Internal Revenue Service Advisory Council

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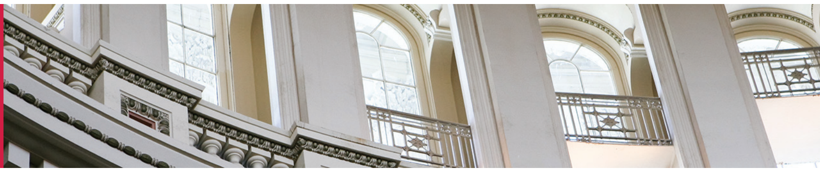

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INTERNAL REVENUE SERVICE ADVISORY COUNCIL

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GENERAL REPORT

OF THE

INTERNAL REVENUE SERVICE ADVISORY COUNCIL

Introduction

The Internal Revenue Service Advisory Council (IRSAC), the successor to the Commissioner's Advisory Group established in 1953, serves as an advisory body to the Commissioner of Internal Revenue (Commissioner). The IRSAC's purpose is to provide an organized public forum for Internal Revenue Service (IRS) officials and representatives of the public to discuss tax administration issues. The IRSAC reviews existing tax policy and administrative issues and makes recommendations to achieve efficient and effective tax administration. As part of its duties, the IRSAC conveys the public's perception of professional standards and best practices for tax professionals and IRS activities, offers constructive observations regarding current or proposed IRS policies, programs, initiatives, and procedures, and advises the Commissioner and senior IRS executives on substantive tax administration matters.

In 2025, the IRSAC was comprised of 37 members representing a broad cross-section of the taxpaying public and many years of experience in the areas of providing substantive tax advice and tax preparation for individuals, small businesses, large, multi-national corporations, and tax exempt entities; representation in examination, appeals and collection matters; information reporting; payroll matters; volunteer community tax programs; electronic tax administration and digital services; professional standards for tax professionals; research; and teaching. Each member offers unique experience in tax compliance and planning, advocacy, and works to promote understanding and improvement of our tax system. Members volunteer to join the IRSAC to learn more from the IRS and IRSAC colleagues, and volunteer their time, expertise and perspective in offering actionable and informed recommendations to the IRS.

The IRSAC is organized into five subgroups:

1. Information Reporting (IR).
2. Large Business & International (LB&I).

3. Small Business/Self Employed (SB/SE).
4. Tax Exempt/Government Entities (TE/GE).
5. Taxpayer Services (TS)

The Information Reporting Program Advisory Committee (IRPAC) and Advisory Committee on Tax Exempt and Government Entities (ACT) were consolidated into the IRSAC in 2019. The Information Reporting subgroup was established to ensure that members have an effective forum to raise and discuss information reporting and payroll issues and recommendations. A new subgroup, Fairness in Tax Administration, was added in 2025 but was merged into the Taxpayer Services subgroup midyear.

The IRSAC completes its work through four two-day working sessions, three public meetings, and numerous virtual meetings with IRS experts and subgroup working sessions throughout the year. Issues identified by the IRS, as well as ones identified by members, comprise the 29 topics included in this annual report; background about these issues came from IRS subject matter experts and member research and experiences, providing actionable and informed recommendations.

The 29 topics with background and recommendations included in this report include 6 "general" topics. Reports in this category involve matters that are either beyond the topics covered within any of the five subgroups (such as IRS funding) or pertain to areas that involve the scope of more than one IRSAC subgroup. The remaining 23 topics fall within the five subgroups listed earlier.

The 2025 report reflects themes including the need for digital tools and harnessing efficiencies for taxpayers interacting digitally with the IRS, with appropriate technical support. Another theme is the need for greater availability and timeliness of small business communications.

In 2025, the IRSAC submitted six comment letters to the IRS. One was submitted in May 2024 to follow the process established many years ago by the Department of the Treasury and the IRS via the Priority Guidance Plan to solicit suggestions from the public for the guidance plan for the upcoming year. Our letter identified open recommendations from the 2023, 2022 and 2021 IRSAC reports that call for binding guidance. Other comment letters responded to IRS requests for comments on draft forms and technical notices seeking public comment for which the IRSAC had a high level of interest and expertise. Generally, the recommendations in these comment letters were due to the IRS before the IRSAC's annual report was published and were submitted as letters per the IRS official requests for comments on draft forms and notices.

Recognition

The IRSAC recognizes and thanks the IRS Office of National Public Liaison (NPL) for its exceptional assistance, dedication, and timely and expert support throughout the year. The IRSAC appreciates the work, presentations and assistance of the many divisions and groups that met with IRSAC members and provided needed information. These groups include the Business Operating Division (BOD) leaders and staff, Transformation Strategy Office, IRS Communications and Liaison, Office of Professional Responsibility, Return Preparer Office, Human Capital Office, Chief Counsel, and the National Taxpayer Advocate. We thank everyone who provided information needed for the IRSAC's work for their engagement and support. The IRSAC recognizes the ongoing support from the IRS workforce for its tireless efforts serving America's taxpayers.

The IRSAC benefits from the deep knowledge that NPL personnel assigned to serve the IRSAC have about the IRS and its operations. We appreciate their commitment to serving the IRSAC with their expertise, professionalism and patience to arrange meetings and serve information needs of the IRSAC in performing its work. Special thanks to Anna Millikan, IRSAC Program Manager; Maritza Rabinowitz, Management and Program Analyst; John Lipold, Designated Federal Official for the IRSAC; and Derek Ganter, Director of Outreach & Education, for their outstanding service to the IRSAC and its members.

The IRSAC thanks the IRS liaisons to each of the five subgroups for arranging meetings with subject matter experts, helping track the flow of agenda and report information, and helping each subgroup stay current with timeline due dates.

Christine Kingston, IR Subgroup

Tyonna Harrison, LB&I Subgroup

Maritza Rabinowitz, SB/SE Subgroup

Brian Ward, TE/GE Subgroup

Anthony (Paul) Ferrell, TS Subgroup

IRSAC Activities in Addition to Recommendations in This Report

In addition to this January report, throughout the year, the IRS asked the IRSAC to provide comments at virtual meetings and via email on various projects, initiatives, notice revisions and forms. Generally, the IRSAC's comments were needed before the publication of the annual report, which normally is released in November. The Government Accountability Office (GAO), as it has done in the past, also asked the IRSAC to provide information on some reports they have in progress. IRSAC members appreciate the opportunity to provide input and discuss the various activities underway, as these discussions inform our work and provide an opportunity for the IRSAC members to share their expertise in tax practice, tax law, and understanding of taxpayer needs, to help the IRS improve various tax administrative activities.

Progress on Recommendations in the IRSAC's 2024 Report

As a follow up to the IRSAC's 2024 report, the IRSAC is pleased to report that as of September 2025, the IRS had implemented, partially or fully, the following actions in accordance with the IRSAC's 2024 recommendations:

- Reporting on Level of Service (LOS) with a new metric; the Enterprise Service Completion Rate is underway for FY25.
- The online capabilities of the Business Tax Accounts have been expanded to include tax transcripts and bank account information. Future capabilities under review include the ability to move tax payments, view/print EIN verification letters, and secure messaging.
- The IRS continues to update identity theft protections for taxpayers. A new option enabling taxpayers to transfer their prior year adjusted gross income and Identity Protection Pin to participating tax software products has been added. The "Identity Theft Central" landing page has been updated to include information about reporting a tax scam, tax return preparer misconduct, or tax fraud by individuals or businesses.
- Form 14039, used to report identity theft, has been updated to encourage victims of non-tax frauds to apply for an Identity Protection PIN (IP PIN) instead of filing Form 14039, which is specifically for tax-related identity theft.
- The tax practitioner Preparer Taxpayer Identification Number (PTIN) system is integrated with IRS Secure Access Digital Identity for unified access. A PTIN validation pilot program is also underway.
- The Return Preparer Office (RPO) continues to promote the Enrolled Agent credential through various channels.
- Taxpayer Services will add information about the draft forms website to notices in the *Federal Register*.
- The IRS will clarify instructions for Form 15397, Application for Extension of Time to Furnish Recipient Statements for information reporting forms. The clarified instructions will note that only letters will be sent only when an extension request has been denied. This is consistent with the handling of

Form 8809, which extends the time for filers to submit information returns to the IRS.

- LB&I will evaluate the recommendation to explore improvements to communicating changes in exam timelines as a result of transitioning team members.
- The IRS will continue to explore the feasibility and priority of implementing revisions to Section 965 regarding streamlined domestic offshore procedures in the context of comprehensive efforts to make voluntary compliance easier for all taxpayers.
- The IRS agrees with the goal of ensuring disaster victims are aware of the tax relief available to them. The Communications and Liaison (C&L) office will update the communications strategy for taxpayers affected by natural disasters.
- Changes are made monthly to update Publication 78, the list of organizations eligible to receive tax-deductible charitable contributions under Section 170, as well as the Exempt Organization Business Master File (EO BMF). The IRS will not make changes to the tax-exempt organizations list until the tax return has been posted to their account. Additional operational improvements are also under consideration.
- For the TS Electronic Performance Support System (EPSS) chatbots that escalate to a live chat, an estimated wait time is now provided to better inform taxpayers.
- Wage and Income transcripts for tax year 2024 became available on March 30, 2025. Wage and income transcripts for future filing seasons will be available around the last week of March.

