advance taxpayers' *right to quality service*.

TAXPAYER SERVICE: EXAMINATION AND COLLECTION

Although return processing affects all taxpayers, examination and collection impact a smaller subset of individuals and businesses. Nevertheless, the IRS's audit, automated underreporter, and collection actions touch millions of taxpayers each year. The compliance actions are intended to ensure taxpayers report and pay the correct amount of tax both now and in the future. To do this effectively, the IRS must administer its compliance actions in a way that protects taxpayer rights, especially the *rights to quality service, to pay no more than the correct amount of tax, to challenge the position of the IRS and be heard, and to appeal an IRS decision in an independent forum.*

In FY 2026, the IRS expects staffing levels to be about 25% lower and its budget to fall by roughly 20% from FY 2025 levels.³¹ To offset these losses, the IRS plans to rely more heavily on technology, including AI. The IRS has over 65 AI projects, many of which focus on compliance activities.³² The Government Accountability Office (GAO) has recommended the IRS use AI to decrease the tax gap.³³ AI tools are being used to select large partnerships, hedge funds, private equity groups, real estate investors, and law firms for audit. Overall, greater use of AI may reduce the IRS audit no-change rate.³⁴ In FY 2025, the IRS audit no-change rate for taxpayers with less than \$50,000 of total positive income was almost half of the FY 2024 no-change rate, which, in turn, was less than half of the FY 2023 no-change rate for this group of taxpayers; however, the no-response rate for this group of audited taxpayers continues to increase, rising over ten percentage points from FY 2024 to FY 2025. The IRS must ensure that declining audit no-change rates reflect stronger case selection based on the merits of the case, rather than selecting cases where taxpayers are unlikely to respond to the audit, effectively increasing the no-change rate, even though the taxpayer and the IRS never discuss the audit issues.

AI certainly has the potential to improve IRS compliance efforts. Its use can result in better returns selected for audit and the prioritization of outstanding liabilities with the greatest likelihood of collection. As noted last year, however, the IRS still must have employees with the requisite skills to conduct audits fairly and collect liabilities without placing undue burden on taxpayers. The IRS must also have staff capable of training the AI for compliance uses in a way that preserves taxpayer rights. It remains to be seen whether the IRS will be able to provide adequate compliance services to taxpayers with its reduced workforce and expected budget reduction. Effective compliance is not limited to audits and enforced collection; it also requires high-quality customer service, collaborative problem solving, and the ability to reach fair resolutions without creating hardship. Not only does the IRS need a compliance staff trained to respect and provide taxpayer rights, but it must also have sufficient staff to make those rights a reality. Audit and collection issues are often complex and require personal contact. Reduced staffing may also force taxpayers to use self-service options or their issues may remain unresolved. From FY 2024 to FY 2025, while installment agreements (IAs) completed with chatbots increased by over 68%, total IAs decreased by 7%. The Treasury Inspector General for Tax Administration has warned that staffing shortages may pose challenges in FY 2026 and intends to conduct a review of the IRS to ensure it is effectively meeting taxpayer needs.³⁵

FIGURE 1.2.3, Type of Audit, Outcomes, and Time to Complete by Income, FYs 2023-2025

Measure/Indicator	FY 2023	FY 2024	FY 2025
Examination			
Total Open Audits Pending in Exam ³⁶	323,401	335,157	205,364
Total Closed Audits – Individual Tax Returns ³⁷	518,811	444,258	441,543
Total Positive Income (Under \$50,000)			
No-Change Rate	11.6%	5.6%	2.9%
Agreed Rate ³⁸	16.2%	12.9%	10.2%
Taxpayer Failed to Respond Rate ³⁹	47.2%	53.7%	64.3%
Average Days to Audit Completion	259.9	249.9	228.3
Average Total Exam Time (Hours) Correspondence Audits	1.5	1.5	1.2
Average Total Exam Time (Hours) Field Exams	31.3	30.0	35.3
Percent of Correspondence Audits ⁴⁰	91.6%	92.4%	94.3%
Total Positive Income (Greater Than or Equal to \$50,000 and Under \$10,000,000)			
No-Change Rate	13.1%	13.2%	17.7%
Agreed Rate	41.0%	38.3%	34.2%
Taxpayer Failed to Respond Rate	18.7%	21.9%	23.5%
Average Days to Audit Completion	295.2	304.7	271.0
Average Total Exam Time (Hours) Correspondence Audits	2.7	2.8	2.9
Average Total Exam Time (Hours) Field Exams	37.4	41.1	57.8
Percent of Correspondence Audits ⁴¹	68.0%	75.1%	80.8%
Total Positive Income (Greater Than or Equal to \$10,000,000)			
No-Change Rate	36.3%	37.9%	38.3%
Agreed Rate	46.0%	44.4%	43.4%
Taxpayer Failed to Respond Rate	0.7%	0.2%	0.4%
Average Days to Audit Completion	679.3	635.4	544.1
Average Total Exam Time (Hours) Correspondence Audits	8.6	7.4	6.2
Average Total Exam Time (Hours) Field Exams	115.4	116.2	116.8
Percent of Correspondence Audits ⁴²	18.3%	15.4%	9.4%

Observation: After slightly increasing from FY 2023 to FY 2024, the number of open audits in FY 2025 decreased by almost 39% from the previous FY. The smaller open audit inventory is likely driven by significant staffing losses during FY 2025. Closed audit numbers continue to decline but the FY 2025 number of closed audits is only a few thousand less than in FY 2024. The rate of correspondence audits for taxpayers with incomes below \$50,000 increased nearly two percentage points to over 94%. The time to complete these audits for this group of taxpayers also decreased by 20%, with correspondence audits only taking an average of slightly over one hour of the examiner’s time for taxpayers in this lowest income group. On one hand, this represents an increasingly efficient use of IRS resources, but on the other hand the National Taxpayer Advocate is concerned that examiners may be spending little time reviewing the issues under audit and communicating with taxpayers before adjusting and closing cases. The audit no-response rate for taxpayers

with incomes less than \$50,000 is undoubtedly responsible for most of the reduction in examiner time, as the no-response rate increased by almost 20% from FY 2024 and has increased by over 36% when compared to FY 2023. When looking at the two higher categories of total positive income in Figure 1.2.3, the failure-to-respond rates and the no-change rates rose. While from FY 2024 to FY 2025, the average time spent on an audit by a field examiner increased only slightly for taxpayers with incomes over \$10 million, the average time spent on an audit by a field examiner increased over 40% for taxpayers with more than \$50,000 but less than \$10 million of income.

FIGURE 1.2.4, Offers in Compromise, Installment Agreements, and the Queue, FYs 2023-2025

Measure/Indicator	FY 2023	FY 2024	FY 2025
Collection			
OICs Submitted ⁴³	30,163	33,591	38,797
OICs Accepted ⁴⁴	28.5%	21.3%	15.6%
Individual and Business IAs ⁴⁵	2,696,963	3,403,214	3,160,047
IAs With Bots ⁴⁶	16,379	23,662	39,759
Rejected Taxpayer Requests for IAs ⁴⁷	8,625	8,155	23,117
Cases Pending Assignment (in the Queue) (Taxpayers) ⁴⁸	22.6%	19.3%	18.5%
Cases Pending Assignment (in the Queue) (Modules) ⁴⁹	29.5%	25.9%	26.0%
Age of Individual Delinquencies Pending Assignment (in the Queue) ⁵⁰	4.9 years	4.9 years	4.9 years

Observation: The number of taxpayers submitting Offers in Compromise (OICs) continues to increase – by 11% from FY 2023 to FY 2024 and by 15% from FY 2024 to FY 2025. However, the percentage of accepted OICs has decreased by more than 25% for each of the prior two years. The IRS should initiate a program to encourage the submission of appropriate OICs from taxpayers who qualify for this collection alternative. IRS acceptance of reasonable offers will benefit the IRS as it copes with reduced resources and will promote future tax compliance.⁵¹ The taxpayer will receive a needed fresh start, and an accepted OIC helps achieve the taxpayer’s *right to finality*. Although the IRS still accepts over 99% of taxpayer requests for IAs, the number of rejected IAs almost tripled from FY 2024 to FY 2025. The age of delinquencies in the queue remains static at 4.9 years, which is an unreasonable delay causing uncertainty and stress. The existence of unresolved delinquencies waiting for assignment for in-person collection violates taxpayers’ *right to finality* and causes the taxpayers to pay significantly more in interest.

TAXPAYER SERVICE: TAXPAYER-FACING COMMUNICATION CHANNELS

The number of taxpayers receiving in-person assistance remained constant from FY 2024 to FY 2025. The number of taxpayers who did not receive a Taxpayer Assistance Center (TAC) appointment after calling the IRS toll free line to schedule a TAC appointment dropped by over 30% from the prior year, corresponding to a decrease of over 20% in both net attempts to and CSR calls answered on the TAC appointment line. The average cycle time to work individual taxpayer correspondence between FY 2024 to FY 2025 fell by 16 days, continuing its decrease from FY 2023 to FY 2024, where the average cycle time for individual correspondence fell by over four weeks. The IRS also received and answered about the same number of phone calls to the AM lines in FY 2025, however, the wait time increased by about a minute. For the last few years, the IRS has committed to and delivered an LOS of at least 85% on its AM lines during the filing season.⁵² Unfortunately, it only provides this high LOS for about three months, from the opening of the filing season until mid-April. When considering all of FY 2025, however, the LOS was only about 60%. Taxpayers who contact the IRS about a problem outside filing season encounter a much lower LOS. The IRS also began using voicebots to

answer nearly 8 million calls in FY 2025. While the National Taxpayer Advocate appreciates the IRS using new technologies to meet taxpayer needs, the quality of this service must be improved. The voicebots only answered 29% of the calls. The remaining 71% of taxpayer calls were either disconnected or abandoned, most likely because the taxpayer wanted to speak to a customer service representative (CSR), not a robot. Customer satisfaction with the calls routed to voicebots was also dismal. From January to August 2025, about half of taxpayers rated the service provided by voicebots on the *Where's My Refund?* line as not helpful.⁵³ While using technology to handle calls reduces the need for CSRs, benefitting the IRS, taxpayers are only benefited if the voicebots can meet taxpayer needs by providing helpful information. If the TBOR were placed at the core of developing and implementing new technologies, the outcome for taxpayers would be much better. These rights determine the standard of service a taxpayer should receive when working with the IRS, regardless of the method of contacting the IRS or the function contacted.

FIGURE 1.2.5, In-Person Service, Correspondence, Telephone Service, and Online Service, FYs 2023-2025

Measure/Indicator	FY 2023	FY 2024	FY 2025
In-Person Service			
TAC Offices ⁵⁴	363	363	363
Number of Face-to-Face TAC Contacts ⁵⁵	1.6 million	1.9 million	1.9 million
Calls to the TAC Appointment Line That Did Not Result in a Scheduled Appointment ⁵⁶	913,000	1,300,000	906,000
Correspondence⁵⁷			
Individual Correspondence ⁵⁸	6,690,427	5,639,271	5,568,198
Average Cycle Time to Work Individual Correspondence (Individual Master File) ⁵⁹	139 days	110 days	94 days
Inventory Overage ⁶⁰	63.2%	56.6%	63.8%
Business Correspondence ⁶¹	5,750,123	3,594,311	3,648,882
Average Cycle Time to Work Business Correspondence ⁶² (Business Master File)	148 days	147 days	319 days
Inventory Overage ⁶³	74.5%	85.1%	76.2%
Telephone Service			
Total Calls to IRS ⁶⁴	92,875,396	98,927,201	103,949,041
Calls Answered by IRS Employees ⁶⁵	27,257,751	30,491,251	28,559,087
Percentage of Calls Answered by IRS Employees ⁶⁶	29.3%	30.8%	29.0%
IRS LOS ⁶⁷	51.30%	55.6%	53.3%
IRS Average Speed of Answer ⁶⁸	13.3 minutes	11.7 minutes	14.4 minutes
Practitioner Priority: Percentage of Calls Answered (LOS) ⁶⁹	34.0%	60.1%	62.0%
Practitioner Priority: Average Speed of Answer ⁷⁰	16.2 minutes	11.9 minutes	13.4 minutes
Online Service			
Visits to IRS.gov ⁷¹	825,426,918	928,711,651	958,867,542
Page Views ⁷²	3,225,792,650	3,818,621,200	4,302,635,594
Online IAs ⁷³	2,020,102	1,826,497	1,841,015
Where's My Refund? Inquiries ⁷⁴	303,133,000	382,815,000	362,000,000

Observation: After increasing for the past several FYs, the number of in-person TAC visits remained unchanged from FY 2024 to FY 2025. The individual correspondence inventory has continued to decline over the last three FYs; however, the rate of decline for this inventory decreased significantly from FY 2024 to FY 2025, while the business correspondence inventory increased slightly in FY 2025. The average age of closed individual correspondence decreased by 16 days from FY 2024 to FY 2025, but the percentage of overaged correspondence from individuals reached a three-year high, rising over seven percentage points from last FY. The average age of closed business correspondence more than doubled from FY 2024 to FY 2025, even as the percentage of overaged correspondence from business taxpayers decreased. The combination of these two statistics suggests that the IRS closed out a considerable amount of business correspondence and is now able to timely process more correspondence from businesses. The number of telephone calls received by the IRS has been increasing, while the number of calls answered by CSRs has been relatively consistent over the past three FYs. The IRS LOS measure decreased by over two percentage points from FY 2024 to FY 2025, going from 55.6% to 53.3%. While the percentage of calls answered by an IRS assistor remained relatively constant from the prior FY, the IRS routed over 35 million calls to be serviced by voicebots, answering only about 24% of the calls.⁷⁵

The number of FY 2025 online IAs remained nearly unchanged from the prior FY. *Where's My Refund?* inquiries decreased by over 20 million, a decrease of over 5%.

TAXPAYER SERVICE: INFORMATION TECHNOLOGY

The IRS continues to use Business Modernization funding to expand the number of digital services available to taxpayers and tax professionals. The IRS received approximately \$4.8 billion of IRA funding to use for Business Systems Modernization.⁷⁶ As of the end of FY 2024, the IRS reported it has spent about \$2 billion of this amount to modernize various Information Technology systems.⁷⁷ At the end of FY 2024, the IRS reported that it had 23 active business modernization projects including a modernization of its archaic Individual and Business Master Files.⁷⁸ The IRS has continued to modernize its customer services in FY 2025. However, in March 2025, the IRS paused these 23 active modernization projects for reevaluation of their priorities. In June 2025, the IRS introduced a draft modernization framework that focused on nine initiatives, including a unified application program database, an increased digitization of paper records, and increased taxpayer services.⁷⁹ Even though the IRS determined the need to make a course correction in its modernization effort, in its response to GAO audit findings on its modernization efforts the IRS mentioned three significant modernization accomplishments: expansion of individual online account features, taxpayer-facing chat and chatbot functionality, and increased digitization of paper.⁸⁰

The IRS's accomplishment of three modernization efforts to positively affect taxpayers' experiences, and its reevaluation of its priorities for spending the Business Modernization funding to include an increased emphasis on taxpayer service, is a good sign for the taxpaying public. Nevertheless, providing taxpayers with modernized services is only effective if the technological advances result in a better experience for taxpayers. Certainly, some of the new individual online account features are beneficial to taxpayers, and taxpayers are starting to notice, with nearly 51 million taxpayers having established individual online accounts.⁸¹ The IRS is also expanding its online accounts for tax professionals and businesses, although they still lag behind the features found in individual accounts.⁸² Each of these efforts is good news for taxpayers. Despite these advances, significant challenges remain. The number of backlogged features for each of these online account types is extensive.⁸³ Additionally, taxpayer feedback indicates that some of the new technology is not helpful and is not meeting expectations. For example, IRS surveys show that 80% of taxpayers found the IRS chatbots to not be helpful.⁸⁴ To be effective, the IRS needs to efficiently use its Business Modernization funding to provide the digital services taxpayers expect in the 21st century, but these services must be focused on the TBOR. IRS implementation of new technology is only beneficial to taxpayers if that technology improves their experiences when interacting with the IRS.