ISSUE ONE: IRS Funding Supports America's Future

Executive Summary

The IRS collects roughly 96% of the revenue that funds our federal government's operations. During Fiscal Year 2024, the agency collected $5.1 trillion in revenue using an appropriated budget of $12.3 billion to do so. That equates to a return on investment (ROI) of 415:1, a figure National Taxpayer Advocate Erin Collins has described as "remarkable."[1]

The IRS used funding provided by the Inflation Reduction Act of 2022 to modernize its technology, provide more frontline workers to assist the public, and reinvent itself as a world-class financial agency. These efforts paid off greatly in terms of improved customer service, protecting the federal treasury from scams, and responding to changing tax laws enacted by Congress and the President. Yet most of the additional funding was cancelled and IRS funding remains unreliable and vulnerable to rescission.

Background

In its role as the primary revenue collector for all federal operations, the IRS ensures that the funds required to operate our nation's institutions are reliably available. The IRS does not decide how federal funds are used, as spending decisions are left to Congress and the President. The IRS' role is to collect the taxes that Congress has enacted to fund the programs and services Congress and the President deem worthy.

The revenues collected by the IRS fund programs that touch every phase of American life, from a strong national defense to Social Security and Medicare, Veterans' benefits to our space programs. Consistent revenue collection not only keeps our government solvent, but it also makes possible the safe and stable food supply we enjoy, funds agencies like the National Weather Service that provide advance warning of hazardous weather, and keeps our national parks pristine, our borders secure, and our scientific research developing.

Despite the IRS' important role in funding the American experience and Congress' role in identifying the tax dollars needed to fund the budget it designs, the Congress has not adequately appropriated the funding needed to ensure that the revenues will be

[1] The National Taxpayer Advocate's Report to Congress, Preface page V, available at: https://www.taxpayeradvocate.irs.gov/reports/2024-annual-report-to-congress/preface/

efficiently and fully collected. After years of inadequate funding that resulted in an IRS constrained by budget issues, unable to reliably answer telephone calls, process tax returns in a timely fashion, update technology, or even open their mail, in 2022 Congress passed the Inflation Reduction Act (IRA, P.L. 117-169), providing an $80 billion infusion of funding to bring the IRS' technology and processes into the 21st Century.[2] On June 3, 2023, the Fiscal Responsibility Act of 2024 rescinded $1.4 billion. On March 9, 2024, the 2024 Omnibus Appropriations package cut $20.2 billion. In March 2025, an additional $20.2 billion was rescinded as part of the full-year continuing resolution. In total, more than half of the Inflation Reduction Act funding has been rescinded, including nearly all funding for enforcement.

The cumulative effect of these rescissions has significantly impacted the IRS' ability to conduct many of the improvements that were outlined in the Strategic Operating Plan (SOP)[3] developed to guide the use of the $80 billion funding infusion from the IRA. The SOP, which has been paused in the face of funding rescissions and workforce reductions, targeted investments to the highest-priority areas for transformational change for taxpayers. Early successes included:

- Enhanced live assistance on telephone lines, including reduced hold times, new call-back options that allow taxpayers to receive a return call instead of waiting on hold for an assistor. In its 2024 report, the IRSAC raised issues about how levels of service are measured, and the Treasury Inspector General for Tax Administration (TIGTA) has also commented on the IRS methodology, but it is clear that telephone service significantly improved since the IRA was enacted.[4]
- Development of Individual Online Accounts and Business Tax Accounts that allow taxpayers to conduct business online 24/7 instead of requiring telephone calls or letters to accomplish routine tasks like scheduling or cancelling payments, obtaining their tax transcripts, and uploading responses to correspondence received from the IRS. These

[2] The Inflation Reduction Act (IRA, P,L, 117-169) was signed into law on August 16, 2022.
[3] IRS, Inflation Reduction Act Strategic Operating Plan – FY 2023-2031; https://www.irs.gov/about-irs/irs-inflation-reduction-act-strategic-operating-plan.
[4] *Telephone Level of Service and Average Wait Times Do Not Fully Reflect the Taxpayer Experience*; TIGTA, August 14, 2025. Available at: https://www.tigta.gov/reports/audit/telephone-level-service-and-average-wait-times-do-not-fully-reflect-taxpayer.

secure, convenient, online tools have been popular with taxpayers, and the functionality continues to expand.[5]

- Use of artificial intelligence (AI) to anticipate taxpayer needs, chatbots and voicebots that can answer questions and steer taxpayers to the right office for assistance, and data extraction to pull information from paper tax returns into IRS data systems instead of relying upon manual data entry.[6]
- Replacing long-outdated legacy computer systems with modern technology, providing a safer, more secure, and more reliable foundation upon which IRS systems and processes can be developed[7].
- Providing quick resolutions to issues when they arise, such as preventing potential frauds and scams, and simplifying notices to help taxpayers understand the issues that arise and the required next steps.

The 2025 filing season was hailed as a success, as the IRS answered more calls, with shortened wait times, while processing a record number of returns.[8] Their new document upload tools allowed submission of more than a million uploads from taxpayers, avoiding the burden of paper submissions or fax transmissions. Tax practitioners noted the shorter wait times on the Practitioner Priority Line and found the responses they received to be more helpful than in prior years.

As the American Institute of Certified Public Accountants (AICPA) noted in a written statement to Congress earlier this year: "Congress should determine the appropriate level of service and compliance they want the IRS to provide and then dedicate necessary resources for the agency to meet those goals."[9] Other tax practitioner

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[5] *Inflation Reduction Act: Progress is Being Made to Improve Content of and Expand Digital Delivery and Response Options for Taxpayer Notices*, Treasury Inspector General for Tax Administration (TIGTA), February 14, 2025. Available at: https://www.tigta.gov/reports/audit/inflation-reduction-act-progress-being-made-improve-content-and-expand-digital.

[6] *Governance Efforts Should be Accelerated to Ensure the Safe, Secure and Trustworthy Deployment and Use of Artificial Intelligence*, TIGTA, November 12, 2024. Available at: https://www.tigta.gov/reports/inspection-evaluation/governance-efforts-should-be-accelerated-ensure-safe-secure-and.

[7] *Progress of Information Technology Modernization Efforts for Calendar Year 2024*; TIGTA; August 13, 2025. Available at: https://www.tigta.gov/reports/audit/progress-information-technology-modernization-efforts-calendar-year-2024.

[8] Review of the 2025 Filing Season, Taxpayer Advocate Service (June 26, 2025). https://www.taxpayeradvocate.irs.gov/reports/2026-objectives-report-to-congress/full-report-26/

[9] "IRS Return on Investment and the Need for Modernization," AICPA written statement to the February 11, 2025 hearing of the U.S. House of Representatives Committee on Ways and Means, Subcommittee on

organizations have jointly called for the IRS to prioritize updating digital infrastructure as a means of adapting to its smaller workforce, including expediting rollout timelines when possible.[10]

In the process of implementing the improvements outlined in the SOP, the IRS also provided its employees with a morale boost that comes from working for an employer that was investing in the secure, modern framework of a world-class financial institution. The new face of the IRS helped to attract a new set of highly-skilled workers that were better able to deliver services to taxpayers.

The IRS subsequently was ordered to dismiss its newest workers still in their probationary period, and the Department of Government Efficiency (DOGE) implemented several workforce reduction programs, such as the Voluntary Early Retirement Authority (VERA), reductions in force (RIFs), and deferred resignation programs for federal employees broadly and for Treasury Department employees specifically. Overall, the IRS has lost more than 25% of its workforce in addition to the funding rescissions.[11]

On July 4, 2025, the One Big Beautiful Bill Act (P.L. 119-21) was signed into law. The legislation includes more than 100 tax law changes. Almost all changes to the tax code require the IRS to issue guidance, prepare its workforce, and modify its technology systems and processes to accommodate the changes. All of this must be done in an era of budget cuts, suspended investments in planned technology due to rescissions, and a massive loss of workers, including the departure of more than 2,000 IT workers since January 2025.[12]

Oversight, https://www.aicpa-cima.com/advocacy/download/aicpa-testimony-to-house-ways-and-means-subcommittee-on-oversight-for.

[10] Letter from the National Association of Tax Professionals (NATP), National Association of Enrolled Agents (NAEA), National Society of Accountants (NSA), and National Society of Tax Preparers (NSTP) to Treasury Secretary Scott Bessent (June 17, 2025), https://www.natptax.com/TaxKnowledgeCenter/GovernmentNews/Documents/06062025Coalition%20Letter%20to%20Secretary%20Bessent.pdf.

[11] TIGTA, Snapshot Report: IRS Workforce Reductions as of May 2025, July 18, 2025; https://www.tigta.gov/sites/default/files/reports/2025-07/2025ier027fr.pdf.

[12] Jory Heckman, “Shrinking IRS faces major task to implement ‘Big, Beautiful Bill’ passed by Congress,” *Federal News Network*, July 3, 2025, https://federalnewsnetwork.com/workforce/2025/07/shrinking-irs-faces-major-task-to-implement-big-beautiful-bill-passed-by-congress/

At this writing, Fiscal Year 2026 appropriations have not been finalized, but further cuts to IRS funding are under consideration.[13]

At the same time, the tax gap represents hundreds of billions of dollars in lost federal revenue, a sum that is many times larger than funding for the IRS.
The gross tax gap, which is the difference between taxes owed and taxes paid voluntarily and on time, was an estimated $696 billion for tax year 2022.[14] The net tax gap, which is the difference remaining after accounting for enforcement activities and late payments, remained at $606 billion.[15] This is shown by the orange outline and red areas of the following figure in the context of total tax liability.