Endnotes

- 1 The TBOR is a list of ten rights organized to help taxpayers and IRS employees alike gain a better understanding of the dozens of discrete taxpayer rights scattered throughout the multi-million word IRC. See TBOR, <https://www.taxpayeradvocate.irs.gov/get-help/taxpayer-rights/> (last visited Dec. 5, 2025). The rights contained in the TBOR are also codified in IRC § 7803(a)(3). These measures are presented as a sample of indicators and are not intended to be read as a comprehensive listing of performance benchmarks.
- 2 National Taxpayer Advocate 2024 Annual Report to Congress XV (Preface: *Taxpayer Rights and Service Assessment: IRS Performance Measures and Data Relating to Taxpayer Rights and Service*), <https://www.taxpayeradvocate.irs.gov/reports/2024-annual-report-to-congress/full-report/>.
- 3 Consolidated Appropriations Act, 2016 (Division Q commonly referred to as the “Protecting Americans From Tax Hikes Act of 2015”), Pub. L. No. 114-113, Div. Q, § 401, 129 Stat. 2241, 3043 (2015). See also National Taxpayer Advocate 2014 Annual Report to Congress 275 (Legislative Recommendation: *Codify the Taxpayer Bill of Rights and Enact Legislation that Provides Specific Taxpayer Protections*), https://www.taxpayeradvocate.irs.gov/wp-content/uploads/2020/08/2014-ARC_VOL-1_S2_LR-1-508.pdf. The National Taxpayer Advocate continues to push for further elevation of the TBOR within the IRC; see National Taxpayer Advocate 2026 Purple Book, *Compilation of Legislative Recommendations to Strengthen Taxpayer Rights and Improve Tax Administration (Elevate the Importance of the Taxpayer Bill of Rights by Redesignating It as Section 1 of the Internal Revenue Code)*.
- 4 See TBOR, <https://www.taxpayeradvocate.irs.gov/get-help/taxpayer-rights/> (last visited Dec. 5, 2025); Taxpayer First Act, Pub. L. No. 116-25, § 2402(2), 133 Stat. 981, 1014 (2019).
- 5 Memorandum from Treasury Inspector General for Tax Administration (TIGTA) to Scott Bessent, Sec’y of the Treasury 2 (Oct. 15, 2025). The TIGTA report notes a 25% decrease in IRS staffing as of May 2025; however, by December 2025, the IRS staffing decrease had risen to over 27%, as shown in Figure 1.2.
- 6 IRS response to TAS fact check (Dec. 14, 2020); U.S. Dep’t of the Treasury FY 2022 Budget in Brief (2021), <https://home.treasury.gov/about/budget-financial-reporting-planning-and-performance/budget-requestannual-performance-plan-and-reports/budget-in-brief/fy-2022-budget-in-brief>.
- 7 IRS response to TAS fact check (Dec. 14, 2020); U.S. Dep’t of the Treasury FY 2022 Budget in Brief (2021), <https://home.treasury.gov/about/budget-financial-reporting-planning-and-performance/budget-requestannual-performance-plan-and-reports/budget-in-brief/fy-2022-budget-in-brief>.
- 8 An Act to Provide for Reconciliation Pursuant to Title II of S. Con. Res. 14, Pub. L. No. 117-169, 136 Stat. 1818 (2022) [hereinafter referred to as the “Inflation Reduction Act”]; Further Consolidated Appropriations Act, 2024, Pub. L. No. 118-47, 138 Stat. 460 (2024); Fiscal Responsibility Act of 2023, Pub. L. No. 118-5, 137 Stat. 10 (2023).
- 9 National Taxpayer Advocate Fiscal Year 2026 Objectives Report to Congress 8 (*Review of the 2025 Filing Season*), https://www.taxpayeradvocate.irs.gov/wp-content/uploads/2025/06/JRC26_SAO_ReviewFiling.pdf.
- 10 IRS, Pub. 3744, IRS Inflation Reduction Act Strategic Operating Plan (Apr. 2023), <https://www.irs.gov/pub/irs-pdf/p3744.pdf>.
- 11 IRS, Pub. 3744-B, IRA Strategic Operating Plan: Annual Update (Apr. 2024), <https://www.irs.gov/pub/irs-pdf/p3744b.pdf>.
- 12 See Most Serious Problem: *Tax Pro Account: Online Accounts for Tax Professionals Lack Critical Functionality Required to Effectively Represent Taxpayers, infra*. IRS, Pub. 55-B, 2024 IRS Databook, Table 1, Collections and Refunds, by Type of Tax, Fiscal Years 2023 and 2024, at 3 (May 2025), <https://www.irs.gov/pub/irs-pdf/p55b.pdf>.
- 13 Congress reduced the nearly \$80 billion of IRA funding to \$37.6 billion. TIGTA, Ref. No. 2025-100-040, *Telephone Level of Service and Average Wait Times Do Not Fully Reflect the Taxpayer Experience 2* (2025).
- 14 Memorandum from TIGTA to Scott Bessent, Sec’y of the Treasury 2 (Oct. 15, 2025).
- 15 For an example, see Erin M. Collins, IRS Proposed Regulations on Third Party Contacts Unfairly Erode Taxpayer Notice Requirements, NATIONAL TAXPAYER ADVOCATE BLOG (Nov. 7, 2024), <https://www.taxpayeradvocate.irs.gov/news/nta-blog/irs-proposed-regulations-on-third-party-contacts-unfairly-erode-taxpayer-notice-requirements/2024/11/>.
- 16 For a further discussion of processing delays, see National Taxpayer Advocate 2024 Annual Report to Congress 21 (Most Serious Problem: *Return Processing: Continuing Delays in IRS Return Processing Are Frustrating Taxpayers and Causing Refund Delays*), https://www.taxpayeradvocate.irs.gov/wp-content/uploads/2024/12/ARC24_MSP_02_Processing.pdf. See also National Taxpayer Advocate 2023 Annual Report to Congress 5 (Most Serious Problem: *Processing: Ongoing Processing Delays Burden and Frustrate Taxpayers Awaiting Refunds and Other Account Actions*), https://www.taxpayeradvocate.irs.gov/wp-content/uploads/2024/02/ARC23_MSP_01_Processing-Delays_FINAL_01292024.pdf; National Taxpayer Advocate 2022 Annual Report to Congress 34 (Most Serious Problem: *Processing Delays: Paper Backlogs Caused Refund Delays for Millions of Taxpayers*), https://www.taxpayeradvocate.irs.gov/wp-content/uploads/2023/01/ARC22_MSP_01_Processing-Delays.pdf; National Taxpayer Advocate 2021 Annual Report to Congress 37 (Most Serious Problem: *Processing and Refund Delays: Excessive Processing and Refund Delays Harm Taxpayers*), https://www.taxpayeradvocate.irs.gov/wp-content/uploads/2022/01/ARC21_MSP_01_Processing-Delays.pdf.
- 17 See National Taxpayer Advocate 2024 Annual Report to Congress 21 (Most Serious Problem: *Return Processing: Continuing Delays in IRS Return Processing Are Frustrating Taxpayers and Causing Refund Delays*), https://www.taxpayeradvocate.irs.gov/wp-content/uploads/2024/12/ARC24_MSP_02_Processing.pdf.
- 18 The IRS estimates 44% of tax year 2024 returns will be self-prepared using software. IRS, Research, Applied Analytics & Statistics (RAAS), Knowledge Development and Application (KDA), (BRDN) (Dec. 4, 2025). Tax Year 2024 returns are generally filed in FY 2025. Taxpayers self-prepared and filed about 68.5 million tax year 2024 returns. Overall, the IRS estimates that taxpayers who self-prepare their returns using software will spend \$100 per return in out-of-pocket costs, but this estimate includes other costs beside the direct cost to prepare and file the return. IRS, Compliance Data Warehouse (CDW), Individual Master File (IMF) Returns Transaction File (Dec. 5, 2025).
- 19 The IRS estimates it costs \$70 more to use software to prepare and file a return versus completing and filing a paper return. IRS, RAAS, KDA, BRDN (Dec. 4, 2025).

- 20 IRS, Pub. 6292, Fiscal Year Return Projections for the United States: 2024-2031, at 4 (Sept. 2024), <https://www.irs.gov/pub/irs-prior/p6292--2024.pdf>. The FY 2024 figure has been updated from what was reported in the 2024 Annual Report to Congress. IRS, Pub. 6292, Fiscal Year Return Projections for the United States: 2025-2032, at 4 (Sept. 2025), <https://www.irs.gov/pub/irs-pdf/p6292.pdf>. The FY 2025 figure is a projected number. Data for FY 2023 and FY 2024 for each figure was accurate as of the close of each FY; however, the IRS often refines the data as additional information becomes available. Therefore, this data may differ slightly from other data sources with a later publication date. Primary types of returns include, but are not limited to, individual and business income, estate, gift, employment, fiduciary, excise, and several other types of tax returns. Publication 6292 contains a complete listing. The number of returns and related metrics are proxies for IRS workload and provide context for the environment in which taxpayers seek quality service and other rights from the TBOR.
- 21 IRS, Pub. 6292, Fiscal Year Return Projections for the United States: 2024-2031, at 4 (Sept. 2024), <https://www.irs.gov/pub/irs-prior/p6292--2024.pdf>. The FY 2024 figure has been updated from what was reported in the 2024 Annual Report to Congress. IRS, Pub. 6292, Fiscal Year Return Projections for the United States: 2025-2032, at 4 (Sept. 2025), <https://www.irs.gov/pub/irs-pdf/p6292.pdf>. The FY 2025 figure is a projected number.
- 22 IRS, Pub. 6292, Fiscal Year Return Projections for the United States: 2024-2031, at 4 (Sept. 2024), <https://www.irs.gov/pub/irs-prior/p6292--2024.pdf>. The FY 2024 figure has been updated from what was reported in the 2024 Annual Report to Congress. IRS, Pub. 6292, Fiscal Year Return Projections for the United States: 2025-2032, at 4 (Sept. 2025), <https://www.irs.gov/pub/irs-pdf/p6292.pdf>. The FY 2025 figure is a projected number.
- 23 IRS, Pub. 6292, Fiscal Year Return Projections for the United States: 2024-2031, at 4 (Sept. 2024), <https://www.irs.gov/pub/irs-prior/p6292--2024.pdf>. The FY 2024 figure has been updated from what was reported in the 2024 Annual Report to Congress. IRS, Pub. 6292, Fiscal Year Return Projections for the United States: 2025-2032, at 4 (Sept. 2025), <https://www.irs.gov/pub/irs-pdf/p6292.pdf>. The FY 2025 figure is a projected number.
- 24 The FYs 2024 and 2025 numbers are from IRS, CDW, Electronic Tax Administration Research and Analysis System (ETARAS) Modernized e-File for Individuals. The FY 2023 figures represent tax year 2022 tax returns. The FY 2024 figures represent tax year 2023 tax returns. The FY 2025 figures represent tax year 2024 tax returns through September 30, 2025. FY 2023 data was updated in accordance with revised data provided by the IRS during its November 2024 fact check response.
- 25 Numbers for FYs 2023-2025 numbers are from IRS, CDW, ETARAS Modernized e-File for Individuals. The FY 2023 figures represent tax year 2022 tax returns. The FY 2024 figures represent tax year 2023 tax returns. The FY 2025 figures represent tax year 2024 tax returns through September 30, 2025.
- 26 IRS, Pub. 6292, Fiscal Year Return Projections for the United States: 2024-2031, at 4 (Sept. 2024), <https://www.irs.gov/pub/irs-prior/p6292--2024.pdf>. The FY 2024 figure has been updated from what was reported in the 2024 Annual Report to Congress. IRS, Pub. 6292, Fiscal Year Return Projections for the United States: 2025-2032, at 4 (Sept. 2025), <https://www.irs.gov/pub/irs-pdf/p6292.pdf>. The FY 2025 figure is a projected number.
- 27 IRS, Pub. 6292, Fiscal Year Return Projections for the United States: 2024-2031, at 4 (Sept. 2024), <https://www.irs.gov/pub/irs-prior/p6292--2024.pdf>. The FY 2024 figure has been updated from what was reported in the 2024 Annual Report to Congress. IRS, Pub. 6292, Fiscal Year Return Projections for the United States: 2025-2032, at 4 (Sept. 2025), <https://www.irs.gov/pub/irs-pdf/p6292.pdf>. The FY 2025 figure is a projected number.
- 28 IRS, Pub. 6292, Fiscal Year Return Projections for the United States: 2024-2031, at 4 (Sept. 2024), <https://www.irs.gov/pub/irs-prior/p6292--2024.pdf>. The FY 2024 figure has been updated from what was reported in the 2024 Annual Report to Congress. IRS, Pub. 6292, Fiscal Year Return Projections for the United States: 2025-2032, at 4 (Sept. 2025), <https://www.irs.gov/pub/irs-pdf/p6292.pdf>. The FY 2025 figure is a projected number.
- 29 IRS, Pub. 6961, Calendar Year Projections of Information and Withholding Documents for the United States and IRS Campuses: 2024 Update 6 (Sept. 2024), <https://www.irs.gov/pub/irs-prior/p6961--2024.pdf>. Pub. 6961, Calendar Year Projections of Information and Withholding Documents for the United States and IRS Campuses: 2025 Update 6 (Sept. 2025), <https://www.irs.gov/pub/irs-pdf/p6961.pdf>. The FY 2025 figure is a projected number. The IRS only publishes information and withholding document volumes on a calendar year basis; however, these documents are generally due to the IRS no later than March 31 of each calendar year (depending on document type and filing method).
- 30 IRS, Pub. 6961, Calendar Year Projections of Information and Withholding Documents for the United States and IRS Campuses: 2024 Update 6 (Sept. 2024), <https://www.irs.gov/pub/irs-prior/p6961--2024.pdf>; Pub. 6961, Calendar Year Projections of Information and Withholding Documents for the United States and IRS Campuses: 2025 Update 6 (Sept. 2025), <https://www.irs.gov/pub/irs-pdf/p6961.pdf>. The FY 2025 figure is a projected number. The IRS only publishes information and withholding document volumes on a calendar year basis; however, these documents are generally due to the IRS no later than March 31 of each calendar year (depending on document type and filing method).
- 31 Memorandum from TIGTA to Scott Bessent, Sec'y of the Treasury 2 (Oct. 15, 2025).
- 32 TIGTA, Ref. No. 2025-IE-R003, *Governance Efforts Should be Accelerated to Ensure the Safe, Secure, and Trustworthy Development and Use of Artificial Intelligence* 6 (2025).
- 33 GAO, *Artificial Intelligence May Help IRS Close the Tax Gap*, WATCHBLOG: FOLLOWING THE FEDERAL DOLLAR (June 26, 2024), <https://www.gao.gov/blog/artificial-intelligence-may-help-irs-close-tax-gap>.
- 34 Memorandum from TIGTA to Scott Bessent, Sec'y of the Treasury 2 (Oct. 15, 2025).
- 35 *Id.* at 3.
- 36 IRS responses to TAS information requests (Oct. 16, 2023; Oct. 29, 2024; Dec. 22, 2025).
- 37 *Id.* These numbers reflect examination cases closed by the IRS and do not account for subsequent appeals or litigation.
- 38 An audit is closed as agreed when the IRS proposes changes, and the taxpayer understands and agrees with the changes.
- 39 The non-response rate includes taxpayers with undelivered IRS audit notices or statutory notices of deficiencies and taxpayers who did not respond to the IRS audit notices.
- 40 The non-response rate includes taxpayers with undelivered IRS audit notices or statutory notices of deficiencies and taxpayers who did not respond to the IRS audit notices.
- 41 This represents the percentage of correspondence audits for taxpayers with total positive income greater than or equal to \$50,000 and under \$10,000,000.