Source: https://www.irs.gov/statistics/irs-the-tax-gap

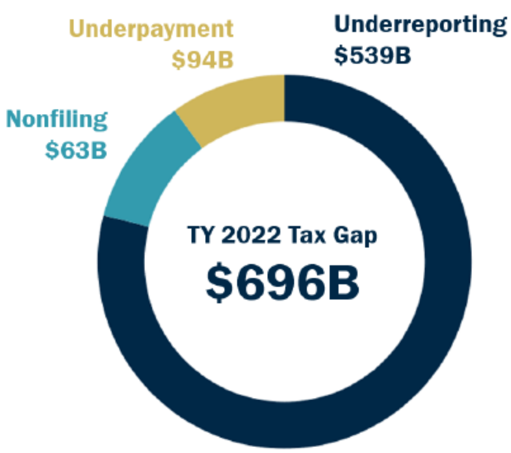
In its 2024 report, the IRSAC suggested IRS focus on educating the public about the Tax Gap and becoming a primary source of information about this important issue.

[13] The Appropriations Committee in the U.S. House of Representatives passed a Financial Services and Government Operations Appropriations Measure (H.R. 5166) that would cut $2.79 billion from IRS funding in 2026 compared to FY 2025. Text and updated information is available at: https://www.congress.gov/bill/119th-congress/house-bill/5166.
[14] IRS: The tax gap (April 14, 2025). https://www.irs.gov/statistics/irs-the-tax-gap
[15] Internal Revenue Service, *Tax Gap Projections for Tax Year 2022*, Publication 5869 (Rev. 10-2024), Washington, D.C., October 2024, https://www.irs.gov/pub/irs-pdf/p5869.pdf.

The IRS has established a process for using Tax Gap data each year to identify opportunities to narrow the gap. It has undertaken transfer pricing audits of large corporations that have foreign entities and show patterns of noncompliance, often resulting in large adjustments to taxes owed. In addition, it has also stepped up enforcement of improper Earned Income Tax Credit (EITC) claims and other refundable credits. More recently, it assessed more than $162 million in penalties for taxpayers that fraudulently claimed the fuel tax credit and other credit scams widely touted on social media.[16] TIGTA notes that the IRS has increasingly detected fraudulent returns and stopped 96% of fraudulent refunds, protecting roughly $273 million.[17]

While few advocates of IRS funding cuts would support scams and fraud, the reality of tax enforcement is that protecting the American taxpayer is an important and necessary duty of the IRS. Inadequate funding makes it harder for the agency to respond to falsehoods on social media, or to carefully screen returns for fraud while also timely processing flagged returns that are later determined to be legitimate.

The Tax Gap is caused by non-filers and under-reporters, and those who file but do not pay the tax they owe. The figure below shows contributors to the tax year 2022 tax gap.



Source:https://www.tigta.gov/reports/top-management-challenges/major-management-challenges-facing-irs-fy-2025

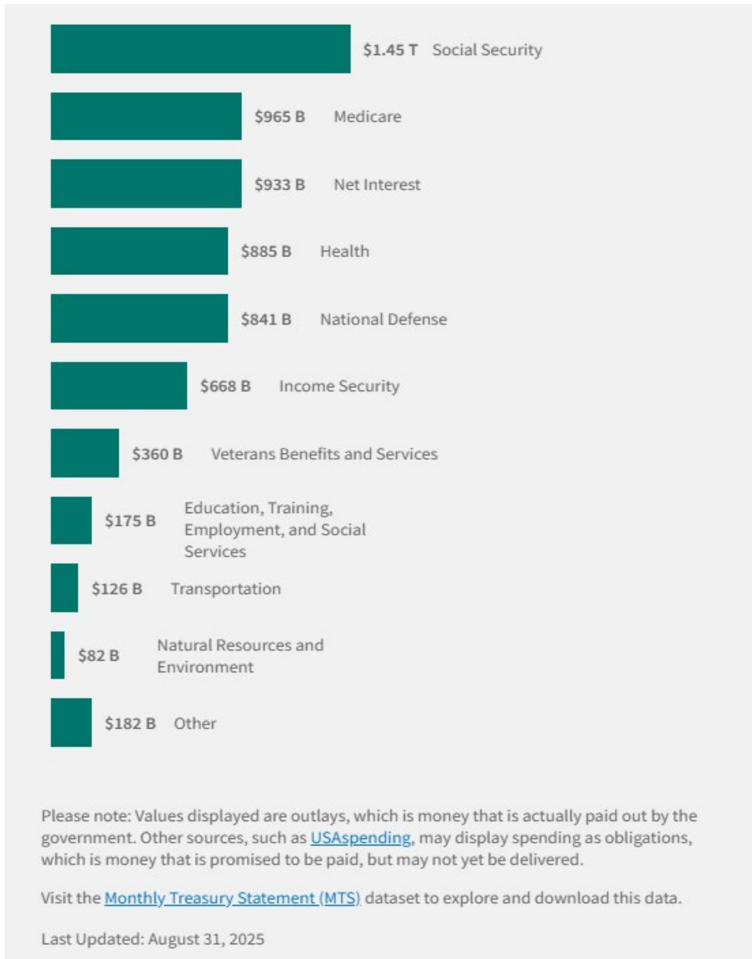
[16] IRS assesses $162 million in penalties over false tax credit claims tied to social media (September 8, 2025), https://www.irs.gov/newsroom/irs-assesses-162-million-in-penalties-over-false-tax-credit-claims-tied-to-social-media

[17] *Major Management Challenges Facing the IRS in 2025*; TIGTA, October 15, 2024. Available at: https://www.tigta.gov/sites/default/files/reports/2025-08/managementfy2025.pdf.

The Tax Gap results in additional federal debt that must be repaid at some point, as well as higher debt service costs as the government borrows to pay the interest on the shortfall. In addition, it also results in higher borrowing costs for all Americans as government borrowing puts upward pressure on borrowing costs throughout the economy. Ultimately, the Tax Gap shifts the burden of unpaid taxes onto the shoulders of compliant taxpayers, eroding both fairness and straining fiscal sustainability. As illustrated in the chart that follows, the annual interest on the federal debt has exceeded $900 billion in Fiscal Year 2025 and presently exceeds spending on national defense.

U.S. Government Spending, FY 2025

(thru August 31, 2025)



Source:https://fiscaldata.treasury.gov/americas-finance-guide/federal-spending/

Recommendations

1. Build on Early Successes: Continue to expand self-service options for taxpayers through a secure, digital framework that has become the expected norm for most interactions with financial institutions. The Individual Online Accounts have been popular with taxpayers, and Business Tax Accounts are helping small businesses across the nation understand and comply with their

responsibilities. These accounts allow taxpayers to engage with the IRS at a time and in a manner that is convenient for them.

Expand the functionality of TaxPro accounts that allow practitioners to perform tasks for their clients when authorized to do so. Whether responding to notices using a document upload tool or adjusting scheduled payments to better meet their client's changing needs, the Tax Pro account system allows experienced practitioners with proper authorization to perform many tasks that taxpayers would be reluctant or otherwise unable to complete on their own.

Continue to expand the types of payments that taxpayers can make online through the IRS' Direct Pay system. While the IRS has expanded Direct Pay to include certain business accounts, some taxpayers, such as estates and trusts, are still unable to make their payments through Direct Pay. These taxpayers are instead required to pay by paper check or use the Electronic Funds Transfer Payment System (EFTPS), which can be cumbersome to set up and requires waiting for a week or more for a PIN to arrive in the mail. The Direct Pay system avoids these difficulties and allows taxpayers to schedule their payments easily and conveniently without needing to set up an account and manage a password and PIN.

2. Remind Lawmakers and the Public About the Big Picture: Debates concerning IRS funding often become contentious, resulting in sharp rhetoric and misinformation while overlooking the IRS' important role.

   After an extraordinarily difficult year with a host of personnel reductions, budget rescissions, projects placed on hold, and changing leadership, most of the IRS employees who remain perform their jobs diligently and comply with their own personal tax responsibilities. IRS employees do difficult and often thankless work, and they deserve a voice that will stand up for them and remind the public and lawmakers of the important role they serve in funding our nation.

   Promote with the public the IRS' role in collecting funding for projects prioritized by Congress and the President. The agency is not merely a "taker of tax dollars," but rather is the agency tasked with ensuring compliance with tax laws enacted by Congress.

Another section of this report addresses more directly the IRS' public image, but it bears remembering that behind every letter, every web page, every phone call is a human being working to apply the law fairly and serve taxpayers, and that the IRS is the collector of federal revenues that make all other federal priorities possible.

3. Emphasize Customer Service as a Priority for Modernization: Roughly 85% of federal tax owed is paid on time and in full each year.[18] This compliance metric has remained remarkably steady over time, highlighting the fact that as times change, most taxpayers pay their fair share. Broadly speaking, enforcement is unnecessary when taxpayers are voluntarily compliant, but even compliant taxpayers still need information and assistance from the IRS.
4. Focus on the Tax Gap: With a tax gap approaching $700 billion and the interest on our federal debt roughly equal to the amount our government spends on Medicare each year, investments in IRS operations, upgrading technology and customer service seem modest.

ISSUE TWO – Recommendation that the IRS Actively Take Steps to Educate the Public about its Crucial Role in the U.S. and Address Misinformation Spread About Its Operations

Executive Summary

The IRS has a public image problem.