- 42 This represents the percentage of correspondence audits for taxpayers with total positive income greater than or equal to \$10,000,000.
- 43 IRS, Small Business/Self-Employed (SB/SE), Collection Activity Report (CAR) No. 5000-108, Monthly Report of Offer in Compromise Activity, cumulative through September, FY 2023 (Oct. 2, 2023); FY 2024 (Sept. 29, 2024); FY 2025 (Sept. 28, 2025).
- 44 *Id.* The figure calculations include all dispositions, including not-processable dispositions.
- 45 IRS, SB/SE, CAR No. 5000-6, FY 2023 (Oct. 1, 2023); FY 2024 (Sept. 28, 2024); FY 2025 (Sept. 28, 2025). This number includes short-term payment agreements and continuous wage levies.
- 46 IRS, SB/SE, CAR No. 5000-6, FY 2023 (Oct. 1, 2023); FY 2024 (Sept. 28, 2024); FY 2025 (Sept. 28, 2025). This number includes short-term payment agreements and continuous wage levies.
- 47 IRS, CDW, FY 2023 (Oct. 2023); FY 2024 (Sept. 26, 2024), FY 2025 (Dec. 2, 2024). The IRS accepts about 99% of requests for IAs that meet the processable criteria.
- 48 IRS, SB/SE, CAR No. 5000-2, Taxpayer Delinquent Account Cumulative Report, FY 2023 (Oct. 1, 2023); FY 2024 (Sept. 28, 2024); FY 2025 (Sept. 28, 2025). When taxpayers incur delinquent tax liabilities, the IRS sends them a series of notices during an approximately six-month period in which the taxpayers are in “notice status.” If the taxpayer does not resolve their liability during the notice status, the account enters taxpayer delinquent account status. The IRS then determines whether it will refer the case to the Automated Collection System (ACS), assign it directly for in-person contact by a revenue officer, assign it to the Collection queue to await assignment to a revenue officer or other collection status, or shelve it. ACS may also assign cases to the Collection queue. The IRS shelves cases prior to assigning the case to a private collection agency.
- 49 IRS, SB/SE, CAR No. 5000-2, Taxpayer Delinquent Account Cumulative Report, FY 2023 (Oct. 1, 2023); FY 2024 (Sept. 28, 2024); FY 2025 (Sept. 28, 2025). Modules are the number of accounts attributable to a taxpayer. For example, if an individual taxpayer owes unpaid taxes on the 2017 and 2018 Forms 1040, they are one taxpayer with two modules.
- 50 Query by TAS Research of tax delinquent accounts with queue status in IRS, CDW, Accounts Receivable Dollar Inventory, IMF, Modules. Age of balance due cases in the collection queue as of cycle 37 of FY 2023, cycle 37 of FY 2024, and cycle 28 of FY 2025. We did not consider the age of Taxpayer Delinquency Investigations.
- 51 National Taxpayer Advocate 2017 Annual Report to Congress vol. 2, at 54-55 (*A Study of the IRS Offer in Compromise Program*), https://www.taxpayeradvocate.irs.gov/wp-content/uploads/2020/08/ARC17_Volume2_03_StudyCompromise.pdf.
- 52 The National Taxpayer Advocate believes the IRS relies on a LOS measurement that does not meaningfully measure taxpayers’ phone experience.
- 53 IRS response to TAS information request (Nov. 21, 2025).
- 54 As of September 2023, 266 of the 363 TACS (73%) were less than fully staffed, limiting service appointments available to taxpayers. IRS responses to TAS information requests (Dec. 4, 2023; Oct. 28, 2024; Dec. 10, 2025).
- 55 IRS response to TAS fact check (Dec. 4, 2023); IRS response to TAS information request (Oct. 28, 2024; Dec. 10, 2025).
- 56 Note these numbers include both calls resolved by CSRs (thus negating the need for a TAC appointment) and calls where the taxpayer could not schedule an appointment at the available times.
- 57 Correspondence represents AM inquiries and responses received from taxpayers who do not belong specifically to another area.
- 58 IRS, Joint Operations Center (JOC), Adjustments Inventory Reports: July-September FY Comparison (FYs 2023-2025). These are IMF cumulative fiscal year receipts for Correspondence, Amended, Carryback, Injured Spouse, and Individual Taxpayer Identification Number. These metrics measure taxpayer correspondence requesting account adjustment.
- 59 IRS, Research Analysis and Data (RAD), AM Reports: Correspondence Imaging System (CIS) Closed Case Cycle Time (FYs 2023-2025). The FY 2023 figure has been updated from what TAS reported in the 2023 Annual Report to Congress.
- 60 IRS, Weekly Enterprise Adjustments Inventory Report (weeks ending Sept. 30, 2023; Sept. 28, 2024; Sept. 27, 2025). The IRS must work certain inventories within a specific timeframe to be considered timely. If not closed in that timeframe, the inventory item will be classified as “overaged.”
- 61 IRS, JOC, Adjustments Inventory Reports: July-September FY Comparison (FYs 2023-2025). These metrics measure taxpayer correspondence requesting account adjustment.
- 62 IRS, RAD, AM Reports: CIS Closed Case Cycle Time (FYs 2023-2025).
- 63 IRS, Weekly Enterprise Adjustments Inventory Report (weeks ending Sept. 30, 2023; Sept. 28, 2024; Sept. 27, 2025).
- 64 IRS, JOC, Snapshot Reports: Enterprise Snapshot (weeks ending Sept. 30, 2023; Sept. 30, 2024).
- 65 IRS, JOC, Snapshot Reports: Enterprise Snapshot (weeks ending Sept. 30, 2023; Sept. 30, 2024, Sept. 30, 2025). The IRS answered approximately 17 million, 18 million, and 9 million additional calls, respectively, by automation or information messaging for the indicated fiscal years.
- 66 IRS, JOC, Snapshot Reports: Enterprise Snapshot (weeks ending Sept. 30, 2023; Sept. 30, 2024, Sept. 30, 2025).
- 67 IRS, JOC, Snapshot Reports: Enterprise Snapshot (weeks ending Sept. 30, 2023; Sept. 30, 2024, Sept. 30, 2025). The IRS generally defines its LOS measure as Numerator = Assistor Calls Answered + Info Messages and Denominator = Assistor Calls Answered + Info Messages + Emergency Closed + Secondary Abandons + (Add either Calculated Busy Signals OR Network Incompletes) + (Add either Calculated Network Disconnects OR Total Disconnects). The IRS now uses a new LOS measure that incorporates the use of automation. This metric uses the following formula: Assistor Calls Answered + Info Messages + Integrated Customer Communication(s) Environment (ICCE) Open Hours Completions + Voicebot Completions / Assistor Calls Answered + Info Messages + ICCE Open Hours Completions + Voicebot Completions + Emergency Closed + Secondary Abandons. The IRS does not consider primary abandons that is those taxpayers who hang-up before being placed in the queue to be answered, in its LOS calculation.
- 68 IRS, JOC, Snapshot Reports: Product Line Detail (weeks ending Sept. 30, 2023; Sept. 30, 2024; Sept. 30, 2025).
- 69 IRS, JOC, Snapshot Reports: Product Line Detail (weeks ending Sept. 30, 2023; Sept. 30, 2024; Sept. 30, 2025).
- 70 *Id.*
- 71 IRS response to TAS information request (Nov. 17, 2025). The IRS provided updated data for FYs 2023 and 2024.
- 72 IRS response to TAS information request (Nov. 17, 2024). The IRS provided updated data for FYs 2023 and 2024.

- 73 IRS, SB/SE, CAR No. 5000-6, Installment Agreement Cumulative Report, FY 2023 (Oct. 1, 2023); FY 2024 (Sept. 28, 2024); FY 2025 (Sept. 28, 2025). This number includes short-term payment plans.
- 74 IRS response to TAS information request (Oct. 29, 2024). The FY 2023 figures has been updated from what TAS reported in the 2023 Annual Report to Congress. IRS response to TAS information request (Dec. 10, 2025).
- 75 IRS response to TAS information request (Dec. 10, 2025).
- 76 GAO, Ref. No 25-107611, *Information Technology: The IRS Is Developing a New Modernization Framework*, 1 (Sept. 2025), <https://www.gao.gov/assets/gao-25-107611.pdf>.
- 77 *Id.* at 3.
- 78 *Id.* at 8-10.
- 79 *Id.* at 13.
- 80 *Id.* at Appendix 3.
- 81 IRS response to TAS information request (Oct. 15, 2025).
- 82 See Most Serious Problem: *Tax Pro Account: Online Accounts for Tax Professionals Lack Critical Functionality Required to Effectively Represent Taxpayers*, *infra*.
- 83 IRS response to TAS information request (Oct. 15, 2025).
- 84 *Id.*

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 Although the process described below guides our selection, identifying the Most Serious Problems necessarily involves a degree of judgment and is inherently subjective in certain 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 information from a wide range of sources. Through our Case Advocacy operations, TAS helps hundreds of thousands of taxpayers to resolve their account-related 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 regularly engage with organizations that work in the tax administration field, and we maintain an online portal that allows members of the public and IRS employees to call our attention to systemic problems that affect groups of taxpayers or taxpayers generally.² We receive hundreds of submissions each year. We review each one and develop “advocacy projects” to address critical problems. TAS employees also participate in cross-functional teams with other IRS offices to address areas affecting taxpayer rights and taxpayer service.

Drawing on these sources, the National Taxpayer Advocate considers the input 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;
- TAS Case Advocacy inventory data;³
- 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 Phoenix (formerly 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: Report a Systemic Issue, <https://www.irs.gov/advocate/systemic-advocacy-management-system-sams> (last updated Nov. 19, 2025). TAS reviews and analyzes all submissions and determines a course of action, such as an advocacy project.

3 In August 2025, TAS took a major step to enhance the taxpayer and employee experience by transitioning from an outdated legacy case management system called Taxpayer Advocate Management Information System (TAMIS) to a more modern, agile Customer Relationship Management system, Phoenix.

#1 Amended Returns

Taxpayers are harmed by the IRS's delays in processing amended returns, the issuance of confusing or incomplete notices of claim disallowance, and the absence of clear, accessible procedures for extending the statutory period during which the taxpayer must file suit or the IRS must issue a refund. Together, these failures impose significant financial hardship, jeopardize taxpayers' statutory rights, and undermine confidence in tax administration.

#2 IRS Modernization and Digitalization

Taxpayers continue to bear the consequences of the IRS's heavy reliance on paper-based processes. Paper filings and correspondence often result in long delays, processing errors, and uncertainty – particularly when refunds or time-sensitive notices languish in manual workflows. Until the IRS can reliably convert paper to digital formats at scale and modernize its procurement processes to deploy effective technology more quickly, taxpayers will remain subject to avoidable delays and frustration caused by outdated systems.

#3 Telephones

Telephone service often serves as the gateway for taxpayers to resolve complex tax issues and meet filing and payment obligations. Effective service depends not merely on whether calls are answered but whether the issues prompting the call are resolved, such as whether the IRS has timely processed a return or issued a refund. When telephone service fails, taxpayers bear the consequences through increased burden, uncertainty, and financial harm.

#4 Independent Office of Appeals

Appeals is meant to provide taxpayers a fair and independent forum to resolve federal tax disputes without litigation, but taxpayers increasingly face long delays, limited transparency, and perceptions that settlement decisions are constrained by other IRS functions. Appeals must strengthen timeliness, perceived independence, and communication to protect taxpayer rights and preserve confidence in the administrative dispute resolution system.

#5 Tax Pro Account

Tax professionals are indispensable to IRS operations and taxpayer compliance, yet the IRS has not equipped them with the digital tools necessary to represent taxpayers effectively in a modern, digital environment. Providing tax professionals with a fully functional Tax Pro Account would allow representatives to resolve client issues more efficiently, speeding resolutions for taxpayers and reducing costs.

#6 Records Access

Taxpayers and their representatives often struggle to obtain records from the IRS that they need to advocate for their positions and understand the agency's rationale for its decisions. This lack of access leads to unnecessary frustration, repeated calls and correspondence with the IRS, and confusion among IRS employees who may incorrectly believe confidentiality rules or privileges prevent them from releasing information. Timely and consistent access to records is essential for taxpayers and their representatives to ensure taxpayers are informed, treated fairly, and able to exercise their rights within the tax system.

#7 Centralized Authorization File

The IRS Centralized Authorization File system still relies heavily on manual processing, creating delays that expose taxpayers to missed deadlines, incorrect notices, and potential enforcement actions. Although the IRS has introduced digital tools, improvements are needed to ensure authorizations are processed quickly and reliably, allowing taxpayers uninterrupted access to representation.

#8 Social Media

Taxpayers are increasingly exposed to identity theft, scams, and misleading tax information on social media platforms. False or inaccurate content can spread rapidly, leading taxpayers to make harmful decisions and increasing the burden on tax administration. The IRS must play a proactive role in the social media environment and continue investing in tools and outreach that protect taxpayers from fraud and misinformation.

#9 Taxpayers Living Abroad

U.S. citizens living abroad are subject to U.S. tax laws, including the requirements to file federal tax and international information returns and pay any tax they owe. However, the complexity of the tax laws, lack of IRS assistance and services, and incompatibility of IRS systems create significant challenges for U.S. taxpayers abroad, discouraging compliance and eroding trust in the fairness of the nation's tax administration. Unless the IRS takes meaningful steps to improve its services, guidance, and systems for these taxpayers, the frustration and fear experienced by Americans abroad will continue to grow, harming not only them but also the integrity of the tax system as a whole.

#10 International Withholding Relief

Taxpayers affected by programs such as the Foreign Investment in Real Property Tax Act (FIRPTA), U.S. Residency Certification, and Form 8233 face significant delays and hardship due to outdated, manual IRS processes. While these programs may impact a smaller population, the consequences for affected taxpayers are often severe, including cash-flow disruptions and uncertainty. As part of its broader modernization efforts, the IRS should prioritize these programs and develop reliable electronic filing options to reduce taxpayer burden.



1 AMENDED RETURNS

Refund Delays and Unclear and Confusing Disallowance Notices Harm Taxpayers and Jeopardize Their Rights to Administrative and Judicial Review

PROBLEM

Taxpayers are harmed by the IRS's delays in processing amended returns, the issuance of confusing or incomplete notices of claim disallowance, and the absence of clear, accessible procedures for extending the statutory period during which the IRS must issue refunds. Together, these failures impose significant financial hardship, jeopardize taxpayer rights, put taxpayers at risk of losing their refunds, and undermine confidence in tax administration. However, these harms are preventable.