The IRSAC believes that the IRS has become an easy target across the political spectrum and social media and is frequently targeted, often for things that are not under its control or legal authority (such as drafting legislation). The IRSAC believes that this could contribute to poor morale within the IRS, as well as making it more difficult for the IRS to recruit employees, staff and obtain the resources necessary for it to accomplish its mission, and enable the highest levels of compliance. We believe that the IRS should undertake a public education campaign to emphasize to the public its vital role in the U.S. and all of the steps it takes to proactively and fairly administer the tax law.

Background

More so than many other Federal agencies, the IRS seems to bear the brunt of criticism, whether from politicians, media or the public at large. We believe that much of this criticism is unfounded and is simply the result of the IRS' role in the U.S. government as tax collector and enforcer, and misunderstanding of the different role played by the IRS in taxation compared to those of the U.S. Department of the Treasury and Congress. For example, if people feel that they are paying too much in taxes, it is very easy to blame the IRS rather than Congress, despite the fact that Congress is responsible for passing the Internal Revenue tax laws that sets the tax rates.

Other examples:

- Before passage of the Inflation Reduction Act, a 2022 U.S. Treasury Department report estimated that around $80 billion in funding would allow the IRS to incrementally hire nearly 87,000 employees by the year 2031.[19] Most of those hires would have been replacements for workers

[19] The American Families Plan Tax Compliance Agenda, U.S. Department of Treasury, May 2021

retiring from existing positions, including not only IRS enforcement agents, but also customer service and technology specialists. However, this was promptly spun into a talking point that the IRS was going to hire 87,000 new "armed agents who were going to come after Americans," and this talking point was never adequately refuted. While people and politicians should always be free to have different viewpoints on legislation, the IRS was collateral damage in that firefight.

- The IRS is frequently criticized for being slow to respond to taxpayers, having long telephone wait times and lengthy audit processes. The obvious response is that the IRS is historically understaffed and its technology is outdated. For example, in order to have zero wait times on the telephone, the IRS would need to overstaff its phone lines so that agents would be waiting for calls, which is fundamentally inefficient. However, this message is not adequately communicated.
- It is common to refer to the Internal Revenue Code as the "IRS tax code," which mistakenly sends the message that the IRS (rather than Congress) passes tax laws. This narrative is compounded when politicians frequently target the IRS, with complaints about how complicated the tax filing process has become. Again, the obvious response is that since Congress makes changes to the Internal Revenue Code and the IRS simply administers those changes, that criticism is misplaced.

To address this disinformation and poor public image, we suggest that the IRS undertake a comprehensive program to educate the public and rehabilitate its reputation. For example, the IRS currently has a number of pro-taxpayer programs in place, such as the Volunteer Income Tax Assistance program (VITA), Tax Counseling for the Elderly, Low Income Taxpayer Clinics, etc., and these programs should be more widely publicized.

We also suggest that the IRS emphasize its role in the U.S. government. Every time there is a complaint about high taxes, the response should be to point out that Congress, rather than the IRS, sets the tax rates and measure of taxable income. Every time there is a complaint about the IRS auditing and trying to collect back taxes, the response should be to talk about the tax gap and how without someone collecting the taxes, the U.S. would be unable to function. The IRS could educate and emphasize the return on investment it realizes. For example, in 1995, the IRS had over 112,000 full time equivalent positions, and the cost to collect $100 in duly owed taxes was $0.54. By way of contrast, in 2024 (the last year for which data is available) without any Inflation Reduction Act funds, the IRS had a little over 96,000 full time equivalent positions, and its cost to collect $100 in duly owed taxes dropped to $0.36.[20] Meanwhile, the United States population increased from 267 million to over 340 million during that period.[21] Thus, even though the U.S. population increased by 27%, IRS full time equivalent positions decreased (even though, to its credit, the cost to collect the revenue decreased).

We note that other government agencies have taken unconventional steps to provide education about their agency. For example, the U.S. Secret Service hired Michael Bay to produce an advertisement during the Super Bowl. The ad, titled "A History of Protection," aimed to attract new agents and retain existing agents by highlighting the agency's history and role in protecting the nation, and featured historical events like presidential assassination attempts and referenced moments like John F. Kennedy's inauguration, the fall of the Berlin Wall, and 9/11, showcasing the agency's presence throughout American history. Thus, there is precedent for a government agency to take novel steps to educate and boost morale and recruiting.

Benefits of an Improved Public Image

We believe that there would be a number of benefits if the IRS were to educate the public and thereby enhance its public image. It would become much easier for the IRS to recruit and retain staff. The morale of current IRS staffers would improve, which would aid in retention. Additionally, it would likely be easier for the IRS to obtain (and retain) the resources it needs to conduct its operations, including securing Congressional funding, since it would be politically difficult to de-fund an agency that is

[20] Internal Revenue Service 2024 Data Book (October 1, 2023 to September 30, 2024, Table 33 https://www.irs.gov/pub/irs-pdf/p55b.pdf

[21] *Id*. (2024 population is estimated).

popular and has a good public image. As a secondary matter, this would likely help the IRS in its mission of collecting properly owed taxes, since tax delinquents would be less likely to think they could “get away with” failing to pay an agency that is respected and considered efficient and effective.

This Proposal Would Not Run Afoul of Regulatory Restrictions on the IRS

Finally, during discussions with Amy Klonsky, Acting Chief, Communications & Liaison, Ms. Klonsky noted that the IRS is prohibited from lobbying and marketing. However, the IRS is not prohibited from spending funds on education and recruitment. We believe that our suggestions do not fall within the prohibited lobbying/marketing category, but rather would constitute public education.

Recommendations

Accordingly, the IRSAC recommends that the IRS undertake a public education/recruitment/public image campaign. This campaign would be aimed at fighting disinformation being spread about the IRS as well as affirmatively promoting its efforts to (i) educate taxpayers and assist them in filing, (ii) effectively administer the tax law, and (iii) promptly collect taxes that are legally owed. This overall campaign could occur in various steps, including:

1. Being proactive on its own and third party social and traditional media, including combatting disinformation;
2. Being available on national talk shows;
3. Partnering (and continuing to partner) with groups such as the ABA, AICPA and state and local counterparts to help recruit interested third parties in conveying this message; and
4. Providing tax education modules to be included with financial literacy programs.

ISSUE THREE: Updating and Maximizing Usefulness of IRS Websites

Executive Summary

The IRS website is a significant tool and resource for the IRS and the public with over 600 million visitors annually. With any information needed today, people will trust that a company's or entity's website will serve their needs. Given the vast array of functions that fall within tax administration, the IRS website is a key element for taxpayer services and improved compliance.

The IRSAC has identified a few limitations that reduce the effectiveness of the IRS website to provide the highest quality taxpayer services. These issues include some webpages being out of date, lack of clarity and consistency in the types of information pushed out to the public such as via news releases and tax tips, and a need to ensure that the website uses current technologies as appropriate such as incorporating artificial intelligence tools that may provide more tailored information to taxpayers and proactively highlight relevant guidance that users may not know to search for.

Our recommendations cover ideas for keeping webpages up to date with the most recent tax law guidance, obtaining user feedback to help ensure webpages are working and accurate, and ensuring that information required to be archived due to its nature and purpose is not removed from the website.

The IRSAC believes that these adjustments will provide improved, updated information to users and enable greater functionality of the website information including via use of appropriate AI tools to, for example, enable users to create a personalized, up-to-date IRS publication tied to their needs.

Background

The IRS website is a significant tool and resource for the IRS and the public. Per the 2024 IRS Data Book, there were about 690 million visits to irs.gov,[22] which is substantial given that there are approximately 163 million individual filers and about 14

[22] IRS, 2024 Data Book, p. 21; https://www.irs.gov/pub/irs-pdf/p55b.pdf. The IRS reports that for FY 2024, it "provided self-assistance to taxpayers through approximately 690.0 million visits to IRS. gov, including 382.8 million inquiries to the "Where's My Refund" application, and nearly 9.6 million active IRS2GO mobile app users." In addition, in FY 2024, website users downloaded about 454 million files such as tax forms and instructions. The 2023 IRS Data Book reports that for FY 2023, there were about 881 million visits to irs.gov, p. 21; https://www.irs.gov/pub/irs-prior/p55b--2024.pdf. The 2024 report does not indicate any reason for the significant drop in website visitors from 2023 to 2024.

million business entity filers.[23] With any information need today, people will trust that the provider's website will serve their needs. Given the vast array of functions that fall within tax administration, the IRS website is a key element for taxpayer services and improved compliance.

The IRS website is a tremendous resource for news, accessing IRS guidance documents (such as published in the weekly Internal Revenue Bulletin), assisting with compliance matters such as the status of a refund or filing an offer-in-compromise request, obtaining tax forms and instructions and publications, using interactive tools to answer questions such as whether the taxpayer qualifies for a particular credit, and more. The IRS website is also immense given the large number of potential users with varying information needs, details needed to explain complex tax laws, archiving almost all information published by the IRS over many decades, and continuing to offer appropriate tools similar to other institutions taxpayers deal with where many functions can be completed without the need to interact with an employee of the website host.

Following are five key issues that the IRSAC became aware of through our work as a group and through our individual use of the IRS website for personal and professional purposes. We offer a brief explanation of each of these issues to support the recommendations we offer to help the IRS in addressing these issues. Through our numerous interactions with IRS personnel, we know that there is a high level of interest in resolving these issues and providing high quality support to all taxpayers.

Currency of Information

Some IRS webpages have outdated information on them. For some of these pages, users should readily see that the information is outdated. For example, if someone is looking for information on IRA deduction limits for the current year and only finds IRS information about limits for prior years, they will continue to look for current information, which they might have to find on non-IRS websites. For example, at August 1, 2024, the IRS webpage on IRA deduction limits did not show the 2024 limits (only 2022 and 2023 were shown) even though the 2024 limits were released in November 2023 (IR-2023-

[23] IRS, 2024 Data Book, page 4; https://www.irs.gov/pub/irs-pdf/p55b.pdf.

203).[24] This issue continues because as of August 2025, the IRS IRA deduction webpage still did not show the 2025 amounts which were released November 1, 2024.[25]

In other situations where IRS webpages have outdated information, it is not obvious to most users that the information on the webpage is outdated, such as when it is describing the tax law. Often despite having outdated tax rules on a webpage, the bottom of the IRS webpage indicates a current ”last updated” date. In some cases, the update may have been something minor, such as formatting or a grammatical change, without updating the substantive content. This is a harmful situation as taxpayers will rely on the IRS provided information, particularly when seeing it was recently updated, but to their detriment when that information is outdated and incorrect.

A significant example of an outdated webpage that taxpayers could rely on to their detriment, is the IRS webpage on virtual currency FAQs.[26] Some of these FAQs are outdated (particularly FAQs #39 to #41) with the release of final broker reporting regulations in July 2024 that also updated basis reporting regulations at Reg. 1.1012-1(h) and (j) (T.D. 10000, July 9, 2024). As of August 23, 2025, the IRS virtual currency FAQ webpage indicates it was last updated on April 23, 2025. If a user knows that there are new rules for digital assets effective January 1, 2025, and sees that April 2025 update notation on the webpage, it would be logical to assume the FAQs describe the current rules. Even experienced tax professionals familiar with the final regulations can be misled by the outdated information and may assume it is accurately describing the current rules. Also, significant guidance on basis and digital assets (Rev. Proc. 2024-28) was released in July 2024 requiring many holders of digital assets to take action by the end of 2024. This guidance was never added to the virtual currency FAQs where it would have been noticed by many affected taxpayers. Absence of the updated guidance despite its close

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[24] This link from the “Wayback Machine,” an internet archive site, shows what the IRS IRA deduction website looked like at Aug. 1, 2024: https://web.archive.org/web/20240801125451/https:/www.irs.gov/retirement-plans/ira-deduction-limits. The 2024 IRA limits were released in IR-2023-203 (Nov. 1, 2023); https://www.irs.gov/newsroom/401k-limit-increases-to-23000-for-2024-ira-limit-rises-to-7000.

[25] IRS, IRA deduction limits website viewed August 16, 2025, showing the 2024 and 2023 limits but not the 2025 limits; https://www.irs.gov/retirement-plans/ira-deduction-limits. Release of the 2025 IRA limits was in IR-2024-285 (Nov. 1, 2024); https://www.irs.gov/newsroom/401k-limit-increases-to-23500-for-2025-ira-limit-remains-7000.

[26] IRS, Frequently asked questions on virtual currency transactions; https://www.irs.gov/individuals/international-taxpayers/frequently-asked-questions-on-virtual-currency-transactions.

connection to topics covered in the virtual currency FAQs likely caused many tax professionals and individuals to not know of the existence of Rev. Proc. 2024-28.

Consistency in Nature of Items Posted and Pushed To Subscribers

Several times each month, the IRS issues news releases and tax tips. Anyone can sign up at the IRS website to receive all these items as well as many other types of releases from the IRS.[27] Sometimes news releases are not news, but reminders to do something more similar to a tax tip. For example, IRS Tax Tip 2025-56 (Aug. 12, 2025) reminds taxpayers about key filing deadlines for the heavy highway vehicle use tax.[28] In contrast, news release IR-2025-27 (Feb. 27. 2025) reminds farmers and fishers of the upcoming filing deadline.[29]

It is not clear why one type of release is used rather than another. For example, why is a reminder about an upcoming due date a news release when it is not about anything new? Also, why are some news items, such as the discontinuance of the IRS's FIRE system for filing information returns, not in a news release? A risk of using news releases for more than current developments is that users might discount them when received, thinking they are reminders of known information rather than news. Also, when key IRS news, such as a procedural change (discontinuance of the FIRE system for example) is not announced via a news release, users may see reduced value and so lose interest in subscribing to IRS communications altogether.

Another area that can cause confusion is that some news releases are reminders of existing tax rules. Why are some rules highlighted in this manner, but not most rules? And again, why is a news release used if the contents are not about a new development. For example, on August 6, 2025, IR-2025-81 was released to remind employers that Educational Assistance Programs can help pay student loans of employees through 2025.[30] IRC Section 127 was amended in 2020 by the CARES Act (P.L. 116-136 (Sec.

[27] IRS, e-News subscriptions; https://www.irs.gov/newsroom/e-news-subscriptions.
[28] IRS Tax Tip 2025-56 (Aug. 12, 2025); https://www.irs.gov/newsroom/key-filing-deadlines-for-the-heavy-highway-vehicle-use-tax.
[29] IR-2025-27 (Feb. 27, 2025); https://www.irs.gov/newsroom/irs-many-farmers-and-fishers-face-march-3-tax-deadline-disaster-areas-have-more-time.
[30] IR-2025-81 (Aug. 6, 2025); https://www.irs.gov/newsroom/irs-reminds-employers-educational-assistance-programs-can-help-pay-employee-student-loans-through-2025.

2206)) to include student loans within educational assistance programs effective for payments made after March 27, 2020 and through the end of 2020. The Consolidated Appropriations Act (P.L. 116-260 (Sec. 120, DivEE)) extended the effective date of this change through the end of 2025. On July 4, 2025, the "One Big Beautiful Bill Act" (OBBBA, P.L. 119-21, Sec. 70412) was enacted and made this expansion of educational assistance programs permanent.

It is not clear why a few law changes are announced via news releases and why some are issued years after enactment. This August 6, 2025 news release also illustrates an issue noted earlier on currency of IRS webpages because this release was out of date when issued because it reminded employers that the special rule that treats payment of an employee's student loan as excluded from income under Section 127 expires at the end of 2025 when it had just become a permanent provision by significant legislation enacted one month earlier.

Archival Documents Must Always Be Available

News releases (for example, IR-2025-81) are considered "authority" under Reg. 1.6662-4(d)(3)(iii), listing "Internal Revenue Service information or press releases." For any type of "authority" issued by the IRS, it should be archived so it can be readily obtained from the IRS website at any time. For items published in the weekly Internal Revenue Bulletin (IRB) such as regulations, revenue rulings, revenue procedures, notices and announcements, the IRBs are all posted and archived (https://www.irs.gov/irb). However, news releases are not published in the IRB so are not archived through the IRB.

The IRS maintains an archive webpage of news releases at https://www.irs.gov/newsroom/news-release-and-fact-sheet-archive. As of August 2025, this webpage includes items back to 2002. The IRSAC is aware of at least one instance where a news release was removed from the webpage. IR-2023-173 (Sept. 15, 2023) on the release of a draft Form 6765 is no longer listed in the IRS archive webpage on news releases. This picture of the archive webpage shows an entry missing between IR-2023-172 and IR-2023-174:

IRS reminder to storm victims in 3 states: File and pay by Oct. 16; most of California, parts of Alabama and Georgia affected

IR-2023-174, Sept. 19, 2023 — The Internal Revenue Service today reminded individuals and businesses in most of California and parts of Alabama and Georgia that their 2022 federal income tax returns and tax payments are due on Monday, Oct. 16, 2023.

IRS looks to hire 3,700 employees nationwide to help expand compliance for large corporations and complex partnerships; experienced accountants encouraged to apply for Revenue Agent positions

IR-2023-172, Sept. 15, 2023 — As part of larger transformation work underway to make improvements, the Internal Revenue Service announced the opening of more than 3,700 positions nationwide to help with expanded enforcement work focusing on complex partnerships and large corporations.