Amended return processing remains an area where the IRS has yet to fully recover from pandemic-related backlogs. These delays cause tangible harm. For individuals – particularly low-income taxpayers – delayed refunds can mean the inability to meet basic living expenses, reliance on credit cards or high-cost loans, missed payments, late fees, or damage to credit. For businesses, delayed refunds disrupt cash flow, impede payroll, and limit reinvestment. Beyond financial harm, prolonged uncertainty creates frustration, increases compliance costs, and erodes trust in the tax system. Delays also stall downstream tax actions that depend on resolution of amended returns, including injured spouse claims, net operating loss carryforwards, and credit carryforwards.

Taxpayers receiving a notice of claim disallowance face a new set of challenges, beginning with the complexity of the notice and difficulty understanding the next steps. These notices often fail to clearly state what was disallowed and why, and what steps taxpayers must take to protect their rights.

Taxpayers who appeal such notices often experience substantial delays before their case reaches an Appeals Officer in the Independent Office of Appeals (Appeals). Under IRC § 6532, the issuance of a notice of disallowance begins a two-year statutory period. During this period, the IRS may issue a refund, or the taxpayer must file suit in a U.S. district court or the U.S. Court of Federal Claims. If the two-year period expires without a lawsuit being filed or an extension being requested and executed by the IRS, the IRS is barred from issuing a refund. Despite the high stakes impacting taxpayers, the IRS lacks a clear standardized process by which taxpayers may request an extension of this two-year period. As a result, taxpayers may inadvertently lose their right to a refund or to judicial review. These procedural deficiencies, combined with lengthy processing delays and unclear notices, create taxpayer confusion, undermine rights, and diminish taxpayer compliance. This disproportionately harms taxpayers who lack representation or the resources to navigate a complex administrative system.

ANALYSIS

When taxpayers submit an amended return, they often enter a lengthy and arduous administrative process. Despite recent improvements, IRS processing delays for amended returns remain excessive – particularly for business taxpayers. These delays impose real financial hardship, increase frustration, undermine confidence in tax administration, and jeopardize taxpayers’ statutory rights.

When the IRS disallows a refund claim, it sends a notice of claim disallowance to the taxpayer. The notices of disallowance frequently fail to clearly explain what was denied, why it was denied, and most critically, what taxpayers must do next to protect their rights. Unlike other significant IRS notices, these notices do not clearly state the exact deadline by which the taxpayer must file suit or by which the IRS must issue a refund. Instead, taxpayers are left to decipher complex and confusing language that obscures the serious consequences of inaction.

For taxpayers who need additional time because of IRS delays, the process for extending the critical two-year period under IRC § 6532 is opaque and poorly designed. The IRS provides little or no guidance on how to request an extension using Form 907, does not display the expiration date on the notice of disallowance or on taxpayer accounts, and offers no clear submission instructions. As a result, taxpayers may unknowingly lose their right to a refund or judicial review through no fault of their own. Many are forced to seek assistance from TAS simply to preserve their rights – a burden that should not exist.

RECOMMENDATIONS

The National Taxpayer Advocate recommends that the IRS:

- 1. Expand automated processing of amended returns.** Continue expanding automated processing of amended returns to reduce processing delays while maintaining a high accuracy rate and establishing an electronic routing and tracking process between functions.
- 2. Enhance transparency by improving the *Where’s My Amended Return?* tool and the taxpayer’s online account.** By 2027, enhance transparency in both the *Where’s My Amended Return?* tool and taxpayer’s online account, allowing taxpayers to see the status of each stage of the amended return processing, identify which IRS function is working their amended return, and include appropriate IRS contact information.
- 3. Streamline submission of amended returns for taxpayers in Collection.** When taxpayers file an amended return and they currently have a case in Collection, by September 30, 2026, revise procedures so a copy of the amended return is automatically sent to Collection.

4. **Revise the notice of claim disallowance.** By September 30, 2026, revise notices of claim disallowance to clearly state the exact deadline to file suit or receive a refund, using plain language to explain the consequences of missing that deadline, prominently explaining appeal rights and next steps while providing straightforward instructions on how and where to file Form 907.
5. **Create a webpage for Form 907 information and guidance.** By September 30, 2026, create a webpage for Form 907 information and guidance on IRS.gov that describes what the Form 907 is, how to submit it, and the process for getting it approved.
6. **Establish a clear, standardized extension process for Form 907.** By April 30, 2026, establish a clear and standardized extension process for Forms 907 related to disallowed Employee Retention Credit (ERC) claims, including instructions for how taxpayers may submit the form and how the IRS will notify taxpayers when their request is approved. Create a centralized unit to receive Forms 907 and route them to the appropriate IRS employee with signing authority. By September 30, 2026, establish procedures that provide a clear, standardized process for executing Forms 907 for non-ERC claims and that clearly advise taxpayers of their rights following a notice of claim disallowance.
7. **Add IRC § 6532 indicators to taxpayer accounts.** By January 30, 2027, add IRC § 6532 indicators to taxpayer accounts to allow taxpayers and the IRS to track the expiration of the IRC § 6532 two-year period. Similar to expiring assessment statutes, ensure proactive communication by requiring Revenue Agents and Appeals Officers to alert taxpayers six months before the deadline that the statute expiration is imminent and explain how to request an extension.

The National Taxpayer Advocate recommends that Congress:

1. Amend IRC § 6402(l) to require that every notice of claim disallowance include:
 - A clear, specific, and accurate explanation of the disallowance;
 - An explanation of how to appeal the disallowance;
 - A statement that the taxpayer has the right to file suit to recover the refund;
 - In bold at the top of the notice, the precise date by which taxpayer must file suit in a U.S. district court or the U.S. Court of Federal Claims under IRC § 6532(a); and
 - A statement that the taxpayer has the right to request an extension of the two-year period to appeal the disallowance, accompanied by an explanation of the extension process.
2. Amend IRC § 6402(l) to authorize the IRS to rescind a notice of claim disallowance when the notice fails to provide a specific explanation of the disallowance and/or omits required information regarding administrative or judicial review. This authority would enable the IRS to correct defective notices and ensure that taxpayers are not disadvantaged by agency error.



2

IRS MODERNIZATION AND DIGITALIZATION

Outdated Paper Processes and Procurement Delays Harm Taxpayers

PROBLEM

The difference between a digital and a paper interaction with the IRS is about more than mere convenience: It is about fairness, predictability, and financial stability. When returns, amended filings, or correspondence must be processed on paper, resolution and processing times slow dramatically. Taxpayers bear the cost through delayed refunds, prolonged disputes, and months of anxiety and uncertainty about their financial standing.

The National Taxpayer Advocate has repeatedly warned that “paper is the IRS’s kryptonite” and that the agency remains “buried in it.” Paper returns require line-by-line manual data entry by an IRS employee. This process is time-consuming, error-prone, and unsustainable. Procurement and modernization delays have compounded this problem, preventing the timely deployment of digital tools that could dramatically reduce backlogs and improve accuracy.

Taxpayers should be able to rely on the IRS to process their returns and correspondence within reasonable and transparent timeframes, regardless of the format in which they file. If the IRS remains dependent on outdated paper-based processes and slow procurement cycles, taxpayers will continue to experience delayed refunds, late or unanswered correspondence, and avoidable financial hardship. Taxpayers bear the cost of these inefficiencies not only in dollars, but in time, including hours spent calling the IRS, re-mailing documents, and proving the agency received what they already sent. These delays are not merely frustrating; they can deprive taxpayers of the *right to quality service* and erode confidence that the system treats them fairly.

ANALYSIS

Paper remains a major driver of return processing delay and errors. Even with expanded e-filing, the IRS still receives tens of millions of paper returns and pieces of paper correspondence each year. The Government Accountability Office reported that during the 2024 filing season the IRS missed its 13-day goal for processing individual paper returns. Instead, the IRS averaged 20 days, with delays stretching to months when volumes peak, when errors require correspondence, and in cases involving amended returns. These delays may harm households and small businesses that rely on refunds. They also increase call volume and duplicate filing, and disproportionately burden taxpayers whose issues often require paper documentation, such as identity theft victims and those in lower income brackets.

To address the paper backlog, the IRS launched the Zero Paper Initiative (ZPI) in April 2025, aiming to digitalize incoming paper by relying heavily on contractor scanning and data extraction from Forms 1040, 941, and 940 for filing seasons 2026 and beyond. However, early results have raised execution and capacity concerns. For example, scanning pilots covered only a fraction of existing paper volumes and vendor throughput has not consistently met minimum targets. Peak filing season paper receipts can exceed millions per week, which far outpaces vendor performance to date. The risk of processing delays and taxpayer harm is heightened because the IRS has not backfilled a significant number of Submission Processing positions.

Procurement barriers compound these operational risks. The Federal Acquisition Regulation (FAR) can turn urgent, commercially available technology needs into multi-month or even multiyear acquisition cycles. Bid protest procedures can further stall projects, sometimes forcing the IRS into workaround contracting approaches that can trigger litigation risk and delay. While the August 2025 government-wide push to streamline procurement is promising, it is a multiyear effort and may not arrive fast enough to support near-term paperless goals. IRS modernization also requires the agency to adopt more private sector principles, such as phased delivery, end-to-end automation instead of only digitizing intake, and customer-centric design. By doing so, “digital” changes stand a better chance of reducing taxpayer burdens rather than just recreating paper-era workflows in a digital form.

RECOMMENDATIONS

The National Taxpayer Advocate recommends that the IRS:

- 1. Establish clear performance benchmarks for ZPI.** Establish measurable ZPI metrics that assess capacity not just against average receipt volume, but against peaks during filing season, including (i) weekly scanning throughput relative to peak-period inventory and intake to confirm the program can meet surges; (ii) error rates and resulting rework volumes; (iii) end-to-end cycle times for paper-originated returns from receipt through posting; and (iv) refund timeliness, including comparisons between scanned and manually processed returns.
- 2. Evaluate scanning options and risks.** Conduct a comprehensive cost and risk analysis for Scanning-as-a-Service that compares the long-term costs of using external vendors with the costs of building and operating in-house digital intake capacity staffed by IRS employees. The analysis should also evaluate data security, operational resilience, and taxpayer rights risks inherent in outsourcing sensitive return and correspondence data to private vendors, including lessons learned from the IRS’s prior experience with private vendors for core services such as collections.
- 3. Maintain internal processing capacity until ZPI vendors deliver at scale.** The IRS should not further reduce Submission Processing staffing until ZPI vendors and internal scanning systems consistently demonstrate the ability to handle peak filing season volumes, not just average throughput. A temporary dual-track model remains necessary to protect taxpayers from systemic delays or failure.

4. **Improve vendor debriefings.** Adopt enhanced debriefings for major IRS procurements, especially modernization and digitalization contracts, by providing timely, substantive post-award debriefs that clearly explain evaluation strengths, weaknesses, and key discriminators, with proprietary information appropriately redacted.
5. **Track and learn from protests.** By September 30, 2026, establish an IRS acquisition protest analytics and lessons-learned program to track protest frequency, outcomes, corrective actions, repeat protesters, and time-to-award impacts, and use this data to refine solicitation design, evaluation practices, and procurement timelines for modernization initiatives.
6. **Review major acquisitions for protest risk.** By September 30, 2026, ensure pre-award protest-risk quality assurance reviews for major modernization acquisitions to confirm that solicitation requirements are unambiguous, evaluation criteria are faithfully applied, and the award decision is fully documented before contract award.
7. **Implement immediate procurement process improvements within IRS control.** While broader FAR reform proceeds, the IRS should expand enhanced post-award debriefings to reduce protest risk; create a procurement protest analytics and lessons-learned program; conduct pre-award protest-risk quality reviews for major modernization procurements; leverage Chief Counsel assistance when appropriate; and use performance-based, phased contracts where possible to validate vendor capability before scaling.

The National Taxpayer Advocate recommends that Congress:

1. Strengthen incentives for IRS contractors to ensure their employees keep taxpayer return information confidential.



3

TELEPHONES

The IRS Does Not Accurately Measure the Quality of Telephone Service

PROBLEM

Taxpayers calling the IRS are often seeking help with urgent and stressful issues, such as an unexpected notice, a delayed refund, a pending deadline, an inability to make a payment, or uncertainty about their tax obligations. For many taxpayers, particularly those without reliable internet access or the ability to access or navigate online tools, calling the IRS is the most direct and sometimes only way to resolve these problems.

When the IRS fails to provide quality telephone service, taxpayers suffer real and measurable harm. They may receive incorrect or incomplete information, miss filing or payment deadlines, incur penalties and interest, or spend the time to make repeated calls without resolution. These experiences undermine taxpayer *rights to quality service* and *to be informed* and can erode trust in the tax system.

Vulnerable populations bear this burden more heavily. Low-income taxpayers, older individuals, rural residents, and taxpayers with limited English proficiency rely disproportionately on telephone assistance. These taxpayers report lengthy wait times, dropped calls, repeated transfers, and conversations with representatives who cannot fully resolve their issues. When these taxpayers cannot get the help they need, they are more likely to fall out of compliance through no fault of their own.

Poor telephone service also creates a cycle of frustration and inefficiency. When a taxpayer's issue is not resolved during a call, the taxpayer must call back, send correspondence, or seek assistance elsewhere. This increases taxpayer burden and places additional strain on IRS

resources. To break this cycle, the IRS must measure telephone service in a way that reflects what taxpayers actually experience, including whether they can reach the IRS, receive accurate and respectful assistance, and resolve their issue – preferably on the first contact.

From a taxpayer’s perspective, telephone service does not operate in a vacuum. When paper returns, amended returns, and correspondence go unprocessed for months, taxpayers are left without answers and often have no choice but to call the IRS for updates or clarification. Staffing decisions that emphasize meeting telephone Level of Service (LOS) targets without addressing these delays can unintentionally worsen backlogs in other service channels, pushing more taxpayers onto the phones and forcing them to make repeated calls about the same unresolved issue. When success is measured primarily by answered calls rather than timely resolution across all channels, the result is not reduced burden but a shifting of that burden onto taxpayers.

ANALYSIS

For tens of millions of taxpayers each year, IRS telephone service is the most accessible and trusted channel for resolving tax problems. The use of IRS telephone service for many taxpayers is not optional; it is necessary. Providing high-quality telephone assistance allows the IRS to meet taxpayers where they are and ensures that those who cannot rely on digital tools are not left without meaningful support. When telephone service fails, taxpayers bear the consequences through increased burden, uncertainty, and financial harm.

Even when taxpayers are able to reach a customer service representative (CSR), resolution is not guaranteed. The IRS primarily measures success in telephone performance using its LOS metric, which measures the percentage of calls answered by a live assistor. Measuring success based on answered calls alone does not reflect whether taxpayers receive the help they need. Success should mean that taxpayers can reach the IRS, receive professional and accurate assistance, and resolve their issues without repeated contacts. Achieving this outcome performance requires a taxpayer-centered approach to telephone service that would focus on and measure resolution, accuracy, and fairness with an emphasis on first contact resolution, then utilize those metrics to drive meaningful change. By using those insights to drive improvement, the IRS can better protect taxpayer rights and strengthen compliance.

Although LOS may appear to reflect strong performance, it is a limited and misleading indicator. IRS systems prevent CSRs from shifting between telephone work and paper processing, meaning staffing decisions focused on meeting LOS targets leave taxpayers waiting longer for the IRS to process paper returns and correspondence. For taxpayers, this results in unanswered letters, unresolved account issues, and the need to call the IRS repeatedly for updates. As a result, high LOS can coexist with delayed resolutions and increased taxpayer burden. Together, these dynamics create a feedback loop in which LOS-driven staffing decisions increase paper backlogs, those backlogs drive additional calls, and rising call volumes further strain telephone service.