The missing news release can be found on an internet archive website, but it should be permanently available on the IRS website's news release and fact sheet archive (https://www.irs.gov/newsroom/news-release-and-fact-sheet-archive).[31]

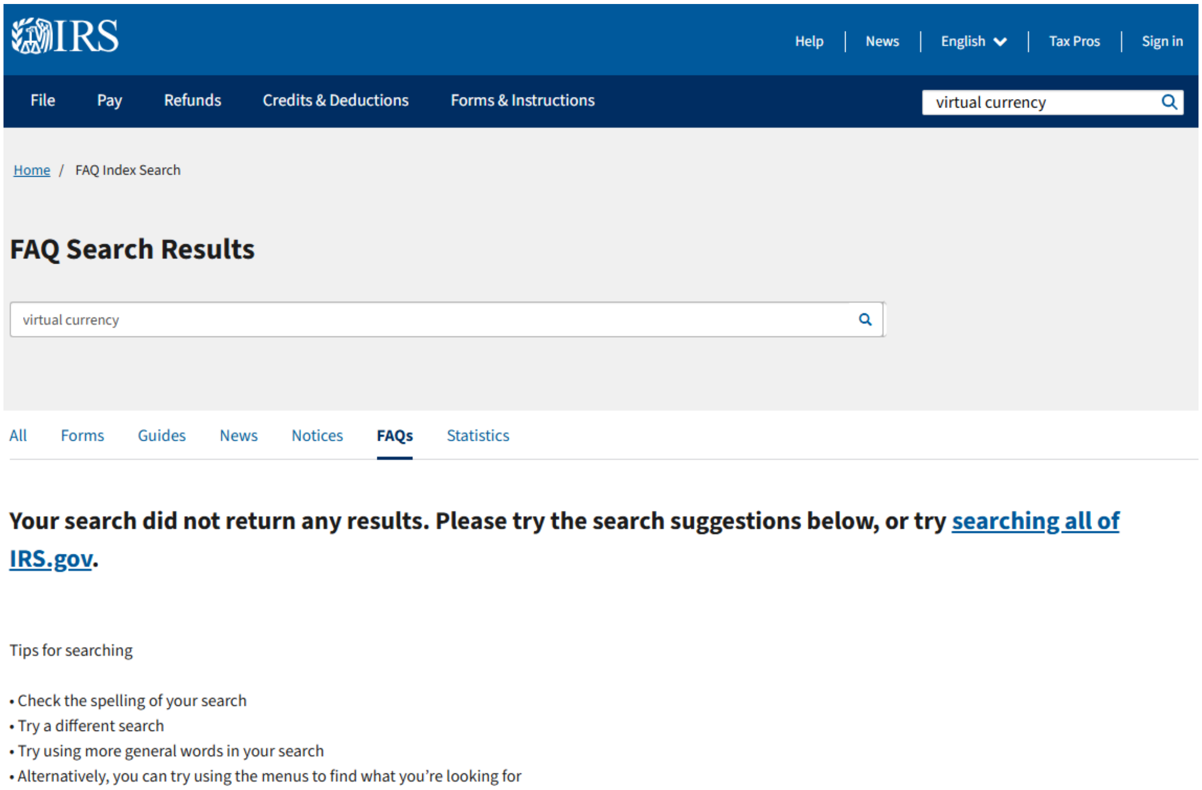
Search Box Should Be Fully Functional

Generally, the search box in the upper right of the IRS website helps taxpayers find information. For example, a search using "disaster loss" produces numerous website results on this topic. However, search box results will not include letter rulings, despite the document existing on the IRS website. For example, if "202511015" is entered into the search box, the following message is produced: "**Your search did not return any results. Please try the search suggestions below, or try searching all of IRS.gov.**" However, a search in a web search engine using "202511015 irs" produces the document at https://www.irs.gov/pub/irs-wd/202511015.pdf. Also, this ruling is mentioned in a National Taxpayer Advocate blog post of April 24, 2025 (https://www.taxpayeradvocate.irs.gov/news/nta-blog/irs-chief-counsel-advice-on-theft-loss-deductions-for-scam-victims/2025/04/), but this webpage also does not come up in search results using the IRS search box.

We note that improvements have been made to search results to also show what type of "hits" exist within specified categories. Also, the search results can be presented in multiple ways such as forms, guides and news. However, some categories seem to be

[31] Wayback Machine, Sept. 21, 2023; https://web.archive.org/web/20230921071456/https:/www.irs.gov/newsroom/irs-requests-feedback-on-preview-of-proposed-changes-to-form-6765-credit-for-increasing-research-activities.

missing. For example, a search using “virtual currency” leads to results for digital assets. But at the results page (see picture below produced August 23, 2025), the link for “FAQs” produces no results even though there are FAQs on virtual currency.



Enable Website Users to Report Errors

When users of IRS webpages find an error such as a broken link, typo, or outdated or incorrect information, there is no way for them to share this information with the IRS. Adding an accessible “Report an Error” link would improve accuracy, build taxpayer trust, and allow the IRS to respond more quickly to recurring issues. For example, in August 2025, there are a few links for eBooks that produce the following (excerpt from the site):[32]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[32] See for example, Publication 17 website; https://www.irs.gov/forms-pubs/about-publication-17; and Publication 550 website; https://www.irs.gov/forms-pubs/about-publication-550.

A "Report an Error" link would allow a user to immediately report this problem to the IRS so it can be fixed quickly with the usefulness of the IRS website improved for all users.

Recommendations

1. Develop a system to ensure that webpages have current information. When new guidance is issued, there should be a responsible party (likely the unit in the Office of Chief Counsel that deals with guidance for relevant Code section) to identify where the existing website must be updated and where new webpages are needed. Do not mark a webpage as updated without giving the page a full substantive review.
2. Develop and publicize a system for the use of news releases and tax tips that is appropriate for these categories of releases. That is, news releases should be about current developments and tax tips should be reminders and tax saving tips. News releases about law changes should be reviewed by multiple units including the Office of Chief Counsel to be sure they are accurate and include the most important and current information.
3. Change website maintenance processes to ensure that any document constituting authority under Reg. 1.6662-4 is permanently archived and accessible on the IRS website.
4. Improve the search function at irs.gov so that it produces results for all appropriate documents on the IRS website, and categorizes them by type. Be sure that additional sorting mechanisms work as expected.
5. Conduct periodic third-party usability testing of IRS.gov to identify navigation problems, outdated content, and gaps in taxpayer understanding that warrant new or revised webpages.
6. Add a link to the bottom of all webpages to allow users to report errors. This link can be an online form where the results can be sorted and directed to the appropriate person at the IRS to address the issue. The form should allow for users to enter information without attribution or identification including via web analytic tools or other software. The reporting information should highlight that the IRS will not collect any information about the submitter unless they volunteer it on the reporting form.
7. Ensure IRS.gov content is available in multiple languages (as many webpages currently are at https://www.irs.gov/help/languages), and in plain language, particularly for topics disproportionately affecting taxpayers who may not have assistance of a tax professional.

ISSUE FOUR: Accounting Method Change Requests

Executive Summary

Taxpayers must receive IRS approval to change either their overall accounting method or method of accounting for any specific item. The IRS provides streamlined procedures, or “automatic consent”, for over 250 specified method changes listed in an annual Revenue Procedure. All other changes (“nonautomatic” or “advance consent”) require a ruling from the IRS prior to implementation, where taxpayers must submit the request on Form 3115 and pay a user fee.

To improve the Form 3115 process[33], the IRSAC recommends the IRS (1) enable electronic filing of the form, (2) capture its data in a machine-readable format, (3) simplify the form for small taxpayers, (4) consolidate overlapping method changes, and (5) consider expanding automatic procedures once digital systems are in place. These changes would reduce taxpayer burden, enhance compliance, and improve the IRS’s ability to process and audit method change requests efficiently.

Background

Taxpayers seeking to change their accounting methods must file Form 3115 under one of two procedures: automatic or nonautomatic, both governed by Revenue Procedure 2015-13 (as updated). Both types of method change requests are subject to IRS examination procedures and review by the IRS National Office.

Under the automatic consent procedure, eligible taxpayers may implement certain predefined changes without prior IRS approval. Revenue Procedure 2025-23 provides a list of over 250 such changes; Taxpayers generally file Form 3115 with their timely filed federal tax return for the year of change and submit a copy to the IRS service center in Ogden, UT. The Rev. Proc. specifies eligibility criteria, documentation requirements, and

[33] IRSAC notes that this was recommended as a medium priority electronic filing to expand the functionality of business online tax accounts. See Issue 7, Capabilities for Business Online Tax Accounts, Publication 5316, page 60.

transition rules—such as the “Section 481(a) adjustment”—to ensure proper tax reporting during the changeover.

Despite being labeled “automatic,” the process is burdensome and complex. Rev. Proc. 2025-23 spans over 430 pages, requiring taxpayers to assess eligibility, complete detailed documentation, and provide written analysis. The requirement to mail a copy of the form contradicts the IRS’s recent announcements to minimize paper filing. While automatic method changes do not require a user fee, many taxpayers lack the expertise to complete the form without professional assistance, increasing compliance costs. Method changes broadly apply to all taxpayers, both individuals and businesses. These requirements introduce a chance of error even if a taxpayer is in good faith attempting to comply.

Requests not covered under the automatic procedure require advance IRS consent. Taxpayers must submit Form 3115 to the IRS National Office before the end of the year, pay a user fee (reduced for small taxpayers), and provide supporting documentation, including a Section 481(a) adjustment. These requests undergo stricter review and may be denied or withdrawn before a ruling is issued.

Nonautomatic change requests generally are more costly and time-consuming for taxpayers and the IRS. Taxpayers cannot file their tax returns implementing the method change until the IRS issues a ruling (“consent agreement”),[34] which may take up to 6 months (or longer for complex changes), meaning that taxpayers do not have clarity during this period on whether they may prepare the return using the proposed method. A professional tax representative (CPA or lawyer) may be required to file under these procedures, increasing the cost of filing beyond the IRS user fee. The IRS likewise assigns personnel, generally National Office attorneys, to process and opine on each nonautomatic change request.

[34] Note that if a taxpayer implements a method of accounting prior to receiving a consent agreement, it is technically an “unauthorized change” that can be reversed by the IRS with interest and penalties. However, if the IRS ultimately grants consent for the change without modification, then the taxpayer may rely on it back to the year of change. See Rev. Proc. 2025-1, sec. 9.17.

[Based on available data from the IRS, over a 4-year period of 2019-2023, taxpayers submitted over 175,000 method change requests. About 1.1% were filed on a nonautomatic basis, the remainder were filed under the automatic change procedures. Of the nonautomatic changes, about 85% were ultimately granted. In total, only 0.15% of all method changes resulted in an adverse, withdrawn, or closure other than "favorable."[35]] [NTD: We will confirm with the BOD whether this information may be shared publicly. If not, we will generalize this information.]

Recommendations

1. Allow or require Form 3115 for automatic changes to be electronically filed. This may require reformatting the form to align with standard e-file formats (e.g., Forms 1040, 1065, 1120) and updating IRS systems to support integration with existing tax software. Eliminating the need to mail a paper copy would reduce taxpayer burden and support the IRS's goal of minimizing paper filings.

2. Implement Machine-Readable Data Capture. Ensure Form 3115 data is captured in a format compatible with IRS systems. Currently, the form is submitted as a PDF, which cannot be processed electronically. Machine-readable data would allow the IRS to integrate Form 3115 with taxpayer records, facilitate holistic audits, and enable automated screening for issues such as large Section 481(a) adjustments or flagged keywords (e.g., "inventory," "tax shelter").

3. Simplify the Form and Process for Small Taxpayers. Develop a simplified version of Form 3115 for common changes applicable to individuals and small businesses—such as switching from cash to accrual accounting. Alternatively, consider a de minimis exception allowing eligible taxpayers to submit a brief statement in lieu of the full form.

[35] IRSAC notes that IRS personnel indicated that even when a case was closed as "favorable", significant follow up questions and modifications to the method change request may have been required to satisfy the legal requirements to allow the IRS to grant the method change request.

4. Consolidate Overlapping Method Changes. Continue efforts to merge similar automatic method changes into single designated categories.[36] Reducing fine distinctions can reduce complexity without sacrificing data quality, especially when key information is already included in attached statements.

5. Expand Use of Automatic Procedures. Once electronic filing and data capture are in place, consider allowing all Form 3115 filings to follow the automatic procedure. With robust screening tools, the IRS could maintain compliance oversight while reducing the administrative burden for taxpayers and the IRS of nonautomatic filings.

[36] For example, this was previously done with changes 11–14 consolidated into change 7, related to depreciation or amortization. See Instructions for Form 3115, page 15 (Rev. Dec. 2022).

ISSUE FIVE: Simplify Use of Online Tax Services

Executive Summary

While the IRS has made significant improvements in recent years by expanding online services and offering new digital tools for taxpayers and tax professionals, many enhancements remain fragmented and difficult to navigate. The current system operates in silos, which makes it challenging for users to access and integrate necessary information efficiently, despite significant IRS investments in digital modernization under the Taxpayer First Act and otherwise. This lack of cohesion results in confusion, delays, and inefficiencies in tax compliance and administration.

The IRSAC commends the IRS for its substantial progress in digital transformation, including the deployment of online accounts, transcript delivery systems, interactive tax assistant tools, and practitioner management portals. However, without greater integration and user-focused design, these tools risk becoming a patchwork of partially connected services rather than a seamless platform.

The IRSAC recommends that the IRS build a more unified digital environment that emphasizes single sign-on access, streamlined practitioner tools, interoperable backend systems, and user-centered development. By implementing these improvements, the IRS will maximize the benefits of its digital investments, reduce burdens on taxpayers and practitioners, and improve compliance outcomes.

Background

Over the past decade, the IRS has taken critical steps to modernize its online services. Taxpayer Online Accounts, the Practitioner Tax Pro Account, and the Transcript Delivery System (TDS) have expanded access to vital information. The launch of the Information Returns Intake System (IRIS) represents an important advancement for electronic filing. Likewise, ongoing efforts to strengthen authentication and security demonstrate the IRS's commitment to safeguarding taxpayer data.

Despite these achievements, stakeholders continue to face challenges. For example, PTIN renewals can now be accessed using ID.me credentials (removing the need for a distinct PTIN username/password), but users are still prompted to re-authenticate when moving among sections of IRS online services. For instance between Individual Online Account (IOA), Tax Pro Account functions (e.g., uploading versus submitting POAs online), Transcript Delivery System (TDS), and PTIN. Because backend systems remain siloed, this is not yet a true single sign-on experience.

To truly modernize service delivery, the IRS should focus not only on expanding the number of digital tools available but also on weaving them into a seamless user experience.

Key Issues Identified

1. Fragmented Access Across Portals

Taxpayers and practitioners must still switch among platforms such as Tax Pro Account, PTIN, TDS, and IRIS. While using ID.me for PTIN removes one set of credentials, users are frequently required to log in again as they navigate these sections. This lack of session continuity across backend systems undermines efficiency and increases the risk of user error, delayed filings, and frustration for taxpayers and practitioners alike.

2. Redundant Authentication and Data Entry

Even when a practitioner is authenticated through their CAF number, they must re-enter taxpayer information in TDS or re-establish authorization in other systems. This duplicative process is both time-consuming and prone to error.

3. Limited Integration of Practitioner Tools

The Tax Pro Account provides some useful features, but it does not currently integrate PTIN functions or allow direct access to transcripts, both of which remain tied to separate portals

4. Usability Challenges in New Systems

While the IRSAC recognizes the value of the new IRIS filing system, feedback suggests that its design remains difficult to navigate. Without practitioner input, systems risk being built around internal workflows rather than end-user needs.

Recommendations

1. Single Sign-On Access to All Services

The IRS should adopt a unified login that grants access to all digital services, eliminating the need to navigate separate portals. Whether managing a PTIN, pulling transcripts, renewing authorizations, or accessing client accounts, taxpayers and practitioners should log in once and remain authenticated throughout their session. Existing identity verification (e.g., ID.me) should be recognized across services so that a user who has authenticated does not need to re-enter credentials when moving among PTIN, TDS, IOA, IRIS, and Tax Pro Account.

2. Comprehensive Practitioner Dashboard

The IRSAC recommends the development of a centralized, practitioner-focused dashboard that consolidates key functions. This dashboard should:

- Display all clients linked to a practitioner's CAF number.
- Provide at-a-glance information about powers of attorney, including expiration dates and tax years covered.
- Allow direct retrieval of transcripts for authorized clients without leaving the platform.
- Incorporate PTIN management tools, including renewal status and expiration alerts.

By integrating these services into a single dashboard, with real-time data feeds and proactive alerts for expiring authorizations or upcoming due dates, practitioners will be able to more efficiently manage their caseloads, voluntary compliance will be promoted, and taxpayers will be served more effectively.

3. Interoperable Backend Systems

IRS systems should be designed to communicate seamlessly with one another. Authentication established through CAF credentials should carry across applications, and taxpayer information entered once should populate across tools. For example, rather than accessing TDS separately and retyping taxpayer data, practitioners should be able to retrieve transcripts directly within their Tax Pro Account, without duplicative authentication or re-entry of taxpayer identifiers.

Illustrative Examples

- Merging the PTIN Portal into Tax Pro Account: Practitioners should no longer have to leave their primary account management portal to complete PTIN renewals. Instead, PTIN status and renewal tools should be incorporated directly into the Tax Pro dashboard.
- *Integrating Transcript Retrieval into Tax Pro Account:* Today, practitioners must separately access TDS and re-enter data to request transcripts. By merging TDS functionality into the Tax Pro Account, transcripts could be retrieved without leaving the main practitioner interface.

- *Improving the IRIS Experience*: While IRIS provides an essential platform for information return filing, its design remains cumbersome. Simplified navigation, clearer instructions, and improved data validation would significantly enhance usability.

4. User-Centered Development and Testing

The IRSAC urges the IRS to strengthen its user-centered design practices. Regular usability testing, with active involvement of both taxpayers and tax professionals, should guide the design and rollout of all new features. In particular, end-user feedback should be sought for improvements to systems such as IRIS, ensuring that new platforms are intuitive and built to meet real-world needs, especially for small practices and taxpayers with limited digital literacy.

ISSUE SIX: Processing of Form 730 and Excise Tax Payments

Executive Summary

The population of Form 730 – *Monthly Tax Return for Wagers* filers and the amount of federal wagering excise taxes paid have both increased exponentially since the U.S. Supreme Court ("SCOTUS") ruled the Professional and Amateur Sports Protection Act ("PASPA") was unconstitutional in 2018 in *Murphy v. National Collegiate Athletic Association* ("*Murphy*").[37][38][39] This increased volume combined with the lack of an electronic filing portal for Form 730 gave rise to persistent Form 730 processing and excise tax administration challenges beginning in 2020. Over the last five years, Forms 730 filed by both retail and online sportsbook operators have been incorrectly processed by the IRS such that properly reported and paid monthly Form 730 excise tax payments have consistently been misclassified as overpayments. These misclassified overpayments have in turn consistently triggered the issuance of a significant number of erroneous Form 730 refund checks to the impacted taxpayers. Impacted Form 730 filers have received such erroneous refund checks for as many as 40 monthly Form 730 filing periods. These impacted taxpayers have engaged tax professionals to work with the IRS to resolve these Form 730 processing and overpayment issues, but the IRS has yet to correctly reclassify Form 730 excise tax payments from prior periods and newly filed monthly Forms 730 continue to be incorrectly processed. Based on feedback received from numerous Form 730 filers and tax professionals with excise tax subject matter expertise, the IRSAC estimates that the IRS has now misclassified more than $500 million of Form 730 wagering excise tax revenues as overpayments.