Sustainable improvement in taxpayer service requires balance. While reasonable telephone wait times are essential, answering more calls alone does not reduce taxpayer burden if underlying issues remain unresolved due to processing delays in other channels. A taxpayer-centered service strategy must align telephone access, paper processing, and performance measurement around a single goal: resolving taxpayer issues accurately and efficiently, preferably on the first contact. Without outcome-based metrics that capture this full experience, improvements in LOS may continue to mask systemic delays rather than solve them.

RECOMMENDATIONS

The National Taxpayer Advocate recommends that the IRS:

- 1. Adopt an alternative service metric that measures taxpayers' telephone experience.** By the end of fiscal year (FY) 2026, adopt an alternative metric of service for telephones that measures the taxpayer experience, including outcome-based attributes related to quality, first contact resolution, and the impact of staffing decisions on paper processing and correspondence inventories.
- 2. Track disconnected calls.** By the end of FY 2026, implement procedures to track, identify, and analyze the causes of disconnected calls while taxpayers are speaking with a CSR.
- 3. Provide an online tool for reporting negative CSR experiences.** By the end of FY 2026, establish an online submission tool for taxpayer feedback and reporting negative CSR experiences.
- 4. Adopt a service metric that measures taxpayers' chatbot and voicebot experience.** By the end of FY 2026, adopt a metric of service for chatbots and voicebots that measures the taxpayer experience, including attributes related to the quality of service provided and whether the IRS resolved the taxpayer's issue.
- 5. Prioritize Taxpayer 360 deployment.** Expedite deployment of the Taxpayer 360 platform by the end of FY 2026 to enhance all CSRs' access to taxpayer data and research, enabling quicker, more accurate responses and increased first contact resolution.



4

INDEPENDENT OFFICE OF APPEALS

Taxpayers and Tax Professionals Continue to Raise Concerns About Independence, Undermining Public Confidence in the Appeals Process

PROBLEM

Congress created the IRS Independent Office of Appeals (Appeals) to provide taxpayers a fair and impartial forum to resolve tax disputes without litigation. Appeals is central to tax administration. Each year, it resolves a substantial share of controversies, promotes taxpayer compliance, and strengthens public trust by demonstrating that IRS decisions can be reviewed independently and resolved equitably to both taxpayers and the government.

When Appeals falls short of this mission, the harm to taxpayers is immediate and concrete. Extended delays before a case reaches an Appeals Officer (AO), inconsistent case handling, limited transparency, and perceptions that decisions are being driven by IRS compliance functions instead of applying the hazards of litigation to the facts and law deny taxpayers timely and impartial consideration. These deficiencies create prolonged uncertainty, higher costs, and diminished confidence that the system is fair. In some cases, taxpayers abandon the administrative path altogether and turn to litigation simply to obtain some sense of action. Such breakdowns erode taxpayer rights, increase burdens on the courts, and risk weakening the tax administration system.

ANALYSIS

Taxpayers face prolonged and opaque delays at multiple points in the Appeals pipeline, including a “black hole” period after filing a timely protest when there is no enforceable deadline for the originating function to prepare a rebuttal or transmit the case to Appeals. In fiscal year (FY) 2025, nearly 88% of protested cases remained in pre-Appeals holding status for over 50 days, and the average time from a taxpayer’s appeal request to final disposition in a non-docketed case was 337 days, with over half of that time passing before an AO could begin substantive work.

Capacity and confidence problems compound these delays. Appeals staffing declined sharply in less than a year, including a significant reduction in the AO cadre, while inventories per employee increased across nearly all categories. At the same time, stakeholders continue to report perceived limits on AO autonomy, particularly when Counsel or technical guidance coordinators (TGCs) appear to drive outcomes, which undermines the promise of an independent review. These issues are aggravated by training gaps, underutilization of Alternative Dispute Resolution (ADR) despite its potential to resolve cases faster, and outdated and fragmented case management and communication tools that leave taxpayers struggling to access their files and understand the status of their case.

RECOMMENDATIONS

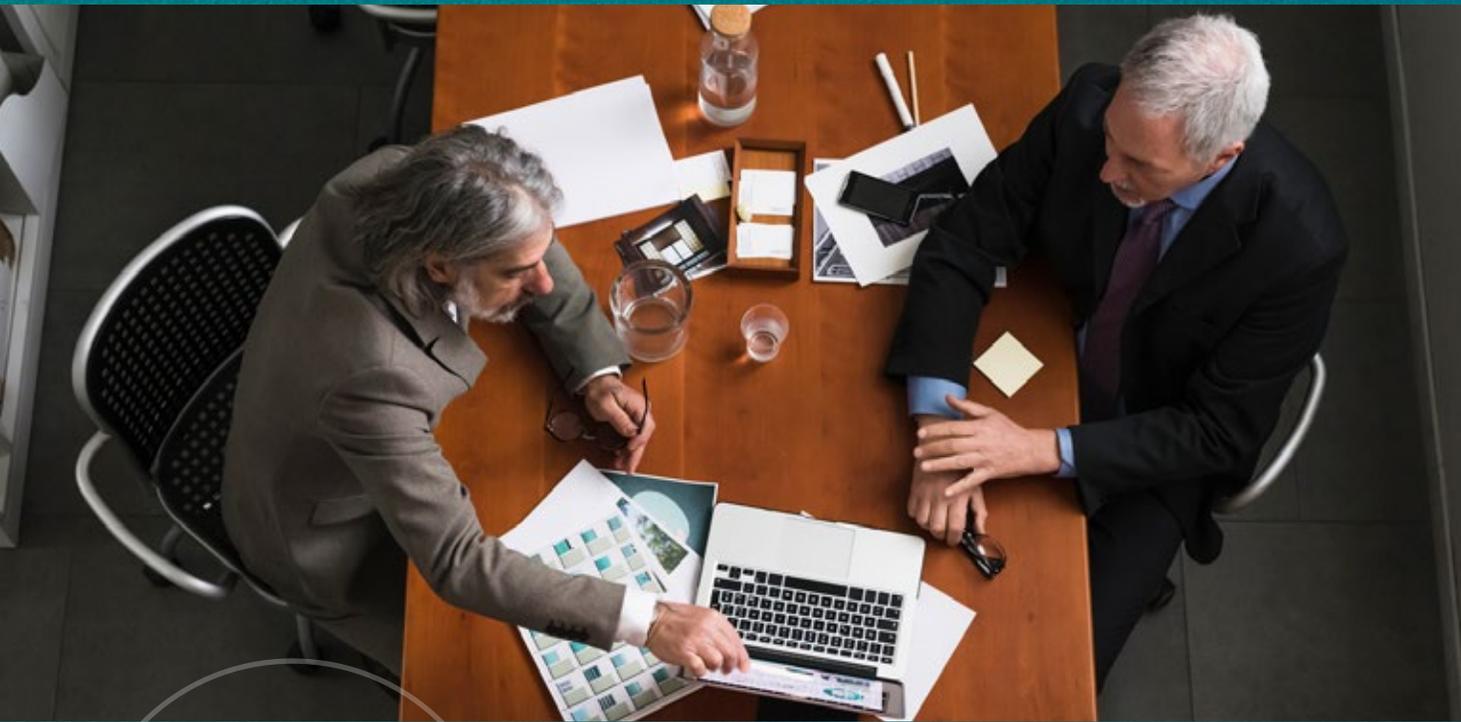
The National Taxpayer Advocate recommends that the IRS:

1. **Establish enforceable timeliness standards from protest to conference.** Create and publish binding timelines for the full Appeals path, including: (i) Exam rebuttal after a protest, (ii) transfer to Appeals after rebuttal or waiver, (iii) Appeals receipt to assignment, and (iv) assignment to initial contact and opening conference. Track milestone compliance and report results annually.
2. **Reaffirm AO independence in developing settlements.** Revise the IRM to emphasize that AOs independently evaluate facts, law, and hazards of litigation and develop settlement proposals, even when final approval rests with Appeals Team Managers or Appeals Team Case Leaders. Reiterate that TGC and Counsel input is advisory and require supervisory review to document concurrence or disagreement with the AO’s hazards analysis.
3. **Increase transparency of outside input and closing rationale.** Require AOs to document when Counsel or TGC input is sought and the issue consulted on. If advice was provided, include a brief non-privileged summary in the administrative file. Automatically provide taxpayers a redacted Appeals Case Memorandum (ACM) at closure or treat ACMs as internal-only unless shared with the taxpayer on equal terms.
4. **Require taxpayer consent for Counsel attendance in Appeals conferences.** Obtain affirmative taxpayer consent before Counsel or Compliance attends an Appeals conference. Limit attendance to situations where Appeals determines that having Counsel or Compliance in the conference is necessary to address novel, difficult, or factually intensive issues, or where the taxpayer requests their participation. Appeals should provide advance notice explaining the reason for attendance and publish annual data on attendance rates and outcomes.
5. **Allow taxpayers to verify that an appeal protest was received.** Create an indicator that can be added to the taxpayer’s transcript when the IRS receives an appeal. Include indicators on the taxpayer’s transcript and online account.

- 6. Modernize communication and file access through a unified digital portal.** Provide individual and business taxpayers a secure portal, through the IRS online account or an Appeals interface, for document upload, secure messaging, and real-time status tracking from protest to closure. Ensure Appeals' current system exchanges status and file data with originating functions so all parties rely on a single authoritative record.
- 7. Embed litigation-focused training into performance expectations.** Require annual AO training on hazards-of-litigation analysis, evidentiary concepts, administrative law, negotiation, and taxpayer rights. Institutionalize Tax Court observation for all AOs and count training and courtroom exposure toward Critical Job Elements.
- 8. Reinvigorate ADR with measurable goals and accountability.** Direct the ADR Program Management Office to set targets for ADR offers, acceptance, resolution rates, and time to resolution by program and Business Operating Division. Require good-faith ADR consideration in eligible cases, and incorporate ADR use into managerial performance measures. Beginning FY 2027, include ADR training as a Critical Job Element in Compliance and Appeals, as appropriate.

The National Taxpayer Advocate recommends that Congress:

1. Require taxpayers' consent before allowing IRS Counsel or Compliance personnel to participate in Appeals conferences.
2. Authorize Appeals to hire its own attorneys.



5

TAX PRO ACCOUNT

Online Accounts for Tax Professionals Lack Critical Functionality Required to Effectively Represent Taxpayers

PROBLEM

When taxpayers receive an IRS notice, face an audit, or are subject to collection action, many cannot navigate the process on their own. They rely on tax professionals to understand what the IRS is asking, respond accurately and on time, and protect them from unnecessary penalties, interest, and enforcement actions. For these taxpayers, effective representation is often the difference between timely resolution and prolonged financial distress. As of the end of fiscal year (FY) 2025, tax practitioners had approximately 11 million active authorizations for individual taxpayers to receive taxpayer information or represent taxpayers before the IRS. These authorizations are the mechanism by which the IRS permits representatives to assist in resolving audits, responding to notices, addressing collection issues, and handling other account-related matters and are essential to helping resolve issues. They are fundamental to timely issue resolution.

Yet, despite taxpayers' heavy reliance on and the critical role of tax professionals within tax administration, the IRS's digital tools for representatives fall far short of what is needed. As a result, taxpayers and their representatives must still rely heavily on paper forms, postal mail, portals, fax submissions, and telephone calls, methods that are slow, labor-intensive, and costly. These inefficiencies predictably result in higher representation fees for taxpayers.

The consequences fall squarely on taxpayers. This lack of a fully functional digital platform imposes burdens on taxpayers, who experience delays in case resolution, prolonged exposure to penalties and interest, and increased representation costs, and the IRS, which must devote substantial staff time to activities that it could otherwise automate or allow tax professional self-service. Until Tax Pro Account is equipped to meet the day-to-day needs of taxpayers who rely on professional representation, taxpayers will continue to face unnecessary obstacles in exercising their *right to retain representation*.

ANALYSIS

Taxpayers increasingly rely on representatives to help them understand IRS actions, respond to notices, resolve disputes, and avoid unnecessary penalties and enforcement. When representatives cannot access client tax information and perform normal representation tasks instead of calling the IRS or submitting paper correspondence, taxpayers bear the consequences. Delays in authorization processing, lack of access to notices and documents, unreliable system performance, and continued reliance on paper-based processes all undermine timely resolution and increase financial and emotional burdens for taxpayers. Although the IRS has made progress expanding digital services for individual taxpayers, it has not provided comparable tools for taxpayers who choose or need professional representation.

Modernizing Tax Pro Account is not merely a technology improvement, it is a taxpayer rights issue. A fully functional, reliable, and transparent Tax Pro Account would allow taxpayers to benefit from timely representation, reduce unnecessary delays and costs, and improve confidence in the fairness and efficiency of tax administration. Until the IRS prioritizes development of Tax Pro Account with taxpayers' needs at the center, millions of taxpayers will continue to face avoidable obstacles in resolving their tax matters.

RECOMMENDATIONS

To improve Tax Pro Account functionality and advance taxpayer rights, the National Taxpayer Advocate recommends that the IRS:

- 1. Expand Tax Pro Account functionality.** Provide authorized tax professionals with access to all features available to individual and business taxpayers' online accounts by the end of FY 2026.
- 2. Add Power of Attorney and Tax Information Authorization upload tool to Tax Pro Account.** Allow tax professionals to upload executed Forms 8821 and 2848 directly through Tax Pro Account regardless of whether the client has an online account.
- 3. Expand Tax Pro Account authorization tool.** Allow tax professionals to use the Tax Pro Account authorization tool for all types of taxpayers who can create an online account. Additionally, simplify multi-representative authorizations and add a bulk withdraw feature.
- 4. Promote online accounts and new functions.** Increase awareness of new online account functionalities by timely highlighting the new additions and their uses on the online account pages and in email alerts.
- 5. Provide transparency on development priorities.** Publish a public roadmap by the end of FY 2026 with quarterly public updates post-FY 2026 detailing planned online account enhancements, scope, timelines, and anticipated benefits, and solicit stakeholder input at least annually.



6

RECORDS ACCESS

Taxpayers Face Delays and Inadequate Responses to Their Administrative Requests for Records From the IRS

PROBLEM

Taxpayers and their representatives often struggle to obtain records from the IRS that they need to advocate for their positions and understand the agency's rationale for its decisions. This lack of access leads to unnecessary frustration, repeated calls and correspondence with the IRS, and confusion among IRS employees who may incorrectly believe confidentiality rules or privileges prevent them from releasing information. As a result, taxpayers may submit multiple requests to different IRS employees and under the Freedom of Information Act (FOIA), which, in turn, may exacerbate backlogs and delays in producing documents. For time-sensitive information, taxpayers may not receive it before statutory or procedural deadlines expire, depriving them of their *rights to be informed* and *to a fair and just tax system*. Timely access to records is not a luxury – it is essential to ensuring due process and meaningful participation in administrative proceedings.

ANALYSIS

Getting adequate records and timely information from the IRS for use in administrative proceedings has been noted as a top source of anxiety for tax professionals and their clients. To understand the basis of IRS determinations and know what steps to take to seek relief, taxpayers and their representatives need the IRS to timely provide them with complete records that do not contain excessive redactions. While the IRS offers “routine access” procedures through which taxpayers can directly request their records, these methods are not always available and do not always result in taxpayers getting everything they need. When those methods fail, taxpayers often resort to FOIA, a statute primarily intended to provide transparency into government policy and decision-making, not to be an efficient way for individuals to seek their own records.

At this important inflection point for the IRS, as it is developing its strategy for digitization and increasing connectivity between case management systems, the IRS must factor into that design the efficient delivery of records to taxpayers. Currently, it can be surprisingly time-consuming and complicated just to locate or identify the records the taxpayer is requesting, much less gather all responsive documents, redact privileged or confidential material, and provide copies to the taxpayer. Ideally, IRS employees should be able to generate a complete set of records with minimal effort, but the current system architecture makes that difficult.

RECOMMENDATIONS

The National Taxpayer Advocate recommends that the IRS:

1. **Implement more effective technology and automation tools to improve redaction and document review.** Effective software or automated processes should be implemented to reduce manual labor in reviewing documents and to better explain redactions and withholdings.
2. **Establish a FOIA response team to conduct searches on behalf of IRS employees when the FOIA request relates to that employee’s own work.** When a FOIA request that is not a first-person request seeks records associated with an IRS employee, such as an IRS executive, a neutral team of records specialists should conduct the search on the employee’s behalf. These records specialists should be knowledgeable about relevant records and applicable privilege rules, understand the case management systems and record types in the employee’s business unit, and have the technological expertise necessary to search for, locate, and prepare responsive records.
3. **Address authentication barriers and continue improving the FOIA online portal.** The IRS should proactively identify and resolve authentication barriers that prevent users from accessing the FOIA online portal, make necessary fixes to ensure accessibility for all users, and consider developing features tailored to tax professionals who submit requests on behalf of taxpayers. The IRS should regularly solicit and incorporate user feedback to identify persistent problems and prioritize meaningful enhancements.
4. **Publish examples of standard or default document requests.** The IRS should develop and publicly post clear, plain-language guidance identifying common types of taxpayer document requests, including standard categories and sample requested language. Providing these examples would help taxpayers and tax professionals submit more precise requests, reduce processing delays, and improve the efficiency and accuracy of FOIA requests.
5. **Require affirmative consent before narrowing FOIA requests.** For first-person requests, narrow the scope of requests only when the requesters have affirmatively agreed to the narrowing and do not treat the lack of a response as consent.
6. **Waive user fees for low-income taxpayers requesting records.** Create fee waivers for low-income taxpayers who request tax return and other taxpayer records, including requests submitted on Form 4506 and other requests for taxpayer records, where applicable.

- 7. Maintain and expand “Frequently Requested Records” on IRS.gov.** The IRS should regularly update and expand the list of Frequently Requested Records on IRS.gov to ensure it reflects current taxpayer needs and commonly requested materials, and provide clear guidance in the IRM directing employees how to identify, categorize, and proactively post such records.
- 8. Develop metrics to evaluate the effectiveness of Respond Directly and drive improvement.** The IRS should establish and regularly review performance metrics for Respond Directly, including usage rates, turnaround times, and taxpayer satisfaction. These metrics should be used to identify gaps, prioritize improvement, and assess how enhancement to Respond Directly can reduce duplicative FOIA requests for the same information.



7

CENTRALIZED AUTHORIZATION FILE

Systemic Failures Undermine Taxpayer Rights to Representation, Due Process, and Quality Service

PROBLEM

For many taxpayers, authorizing a qualified representative is essential to navigating the IRS. Taxpayers facing audits, collection actions, identity theft, or financial hardship often rely on tax professionals to interpret notices, communicate with the IRS, and protect their rights. The IRS's Centralized Authorization File (CAF) is the mechanism that enables this representation by recording powers of attorney and tax information authorizations.

When the CAF process breaks down, taxpayers are the ones who bear the consequences. Delays in processing Forms 2848 and 8821, inconsistent rejection of valid authorizations, and sudden suspension of representatives' CAF numbers can abruptly sever a taxpayer's access to their chosen representative. Taxpayers may suddenly discover that their representative can no longer access account information, receive or respond to IRS correspondence, or intervene before automated enforcement actions proceed. In these moments, taxpayers are left to navigate the IRS alone, often without understanding what went wrong or how to fix it.

These failures are not isolated or rare. Each year, millions of taxpayers submit authorization forms so that the IRS can communicate with their representatives. Yet the CAF system continues to rely on outdated, manual processes that struggle to handle this volume. As a result, taxpayers may miss deadlines, receive incorrect notices, experience unnecessary enforcement actions, or endure prolonged uncertainty while their cases remain unresolved even when they have done everything required to authorize a representative to act on their behalf. This harms the taxpayers' *rights to be informed, to quality service, and to retain representation.*

ANALYSIS

When the CAF process fails, taxpayers experience delayed resolution, lost advocacy, confusion, and increased exposure to automated enforcement actions. To protect taxpayers' rights, the IRS must adopt a comprehensive, multi-pronged approach to modernizing the CAF process. Although the IRS has introduced digital tools, improvements are needed to ensure authorizations are processed quickly and reliably, allowing taxpayers uninterrupted access to representation.

By modernizing the CAF process with a clear focus on taxpayer impact, the IRS can move toward a system that reliably supports taxpayers and prioritizes timeliness, transparency, and a fair, efficient resolution of tax matters.

RECOMMENDATIONS

The National Taxpayer Advocate recommends that the IRS:

- 1. Establish a dedicated CAF contact channel.** Make direct contact information for the CAF Unit readily available to authorized tax professionals who are experiencing authorization delays, rejects, or CAF number suspensions. This contact channel, whether through telephone, live chat, or other technology, should be separate from the Practitioner Priority Service line and staffed by specialists trained in CAF protocols, CAF internal routing systems, and CAF database troubleshooting.
- 2. Reduce reliance on manual processing.** Adopt a technology-based solution, whether Tax Pro Account, optical character recognition, or another technology solution, which reduces reliance on human transcription and assists in digitalization of paper submissions.
- 3. Standardize electronic signature acceptance across all IRS channels.** Standardize e-signature acceptance for all POA forms. The acceptance of electronic signatures for IRS Form 8821 and IRS Form 2848 submissions should be made uniform across all channels and methods of submission to eliminate confusion and ensure a consistent, modernized approach to third-party authorization.
- 4. Study ways to shorten and mitigate CAF “pending review” suspensions.** Study and implement ways to shorten the duration of CAF investigations that place CAF numbers in “pending review” status. The IRS should also explore interim measures to minimize disruption to taxpayers and their representatives while reviews are ongoing, particularly when no confirmed compromise exists.
- 5. Strengthen due process and communication when CAF access is suspended.** Develop standardized procedures that safeguard due process when a tax professional's CAF number is suspended or placed under review. These procedures should include prompt, detailed notices explaining the reason for the review, clear instructions for resolving the issue, and access to a dedicated CAF contact.
- 6. Expand Tax Pro Account.** Enhance the Tax Pro Account to serve as a comprehensive digital hub for submitting, amending, and withdrawing authorizations without requiring paper submissions or taxpayer online access.



SOCIAL MEDIA

The Negative Tax Influence of Social Media Harms Taxpayers

PROBLEM

Social media has fundamentally changed how taxpayers obtain and consume information about their tax obligations, benefits, and rights. Guidance once sought from trusted professionals and official IRS sources is now increasingly offered by online influencers through short video posts on social media, typically without proper context, verification, or accountability. Social media harbors risks like scams, identity theft, and tax misinformation that often exploit tax complexity and limited tax literacy for influence. Misguided taxpayers can have their entire refunds frozen, incur significant penalties, and suffer long-term financial harm. As social media continues to shape taxpayer behavior at scale, its growing influence poses a direct and urgent threat to taxpayer rights, fairness in tax administration, and confidence in the tax system itself.

ANALYSIS

Taxpayers face an increasing number of harmful risks online, including an abundance of tax misinformation. Changes in tax law and other events often create uncertainty, which bad actors and influencers alike exploit to their benefit by spreading false or misleading guidance. Social media platforms amplify these harms by enabling tax misinformation to reach hundreds of thousands of people almost instantaneously while often targeting the taxpayers least equipped to evaluate its accuracy. Scams, schemes, and tax misinformation thrive on social media and complicate compliance for taxpayers, strain the private tax and financial sectors, and burden the IRS.

The sheer variety of threats makes it difficult for the IRS to timely identify, prevent, and respond to improper activity. These challenges strain limited IRS resources and more importantly, result in significant harm to taxpayers who fall victim to an identity theft scheme, a fraudulent tax scam, or unscrupulous preparers. Taxpayers face harm such as delayed refunds, improper assessments, financial loss, emotional distress, and prolonged uncertainty, all of which undermine their *rights to be informed, to quality service, and to a fair and just tax system*. Social media compounds the risk of taxpayer harm by accelerating the spread of misinformation and fraud while obscuring accountability. As threats become more sophisticated, the risks and harms faced by taxpayers – and the need for the IRS to protect taxpayer rights – intensify. The IRS must play a proactive role in the social media environment and continue investing in tools and outreach that protect taxpayers from fraud and misinformation. Absent sustained technological investments and strategic partnerships, the IRS will continue to struggle to efficiently combat fraud and safeguard taxpayer rights.

RECOMMENDATIONS

The National Taxpayer Advocate recommends that the IRS:

1. **Evaluate strategies to address social media risks.** Analyze by September 30, 2026, whether similar strategies to those used to identify and deter ghost preparers can be adapted to address risks driven by social media, including the spread of tax misinformation, scams, and improper claims.
2. **Leverage TAS as a strategic partner in taxpayer protection.** Partner with TAS to support and enhance anti-fraud educational initiatives and efforts by September 30, 2026, positioning TAS as an advocacy-focused resource for internal and external stakeholders for collaborative taxpayer outreach, engagement, and communications.
3. **Strengthen public-private partnerships for social media.** Coordinate partnerships with external stakeholders to develop and implement strategies to enable faster dissemination of timely alerts and warnings to taxpayers across social media platforms by September 30, 2026, helping to intercept misinformation and reduce taxpayer harm.
4. **Explore security measures for business accounts.** Study and issue a report by September 30, 2026, on the feasibility of establishing monitoring for employer identity verification and Employer Identification Number (EIN) monitoring without increasing burdens on compliant businesses. Consider strengthening authentication requirements for electronic Form W-2 and Form 1099 submissions and offering voluntary protection tools, such as usage alerts, employer-controlled locks, or the EIN equivalent to an IRS Identity Protection PIN.
5. **Improve tax literacy and taxpayer education.** Develop collaborative partnerships and a plan to focus on tax literacy that efficiently educates taxpayers and reduces susceptibility to tax misinformation by September 30, 2026.

The National Taxpayer Advocate recommends that Congress:

1. Repeal the current limitation in IRC § 165(h)(5) and reinstate the pre-Tax Cuts and Jobs Act rules allowing personal theft loss deductions.
2. Amend IRC § 72(t) to create an exception to the 10% additional tax on early distributions from qualified plans (*e.g.*, IRC § 401(k), IRA, or other tax-deferred accounts) that were withdrawn because of a scam.
3. Consider amending 20 U.S.C. § 9703 to include the promotion of tax literacy among the duties of the Financial Literacy and Education Commission (or creating a similar multi-agency commission focused on tax literacy).
4. Authorize the Secretary of the Treasury to establish minimum federal standards for paid tax return preparers and to revoke the identification numbers of sanctioned preparers.



9

TAXPAYERS LIVING ABROAD

U.S. Taxpayers Living Abroad Face Severe Compliance Burdens

PROBLEM

U.S. taxpayers living abroad face significant and often overwhelming challenges in complying with their federal tax obligations. Although they live and work under foreign legal, financial, and tax systems, they remain subject to the full scope of U.S. tax laws. As a result, they must navigate not only the complex U.S. tax code but also extensive and confusing international information reporting requirements. The interaction between U.S. tax laws and the tax systems of their countries of residence compounds the complexity. Harsh and disproportionate penalties that may apply even when taxpayers make good-faith mistakes or owe no U.S. tax intensify these burdens.

Despite being aware of these difficulties, the IRS provides limited guidance, minimal resources, and restricted access to IRS systems and services for taxpayers living abroad. As a result, many are forced to pay high fees for professional assistance simply to comply with the law, while others – facing frustration, fear, or confusion – choose not to file at all, or even renounce their U.S. citizenship to escape the complexity. The lack of meaningful IRS support and the excessive compliance burdens undermine taxpayers' ability and willingness to meet their obligations, and infringe upon their *rights to be informed, to quality service, to pay no more than the correct amount of tax, and to a fair and just tax system*. In short, the current system imposes unnecessary harm on U.S. taxpayers abroad, discouraging compliance and eroding trust in the fairness of the nation's tax administration. Unless the IRS takes meaningful steps to improve its services, guidance, and systems for these taxpayers, the frustration and fear experienced by Americans abroad will continue to grow, harming not only them but also the integrity of the tax system as a whole.

ANALYSIS

The United States is one of the few countries that taxes individuals based on citizenship rather than residency. This means that, like domestic taxpayers, U.S. citizens living abroad are subject to U.S. tax laws, including the requirements to file returns and pay any tax they owe. They also must report all foreign bank accounts, assets, gifts, inheritances, and interests in foreign entities. Yet these taxpayers face difficulties and obstacles that domestic taxpayers do not.

For the millions of U.S. citizens living abroad, compliance with U.S. tax laws is complicated, confusing, and often expensive. These taxpayers are overwhelmed by the extraordinary complexity of the IRC and international information return (IIR) reporting requirements. Despite the complexities, virtually none of the IRS's guidance and filing assistance efforts are focused on or dedicated to taxpayers outside of the United States. This lack of IRS assistance, outreach, and services for taxpayers abroad exacerbates the compliance burdens these taxpayers face. Further, the IRS's systems are not aligned with the needs of taxpayers living abroad, resulting in more taxpayers having to file paper returns. System limitations also prevent them from receiving a refund or paying their taxes electronically and cause many to be unable to interact with the IRS through online accounts. These deficiencies in meeting the needs of taxpayers abroad create unnecessary barriers, discourage compliance, and undermine trust in the tax system.

RECOMMENDATIONS

The National Taxpayer Advocate recommends that the IRS:

1. **Better inform taxpayers abroad of their U.S. tax obligations.** Institute a general awareness campaign for taxpayers living abroad informing them of their U.S. tax and IIR reporting obligations, including specific plain-language guidance on reporting requirements regarding foreign workplace and other retirement and pension plans and exceptions from reporting requirements.
2. **Expand access to free return preparation and assistance programs.** Work with international groups and U.S. consulates to explore the possibilities of expanding the Volunteer Income Tax Assistance and Tax Counseling for the Elderly programs, including the possibilities of remote and online options, to taxpayers outside of the United States.
3. **Provide online account access and identity verification options.** Deliver alternative identity verification pathways to online account access with added support for taxpayers abroad who either cannot verify their identity or authenticate through credential service providers.
4. **Expand electronic payment and refund capabilities.** Expand the ability to make and receive payments electronically from taxpayers abroad or other alternatives to encourage moving away from paper checks.
5. **Increase e-filing availability and simplify extension requests.** Increase the number of forms common for taxpayers living abroad that can be electronically filed and consider practical alternatives for taxpayers abroad to electronically request the additional discretionary two-month extension of time to file their income tax returns.
6. **Align e-filing timelines with international filing deadlines.** To reduce unnecessary paper filings, the IRS should extend the e-filing window for international taxpayers through December 15, the final extended due date for many abroad. Alternatively, the agency should create a secure electronic submission option for taxpayers abroad who file after e-file systems close each year.

The National Taxpayer Advocate recommends that Congress:

1. Amend IRC § 6038D and 31 U.S.C. § 5314 to eliminate duplicative reporting of assets on IRS Form 8938 when a foreign financial account is correctly reported on a Report of Foreign Bank and Financial Accounts, while ensuring each agency's continued access to information.
2. Amend IRC § 6038D to exclude accounts maintained by a financial institution organized under or licensed to conduct business in the country of which a U.S. person is a *bona fide* resident from the specified foreign financial accounts required to be reported on IRS Form 8938.



10

INTERNATIONAL WITHHOLDING RELIEF

Taxpayers Face Long Delays and Hardships With IRS Processes Designed to Offer Relief From International Withholding Requirements

PROBLEM

The U.S. tax system requires upfront withholding on certain payments to foreign taxpayers. In some situations, the required withholding amounts far exceed the taxpayer's actual tax liability. The IRS provides processes through which taxpayers can apply to reduce or eliminate this withholding, but some of these programs suffer from extensive delays and lack effective methods for taxpayers to contact IRS employees to get help with problems. As a result, taxpayers may spend years trying to recover funds unnecessarily withheld, receiving penalty notices for reasons they cannot understand, and paying professionals to help them navigate what feels like an IRS maze with no path out.

U.S. withholding requirements affect both foreign and U.S. taxpayers. People in the United States who make payments to foreign taxpayers may be unaware that they are subject to withholding requirements and can face personal liability not only for failing to withhold but also for associated penalties and interest. As a result, both foreign taxpayers and the people who pay them can unexpectedly receive collection notices and struggle to find a path toward resolution.

ANALYSIS

To investigate IRS processes relating to international withholding requirements, TAS spoke to tax professionals about their experiences with:

- Foreign Investment in Real Property Tax Act (FIRPTA), which establishes tax and withholding rules for dispositions of U.S. real property interests by foreign taxpayers;
- U.S. Residency Certification, in which the IRS provides certificates of residency that U.S. taxpayers need for relief from certain withholding and taxes in foreign countries; and
- Form 8233, an application to exempt withholding on payments to eligible nonresident taxpayers for services they perform in the United States.

TAS estimates that over the past three fiscal years it has received about 2,000 assistance requests from taxpayers experiencing hardships related to one of these three processes. While they are not the only IRS processes for seeking withholding relief in cross-border contexts, they are representative of some problems and inefficiencies in these processes that impose costs and challenges not only on taxpayers but also on the IRS. Common complaints include long delays in processing times, the lack of e-filing options, IRS errors that seem to arise from manual data entry, and lack of access to IRS employees who can help resolve problems. Even if these programs affect a smaller share of taxpayers, the consequences are severe for those impacted. The IRS must prioritize these areas as part of its broader modernization strategy and develop e-filing options.

RECOMMENDATIONS

The National Taxpayer Advocate recommends that the IRS:

- 1. Provide a timeline for developing e-filing, online portals, and other digital tools to assist taxpayers with these programs.** Provide a plan for when the IRS will implement e-filing and secure communication portals for FIRPTA, U.S. Residency Certification, Form 8233, and other comparable programs that provide status updates, post copies of correspondence, help taxpayers understand their eligibility for certain programs, complete forms, and allow taxpayers and certain other interested parties to submit messages.
- 2. Clearly advise taxpayers about processing delays.** Prominently display average processing times and clear notices of potential delays on IRS.gov pages where taxpayers access the forms for these programs so the taxpayers using them will be likely to see them, have realistic expectations, and be able to make informed decisions about timing.
- 3. Identify and address the causes of FIRPTA penalty assessments.** Analyze the underlying drivers of failure-to-file and failure-to-pay penalty assessments related to FIRPTA to identify systemic issues and prevent unnecessary penalties before they occur.
- 4. Implement AI or other tools to expedite review of certain FIRPTA withholding certificate applications.** Deploy AI or other risk-based algorithms to identify and flag low-risk Form 8288-B applications for expedited review.
- 5. Update FIRPTA guidance and regulations to simplify compliance.** Evaluate and update FIRPTA guidance and regulations to reduce unnecessary complexity, including addressing challenges related to return-of-capital transactions and issues arising from lease-accounting rule changes.
- 6. Consider automating U.S. Residency Certification requests.** Evaluate and where feasible, implement an automated process for U.S. Residency Certification requests through IRS online accounts for taxpayers whose returns have posted.

- 7. Create and publicize centralized international event tax guidance.** Develop, maintain, and actively promote a centralized website providing clear tax guidance for major international events, including the 2026 FIFA World Cup and the 2028 Olympics. The site should include practical compliance information, timelines, and dedicated contact information for additional support to ensure affected taxpayers can easily access assistance.



MOST LITIGATED ISSUES

IRC § 7803(c)(2)(B)(ii)(XI) requires the National Taxpayer Advocate to identify in her Annual Report to Congress the ten tax issues most litigated in federal courts and make recommendations to mitigate litigation. To identify the top ten Most Litigated Issues, TAS used commercial legal research databases to locate and review published opinions involving a substantive civil tax issue decided on the merits in federal courts during the fiscal year (FY) 2025 period from October 1, 2024, through September 30, 2025 (the reporting period). We also reviewed the statutory notices of deficiency for each petition taxpayers filed with the U.S. Tax Court (Tax Court) during the reporting period.

Our analysis identified 370 court opinions, with 158 opinions issued by the Tax Court and 212 court opinions from other federal courts, including U.S. district courts, U.S. Courts of Appeals, U.S. Court of Federal Claims, U.S. bankruptcy courts, and the U.S. Supreme Court. The total number of opinions represents an 11% decrease from the 414 cases we identified last year. The second part of our analysis reviewed 15,911 petitions submitted by taxpayers in FY 2025 seeking judicial review in the Tax Court to identify the issues appearing most frequently, using data provided by the IRS Independent Office of Appeals (Appeals).

U.S. TAX COURT

In FY 2025, the Tax Court issued opinions ruling on the merits of substantive tax issues in 101 cases involving Form 1040 taxpayers and 57 cases involving non-Form 1040 taxpayers. The top Form 1040 taxpayer issue was Collection Due Process (IRC §§ 6320 and 6330). For non-Form 1040 taxpayers, the top issue was the accuracy-related penalty (IRC § 6662).

We identified the top ten issues petitioned to the Tax Court in FY 2025. For Form 1040 taxpayers, the top issue, with 11,865 petitions discussing the issue, was unreported or underreported gross income (IRC § 61 and related IRC sections). For non-Form 1040 taxpayers, the top issue, with 321 petitions discussing the issue, was corporate or partnership trade or business expenses.

U.S. DISTRICT COURTS

In FY 2025, the U.S. district courts issued opinions ruling on the merits of substantive tax issues in 89 cases involving Form 1040 taxpayers and 29 cases involving non-Form 1040 taxpayers. The top Form 1040 taxpayer issue was civil actions to enforce federal tax liens or to subject property to payment of tax (IRC §§ 6321 and 7403). For non-Form 1040 taxpayers, the top issue was a tie between summons enforcement (IRC §§ 7602(a), 7604(a), and 7609(a)) and trust fund recovery penalty (IRC § 6672).

U.S. BANKRUPTCY COURTS

In FY 2025, the U.S. bankruptcy courts issued opinions ruling on the merits of substantive tax issues in 15 cases involving Form 1040 taxpayers and four cases involving non-Form 1040 taxpayers. With three cases each, the top Form 1040 taxpayer issues were federal tax liens and unreported or underreported gross income, while the top issue for non-Form 1040 taxpayers was employment taxes.

U.S. COURT OF FEDERAL CLAIMS

In FY 2025, the U.S. Court of Federal Claims issued opinions ruling on the merits of substantive tax issues in five cases involving Form 1040 taxpayers and one case involving non-Form 1040 taxpayers. The top Form 1040 taxpayer issue was the IRC § 6672 trust fund recovery penalty. For non-Form 1040 taxpayers, the only issue was passive activity.

U.S. COURTS OF APPEALS

In FY 2025, the U.S. Courts of Appeals issued opinions ruling on the merits of substantive tax issues in 46 cases involving Form 1040 taxpayers and 22 cases involving non-Form 1040 taxpayers. For Form 1040 taxpayers, the top issue was a tie between the frivolous issues penalty (IRC §§ 6673, 7482(c)(4), 1927, or Tax Court Rule 38) and unreported or underreported gross income (IRC § 61 and related IRC sections). For non-Form 1040 taxpayers, the top issue was corporate income or expenses (excluding the cost of goods sold).

U.S. SUPREME COURT

In FY 2025, the U.S. Supreme Court ruled on one case involving the merits of a substantive tax claim, which related to Collection Due Process and lien/levy issues.

CRIMINAL TAX VIOLATIONS

In FY 2025, the IRS Criminal Investigation (CI) Division identified a total of \$6.09 billion in financial crimes, including \$4.49 billion in tax fraud. During that time, IRS CI initiated 2,792 investigations, with 1,380 concerning tax-related matters and 1,412 involving non-tax financial crimes. In total, IRS CI recommended prosecution in 2,043 total investigations, leading to 1,611 convictions (with an 89% conviction rate).

RECOMMENDATIONS TO MITIGATE DISPUTES

As required under IRC § 7803(c)(2)(B)(ii)(XI), the National Taxpayer Advocate has provided recommendations to reduce disputes and mitigate litigation. For a further discussion of these recommendations, see National Taxpayer Advocate 2026 Purple Book, *Compilation of Legislative Recommendations to Strengthen Taxpayer Rights and Improve Tax Administration*.

SIGNIFICANT CASES

We also provide a Significant Cases section that describes cases decided in FY 2025 involving issues of general importance to federal tax administration and taxpayer rights. This year's section includes discussions of the Tax Court's Collection Due Process jurisdiction, Tax Court electronic filing signature requirements, deficiency petition deadlines, equitable tolling in worker classification cases, and IRC § 6038 penalties.



TAS ADVOCACY

Over the past 25 years, TAS has assisted more than 5.8 million taxpayers in resolving their IRS-related issues. Throughout this period, TAS has served as a cornerstone for protecting taxpayer rights and ensuring an independent voice for taxpayers in their interactions with the IRS. By law, the National Taxpayer Advocate appoints Local Taxpayer Advocates and ensures that at least one is available in every state. Since its inception, TAS's Case Advocacy and Systemic Advocacy divisions have fulfilled Congress's mandate to:

1. Assist taxpayers in resolving problems with the IRS;
2. Identify areas in which taxpayers are experiencing problems with the IRS;
3. Advocate for and propose changes in the IRS's administrative practices to mitigate those identified problems; and
4. Identify and propose potential legislative changes to mitigate such problems.

TAS also administers the Low Income Taxpayer Clinic grant program and oversees the Taxpayer Advocacy Panel.

This section of the report tells the story of TAS's advocacy efforts and identifies key trends from fiscal year (FY) 2025.

TAS CASE ADVOCACY

Case Advocacy's mission is to protect taxpayer rights and advocate for resolution on behalf of taxpayers. TAS accepts all cases that meet its case acceptance criteria, with limited exceptions, and does not shut its doors after receiving a specific number of cases. If a taxpayer is experiencing or about to experience economic harm or the IRS failed to timely respond to or resolve a taxpayer's issue because of a failure in an IRS process, system, or procedure, the taxpayer may qualify for TAS assistance. However, TAS is not a "second IRS." Rather, it is a safety net for situations when a taxpayer cannot resolve their issues through normal IRS channels.

Many taxpayers who seek TAS assistance are experiencing economic hardship due to IRS action or inaction, or because the IRS has not responded in a timely manner. TAS strives to help taxpayers (*e.g.*, individuals, businesses, and tax-exempt entities) resolve IRS problems completely and within a reasonable amount of time.

TAS receives requests for assistance from a variety of sources: taxpayers or their representatives, IRS employees, and congressional offices. In addition to cases that meet the case acceptance criteria, the National Taxpayer Advocate may accept cases that raise broader policy concerns or highlight the impact of IRS policies and procedures on taxpayer rights.

TAS SYSTEMIC ADVOCACY

A cornerstone of the TAS mission is the identification and resolution of issues impacting taxpayer rights, key taxpayer segments, or large groups of taxpayers throughout the year. To accomplish this mission-critical activity, TAS uses specialized staff to analyze trends, collaborate with IRS business functions, and propose administrative, policy, and procedural solutions. As a complement to TAS Case Advocacy, which helps individual taxpayers resolve specific IRS issues, Systemic Advocacy focuses on broader problems involving IRS systems, policies, and procedures that impact many taxpayers. This work is central to protecting taxpayer rights, reducing taxpayer burden, and ensuring fair and equitable treatment across the tax system.

The strength of TAS's systemic endeavors lies in securing and analyzing data, investigation and collaboration. The analysis of TAS case receipts, the review of proposed procedural changes, and the assessment of new legislation or systems on taxpayer rights frame the backdrop for TAS systemic activities. By advising on policy clarifications, sharing data and case examples, and pushing for incremental changes, TAS ensures that taxpayer impact and perspectives are considered in IRS decision-making. Through these efforts, TAS advances transparency, accountability, and improved service delivery across the IRS.

TAXPAYER ADVOCATE DIRECTIVES

When administrative processes and internal discussion do not yield action, TAS may use Taxpayer Advocate Directives (TADs) to drive systemic change within the IRS and protect taxpayer rights. A TAD is a formal mechanism for the National Taxpayer Advocate to address systemic issues with IRS officials and request improvements to IRS processes affecting taxpayers.

The National Taxpayer Advocate's authority to issue TADs is granted by IRS Delegation Order 13-3. This authority allows the National Taxpayer Advocate to require administrative or procedural changes aimed at enhancing operational processes or providing relief to groups of taxpayers (or all taxpayers). The implementation of these directives must safeguard taxpayer rights, prevent undue burdens, ensure fair treatment, or provide essential taxpayer services. The National Taxpayer Advocate also summarizes TAD activity in the Annual Report to Congress as mandated by IRC § 7803(c)(2)(B)(ii). The National Taxpayer Advocate issued no TADs or proposed TADs during FY 2025.

Compilation of Legislative Recommendations to Strengthen Taxpayer Rights and Improve Tax Administration

Section 7803(c)(2)(B)(ii)(IX) of the Internal Revenue Code requires the National Taxpayer Advocate, as part of her Annual Report to Congress, to propose legislative recommendations to resolve problems encountered by taxpayers. This year, we present 71 legislative recommendations.

To make these recommendations as accessible and user-friendly as possible for Members of Congress and their staffs, we have taken several steps:

- **Organized recommendations by category**, generally following the stages of tax administration (*e.g.*, return filing, audits, collection), so readers can easily locate areas of interest.
- **Presented each recommendation in a standardized format**, modeled after congressional committee reports, including sections on “Present Law,” “Reasons for Change,” and “Recommendation(s).” Each begins with a concise, plain-language summary of the underlying “Problem” and our proposed “Solution.” Our objective is to allow readers to quickly get a feel for all our recommendations by scanning the summaries.
- **Referenced past legislation**, where relevant bills have been introduced that are generally consistent with one of our recommendations. We have included a footnote at the end of the recommendation that identifies one or more of those bills. (Because of the large number of bills introduced in each Congress, we may have overlooked some. We apologize for any bills we have inadvertently omitted.)
- **Provided a comprehensive reference table in Appendix 1**, identifying additional materials, including prior bills and detailed discussions from earlier National Taxpayer Advocate reports.

By our count, Congress has enacted approximately 53 legislative recommendations proposed by the National Taxpayer Advocate, including 23 provisions enacted as part of the Taxpayer First Act.¹ See Appendix 2 in the Purple Book for a complete listing.

During the last two months of 2025, Congress enacted three recommendations from the National Taxpayer Advocate 2025 Purple Book. On November 25, 2025, the President signed into law H.R. 998, the Internal Revenue Service Math and Taxpayer Help Act, which significantly improves the clarity of math error notices.² This legislation was based on 2025 Purple Book Recommendation #9, *Require That Math Error Notices Describe the Reason(s) for the Adjustment With Specificity, Inform Taxpayers They May Request Abatement Within 60 Days, and Be Mailed by Certified or Registered Mail*.³ On December 11, 2025, the Senate approved H.R. 1491, the Disaster Related Extension of Deadlines Act, which had previously been passed by the House.⁴ Section 2(a) of the bill implements 2025 Purple Book Recommendation #55, *Amend the Lookback Period for Allowing Tax Credits or Refunds to Include the Period of Any Postponement or Additional or Disregarded Time for Timely Filing a Tax Return*. Section 2(b) of the bill implements 2025 Purple Book Recommendation #56,

1 Taxpayer First Act, Pub. L. No. 116-25, 133 Stat. 981 (2019). We say Congress enacted “approximately” a certain number of National Taxpayer Advocate recommendations because in some cases, enacted provisions are substantially similar to what we recommended but are not identical. The statement that Congress enacted a National Taxpayer Advocate recommendation is not intended to imply that Congress acted solely because of the recommendation. Congress, of course, receives suggestions from a wide variety of stakeholders on an ongoing basis and makes decisions based on the totality of the input it receives.

2 Pub. L. No. 119-39, 139 Stat. 659 (2025).

3 National Taxpayer Advocate 2025 Purple Book, *Compilation of Legislative Recommendations to Strengthen Taxpayer Rights and Improve Tax Administration (Require That Math Error Notices Describe the Reason(s) for the Adjustment With Specificity, Inform Taxpayers They May Request Abatement Within 60 Days, and Be Mailed by Certified or Registered Mail)*. https://www.taxpayeradvocate.irs.gov/wp-content/uploads/2024/12/ARC24_PurpleBook_03_ImproveAssmtCollect_9.pdf.

4 Disaster Related Extension of Deadlines Act, H.R. 1491, 119th Cong. (2025).

Protect Taxpayers in Federally Declared Disaster Areas Who Receive Filing and Payment Relief From Inaccurate and Confusing Collection Notices. At our publication deadline, the bill had been presented to the President for signature and was awaiting his action.

The Office of the Taxpayer Advocate is a non-partisan, independent organization within the IRS that assists taxpayers in resolving problems with the IRS and makes administrative and legislative recommendations to mitigate taxpayer problems and protect taxpayer rights. We call this compilation the “Purple Book” because the color purple, as a mix of red and blue, symbolizes bipartisanship. Historically, tax administration legislation has attracted bipartisan support. For example, both the Taxpayer First Act (2019) and the Internal Revenue Service Math and Taxpayer Help Act (2025) passed Congress on voice votes and by unanimous consent.

The recommendations presented in this volume are common-sense, generally non-controversial reforms designed to strengthen taxpayer rights and improve tax administration. We welcome the opportunity to discuss these recommendations with Members of Congress and their staffs.

Below are ten legislative recommendations we highlight for particular attention:

- **Authorize the IRS to Establish Minimum Standards for Federal Tax Return Preparers and to Revoke the Identification Numbers of Sanctioned Preparers (Recommendation #5).** The IRS receives over 160 million individual income tax returns each year, and most are prepared by paid tax return preparers. While some tax return preparers must meet licensing requirements (*e.g.*, certified public accountants, attorneys, and enrolled agents), most tax return preparers are not credentialed. Numerous studies have found that non-credentialed preparers disproportionately prepare inaccurate returns, causing some taxpayers to overpay their taxes and other taxpayers to underpay their taxes, which subject them to penalties and interest charges. Non-credentialed preparers also drive much of the high improper payments rate attributable to wrongful Earned Income Tax Credit (EITC) claims. In fiscal year (FY) 2024, 27.3% of EITC payments, amounting to \$15.9 billion, were estimated to be improper, and among tax returns claiming the EITC prepared by paid tax return preparers, 96% of the total dollar amount of EITC audit adjustments was attributable to returns prepared by non-credentialed preparers. Federal and state laws generally require lawyers, doctors, securities dealers, financial planners, actuaries, appraisers, contractors, motor vehicle operators, and even barbers and beauticians to obtain licenses or certifications. The Obama, Trump, and Biden administrations have each recommended that Congress authorize the Treasury Department to establish minimum standards for federal tax return preparers. To protect taxpayers and the public fisc, we likewise recommend that Congress provide this authorization as well as authorization for the Treasury Department to revoke the Preparer Tax Identification Numbers (PTINs) of preparers who have been sanctioned for improper conduct.⁵
- **Expand the Tax Court’s Jurisdiction to Hear Refund Cases (Recommendation #43).** Under current law, taxpayers seeking to challenge an IRS tax due adjustment can file a petition in the U.S. Tax Court (Tax Court), while taxpayers who have paid their tax and are seeking a refund must file suit in a U.S. district court or the U.S. Court of Federal Claims. Litigating in a U.S. district court or the Court of Federal Claims is generally more challenging – filing fees are more costly, rules of civil procedure are complex, the judges generally do not have tax expertise, and proceeding without a lawyer is difficult. By contrast, taxpayers litigating their cases in the Tax Court face a low \$60 filing fee, may follow less formal procedural rules, are generally assured their positions will be fairly considered even if they don’t present them well because of the tax expertise of the Tax Court’s judges, and can more easily represent themselves without a lawyer. For these reasons, the requirement that

⁵ In general, a PTIN must be obtained by a tax return preparer who is compensated for preparing or assisting in the preparation of all or substantially all of a federal tax return or claim for refund. The preparer must then include the PTIN on any returns or claims for refund prepared.

refund claims be litigated in a U.S. district court or the Court of Federal Claims effectively deprives many taxpayers of the right to judicial review of an IRS refund disallowance. In FY 2024, about 97% of all tax-related litigation was adjudicated in the Tax Court.⁶ We recommend Congress expand the jurisdiction of the Tax Court to give taxpayers the option to litigate all tax disputes, including refund claims, in that forum.

- **Enable the Low Income Taxpayer Clinic Program to Assist More Taxpayers in Controversies With the IRS (Recommendation #64).** The Low Income Taxpayer Clinic (LITC) Program assists low-income taxpayers and taxpayers who speak English as a second language. When the LITC Program was established as part of the IRS Restructuring and Reform Act of 1998, the law limited annual grants to no more than \$100,000 per clinic. The law also imposed a 100% “match” requirement so a clinic cannot receive more in grants than it raises from other sources. The nature and scope of the LITC Program has evolved considerably since 1998, and those requirements are preventing the program from expanding assistance to a larger universe of eligible taxpayers. We recommend Congress remove the per-clinic cap and allow the IRS to reduce the match requirement to 25%, where doing so would expand coverage to additional taxpayers.
- **Require the IRS to Timely Process Claims for Credit or Refund (Recommendation #2).** Millions of taxpayers file refund claims with the IRS each year. Under current law, there is no requirement that the IRS pay or deny them. It may simply ignore them. The taxpayers’ remedy is to file suit in a U.S. district court or the U.S. Court of Federal Claims. For many taxpayers, that is not a realistic or affordable option. The absence of a processing requirement is a poster child for non-responsive government. While the IRS generally does process refund claims, the claims can and sometimes do spend months and even years in administrative limbo within the IRS. We recommend Congress require the IRS to act on claims for credit or refund within one year and impose certain consequences on the IRS for failing to do so.
- **Allow Taxpayers to Claim the Child Tax Credit and Earned Income Tax Credit for a Child Who Meets All Statutory Requirements Except Having a Social Security Number by the Due Date for the Tax Return (Recommendation #58).** The tax law requires that a taxpayer’s children have Social Security numbers (SSNs) by the tax return filing deadline to claim them for purposes of the Child Tax Credit (CTC) or EITC. The intent of this requirement is to limit the tax credits to U.S. persons, but in a variety of circumstances taxpayers cannot or do not obtain SSNs for their children in time and lose out on thousands of dollars of benefits for which they otherwise qualify. For example, a taxpayer may claim a child born on December 31 for purposes of these credits but generally must have the child’s SSN in hand by April 15 to do so (unless filing for an extension).

Among taxpayers who lose out on the credits: military and other expatriate families stationed overseas who must take additional steps to obtain SSNs; parents who don’t obtain SSNs in time when a birth takes place outside a hospital setting and the parents don’t file a timely SSN application, a hospital misplaces the paperwork, the Social Security Administration (SSA) makes a processing error, or the parents move and mail isn’t forwarded; adopted children who have not yet received SSNs; children who are born and die before the SSA issues an SSN; and taxpayers who do not obtain SSNs for their children due to religious beliefs (*e.g.*, some Amish sects). In these circumstances, U.S. citizens are being denied valuable benefits intended by Congress. We recommend Congress allow taxpayers who obtain SSNs after the filing deadline to timely file amended returns to claim CTC and EITC benefits or, in the case of those opposed to SSNs for religious reasons, to submit other forms of substantiation.⁷

⁶ Data compiled by the IRS Office of Chief Counsel (Nov. 8, 2024). IRS, Counsel Automated Tracking System, TL-711 and TL-712. This data does not include cases on appeal and declaratory judgments.

⁷ The IRS is currently making an administrative exception in the case of children who die before an SSN is issued.

- **Provide Consistent Tax Relief for Victims of Federally Declared Disasters (Recommendation #53).** After a hurricane, flood, wildfire, or other natural disaster has destroyed homes or businesses, Congress often passes legislation to provide tax relief to those affected. But there is no consistency regarding whether or which forms of tax relief are granted. Taxpayers may receive extensive relief, some relief, or no relief at all. Relief, even when granted, generally is not authorized until months later. The current *ad hoc* approach creates uncertainty for disaster victims and their communities and often means that similarly situated taxpayers receive different results. We recommend Congress determine which forms of tax relief to grant in the case of federally declared disasters and provide that relief automatically. In the alternative, recognizing that different types of disasters may warrant different forms of relief, we recommend Congress authorize a menu of relief options and direct the Treasury Department to prescribe regulations for determining which forms of relief to provide based on the nature and severity of the disaster.
- **Extend Reasonable Cause Defense for the Failure-to-File Penalty to Taxpayers Who Rely on Return Preparers to E-File Their Returns (Recommendation #31).** The tax law imposes a penalty of up to 25% of the tax due for failing to file a timely tax return, but the penalty is waived where a taxpayer can show the failure was due to “reasonable cause.” Most taxpayers pay tax return preparers to prepare and file their returns for them. In 1985, when all returns were filed on paper, the Supreme Court held that a taxpayer’s reliance on a preparer to file a tax return did not constitute “reasonable cause” to excuse the failure-to-file penalty if the return was not timely filed. In 2023, a U.S. Court of Appeals held that “reasonable cause” is also not a defense when a taxpayer relies on a preparer to file a tax return electronically.

For several reasons, it is often much more difficult for taxpayers to verify that a return preparer has e-filed a return than to verify that a return has been paper-filed. Unfortunately, many taxpayers are not familiar with the electronic filing process and do not have the tax knowledge to ask for the right document or proof of filing. Penalizing taxpayers who engage preparers and do their best to comply with their tax obligations is grossly unfair and undermines the congressional policy that the IRS encourage e-filing. Under the court’s ruling, astute taxpayers would be well advised to ask their preparers to give them paper copies of their prepared returns and then transmit the returns by certified mail themselves so they can ensure compliance. We recommend Congress clarify that reliance on a preparer to e-file a tax return may constitute “reasonable cause” for penalty relief and direct the Secretary to issue regulations detailing what constitutes ordinary business care and prudence for purposes of evaluating reasonable cause requests.

- **Promote Consistency With the Supreme Court’s *Boechler* Decision by Making the Time Limits for Bringing All Tax Litigation Subject to Equitable Judicial Doctrines (Recommendation #45).** Taxpayers who seek judicial review of adverse IRS determinations generally must file petitions in court by statutorily imposed deadlines. The courts have split over whether filing deadlines can be waived under extraordinary circumstances. Most tax litigation takes place in the Tax Court, where taxpayers are required to file petitions for review within 90 days of the date on a notice of deficiency (150 days if addressed to a person outside the United States). The Tax Court has held it lacks the legal authority to waive the 90-day (or 150-day) filing deadline even, to provide a stark example, if the taxpayer had a heart attack on day 75 and remained in a coma until after the filing deadline. The Supreme Court held that filing deadlines are subject to “equitable tolling” in the context of Collection Due Process hearings. We recommend Congress harmonize the conflicting court rulings by providing that all filing deadlines to challenge the IRS in court are subject to equitable tolling where timely filing was impossible or impractical.
- **Strengthen Incentives for IRS Contractors to Ensure Their Employees Keep Taxpayer Return Information Confidential (Recommendation #70).** The IRS currently receives about 10 million paper-filed Forms 1040, U.S. Individual Income Tax Return, nine million paper-filed Forms 941,

Employer's Quarterly Federal Tax Return, and two million paper-filed Forms 940, Employer's Annual Federal Unemployment (FUTA) Tax Return, each year.⁸ In the past, IRS employees have transcribed these returns on IRS campuses. Beginning in 2026, the IRS plans to send a large portion of these returns to private contractors to scan in their own facilities. Particularly in light of the recent case involving Charles Littlejohn, a contractor's employee who stole the tax return information of thousands of taxpayers and then provided it to news organizations, we recommend Congress strengthen penalties applicable to government contractors whose employees improperly inspect or disclose tax return information to incentivize them to implement and maintain more stringent systemic safeguards.

- Provide That Assessable Penalties Are Subject to Deficiency Procedures (Recommendation #14).** The IRS ordinarily must issue a notice of deficiency giving taxpayers the right to appeal an adverse IRS determination in the Tax Court before it may assess tax.⁹ In limited situations, however, the IRS may assess penalties without first issuing a notice of deficiency. These penalties are generally subject to judicial review only if a taxpayer first pays the penalties and then sues for a refund. Assessable penalties can be substantial, sometimes running into the millions of dollars. Under current IRS interpretation, these penalties include but are not limited to international information reporting penalties under IRC §§ 6038, 6038A, 6038B, 6038C, and 6038D. The inability of taxpayers to obtain judicial review on a preassessment basis and the requirement that taxpayers pay the penalties in full to obtain judicial review on a post-assessment basis can effectively deprive taxpayers of the right to judicial review at all. To ensure taxpayers have an opportunity to obtain judicial review before they are required to pay often substantial penalties they do not believe they owe, we recommend Congress require the IRS to issue a notice of deficiency before imposing assessable penalties.

⁸ IRS, Pub. 6292, Fiscal Year Return Projections for the United States: 2025-2032, at 4 (Sept. 2025), <https://core.publish.no.irs.gov/pubs/pdf/p6292--2025-06-00.pdf>.

⁹ In the case of "mathematical or clerical errors," the IRS may issue a "math error" notice that assesses tax without providing the right to judicial review. The taxpayer has 60 days to request that the math error assessment be abated. If the taxpayer makes the request, the IRS is required to abate the assessment, and if the IRS decides to challenge the taxpayer's position, it must then issue a notice of deficiency. See IRC § 6213(b).

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