Background

Enacted in 1992, PASPA previously limited legalized sports wagering to four states (Nevada, Delaware, Oregon, and Montana) with only Nevada allowing licensed privately operated sportsbooks. Nearly 20 years later, New Jersey decided to challenge the

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[37] Department of Treasury – Internal Revenue Service. *Monthly Tax Return for Wagers*. (2017). https://www.irs.gov/pub/irs-pdf/f730.pdf.
[38] Professional and Amateur Sports Protection, 28 U.S.C. §§ 3701-3704 (Suppl. 4 1988).
[39] *Murphy v. National Collegiate Athletic Association*, 584 U.S. 453 (2018).

constitutionality of PASPA leading to the law being ruled unconstitutional in 2018 by SCOTUS in *Murphy*. The *Murphy* decision cleared the way for individual state and local jurisdictions to decide whether to legalize sports wagering. As of September 2025, 39 states, Washington D.C., and Puerto Rico have legalized some form of sports wagering with Missouri set to become the forty-second jurisdiction with legalized sports wagering in late 2025. More than 30 of these jurisdictions have legalized mobile online sports wagering of some kind. A small number of these jurisdictions have only authorized a state-sponsored monopoly with a single private sportsbook operator partnering with the government to offer the only online sportsbook in that jurisdiction. However, most of these jurisdictions have opted to authorize competitive online sports wagering licensing regimes. Federal law still prohibits sports wagering across state and international borders thus requiring licensed privately operated sportsbooks to operate entirely separate intrastate online sportsbooks within each jurisdiction.

Section 4401 imposes a wagering excise tax on sports wagering activities conducted within the United States. Legally operated sportsbooks report and pay this wagering excise tax via Form 730. Each legal entity operating a sportsbook is required to file its own Form 730. Both before and after *Murphy*, most licensed privately operated retail sportsbooks have operated within casinos, racetracks, and other entertainment establishments. Such establishments tend to be owned and operated by special purpose legal entities for non-tax reasons, which in turn means each such legal entity tends to file its own Form 730. As such, it is expected that more than 100 licensed privately operated retail sportsbooks located in Nevada had a monthly Form 730 filing obligation prior to PASPA being ruled unconstitutional in *Murphy*.

Since *Murphy*, the number of Form 730 filers has grown substantially. As sports wagering has expanded across the country, dozens of new retail sportsbooks have opened across most of the states that have legalized sports wagering with each such sportsbook likely being operated by a separate Form 730 filer. Likewise, since 2018, approximately 35-40 licensed privately operated online sports wagering companies have launched online sportsbooks. However, it is not possible for the IRSAC to determine the total number of monthly Forms 730 filed by these online sportsbook operators because it is unclear how many legal entities operate each such company's separate intrastate online sportsbooks. It is possible some online operators file a single Form 730 on behalf of the single legal entity that operates all of its intrastate online sportsbooks while other online operators may have a separate special purpose legal entity operating each of their intrastate online sportsbooks akin to how retail sportsbooks tend to be operated. It is estimated that online sportsbooks now process as much as 90% of legal sports wagering activities subject to Section 4401. Consequently, as licensed online sports wagering has proliferated across the country, the total increase in wagering excise taxes paid has exponentially outpaced the increase in new Form 730 filers. As a result, the vast majority of wagering excise taxes are now reported via Forms 730 filed by online sportsbook operators.

Form 730 filers have always been required to mail a paper copy of their monthly tax returns to the IRS. The IRS has not communicated any plans to enable electronic filing for Form 730. The Form 730 excise tax type was added to EFTPS during the COVID pandemic. Both in-house industry tax professionals and tax practitioners with excise tax subject matter expertise are under the impression that the IRS staff responsible for excise tax return processing manually key the information reported on the paper copies of the Forms 730 it receives via the mail into the IRS excise tax system. The IRS staff assigned to the excise tax area also operate a specific excise tax hotline (866-699-4096). All excise tax related questions are routed to this hotline because the IRS staff that services the practitioner hotline and the general IRS hotlines are not trained to address any excise tax related matters.

Starting with some 2020 monthly Form 730 filing periods, the IRS began misclassifying portions of the correctly calculated excise tax liabilities reported and remitted by retail and online sportsbook operators as overpayments. These misclassified overpayments then triggered erroneous refund checks to be issued to these Form 730 filers. In some cases, millions of dollars have been refunded with regards to individual Form 730 monthly filing periods. Such refund checks have been received by several sportsbook operators for many monthly filing periods since 2020. Erroneous refunds checks continue to be issued for 2025 monthly Form 730 filing periods indicating that the root cause of this issue remains unaddressed. Based on feedback received from numerous Form 730 filers and tax practitioners with excise tax subject matter expertise, the IRSAC estimates that the IRS has now misclassified more than $500 million of Form 730 wagering excise tax revenues as overpayments.

There does not appear to be any discernible pattern driving when properly reported and remitted Form 730 wagering excise tax liabilities are misclassified as overpayments. Refund checks are sometimes issued for as little as 10% of the total reported excise tax liability and as much as 100% of the total reported excise tax liability. Additionally, some erroneous refund checks are issued soon after the filing of the implicated Forms 730, while other erroneous refund checks are issued many months after the implicated Forms 730 were originally filed. The IRSAC does not have the visibility to know whether erroneous refund checks are issued for the same period for all sportsbook operators. Based on feedback provided by tax practitioners with excise tax subject matter expertise, it appears likely that some sportsbook operators have had their Forms 730 properly processed for a given monthly filing period while other sportsbook operators have received erroneous refund checks related to that same monthly filing period. Unfortunately, the IRS has also been unable to flag these misclassified Form 730 overpayments to prevent them from being subject to IRS transfers to other modules/tax types (e.g., Civil Penalties, Form 941, Form 945). Likewise, state taxing authorities have been able to seize portions of these misclassified overpayments to settle state tax debts.[40] This means that Form 730 filers will be required to repay these erroneously transferred tax balances once these Form 730 processing issues are resolved at which time they will be subject to penalties and interest for "late payments" despite having made timely excise tax payments to the IRS.[41]

Multiple sportsbook operators have incurred at least tens of thousands of dollars of tax advisory fees working with their tax advisors to try to resolve these Form 730 processing and overpayment issues. These sportsbook operators have worked with their tax advisors to prepare individual monthly filing period letters to accompany each

[40] This has presumably occurred via the Treasury Offset Program – IRS Transcript Code & Label: *898 – Refund Applied to Non-IRS Debt*.

[41] Since Form 730 refund checks are currently only issued via mail, Form 730 filers can currently retain their original timely payment date for amounts not transferred to other modules/tax types or state taxing authorities by not depositing any erroneously issued refund checks they receive. However, should the IRS begin issuing Form 730 refunds via direct deposit, taxpayers could be subject to penalties and interest on the entire erroneously issued refund amounts without even having the opportunity to retain their original timely payment date.

erroneous refund check that were each then mailed back to the IRS in separate mailings so that these payments could be correctly reapplied to their respective Form 730 accounts. These checks have been reapplied to the appropriate Form 730 monthly periods, but these amounts have continued to be misclassified by the IRS as overpayments. Moreover, many of these reapplied refund checks have subsequently been reissued to the respective taxpayers. Sportsbook operators and their tax advisors have also spoken with IRS staff assigned to the excise tax area, operational leaders within the IRS excise tax policy group, and senior members of the IRS (and possibly the Department of Treasury) about these Form 730 processing and overpayment issues. These governmental stakeholders were all appreciative of the conversations and indicated that they intended to address these Form 730 issues. However, years have now passed without resolution of these issues. Moreover, taxpayers have been unable to speak with the IRS regarding these and other excise tax matters since late May 2025 due to the specific excise tax hotline (866-699-4096) being unstaffed. Taxpayers and tax practitioners who call this hotline hear a prerecorded message stating that the hotline is not currently being answered due to staffing limitations. Despite this fact, the practitioner hotline and the general IRS hotlines continue to refuse to service any excise tax matters. The IRS staff assigned to these other hotlines instead continue to transfer taxpayers and tax practitioners wishing to discuss excise tax matters to the unstaffed excise tax hotline. As a result, the IRS has not been servicing excise tax return filers (including Form 730 filers) and the tax practitioners who support them since late May 2025.

<u>Recommendations</u>

5. Implement a new account code type or account flag to reclassify Form 730 payments that have been misclassified as overpayments to prevent the transfer of these misclassified overpayments to other IRS modules/tax types and to state taxing authorities.
6. Create a working group and empower it with the necessary resources and authority to investigate and resolve all outstanding misclassified Form 730 overpayments and associated erroneously issued Form 730 refund checks and reverse the

transfer of all such misclassified “overpayments” to other IRS modules/tax types wherever possible.

7. Revamp training procedures for the IRS agents and staff who are responsible for processing Form 730 to ensure correctly calculated wagering excise tax liabilities reported and remitted by taxpayers are no longer partially or fully misclassified as overpayments due to excise tax liabilities being improperly calculated in the IRS system when Forms 730 are processed.
8. To improve timely and accurate processing of Forms 730, create a unified online filing and payment electronic submission portal for Form 730. A separate electronic filing portal is the optimal solution rather than building the Form 730 into the existing Form 720 electronic filing portal since Form 730 is a monthly filing whereas Form 720 is a quarterly filing with monthly tax deposits.
9. Ensure properly trained IRS staff are assigned to service the excise tax hotline (866-699-4096) as soon as possible.
10. Require IRS staff who service the practitioner hotline and general IRS hotlines to be trained to address basic excise tax matters to ensure excise tax filers will always be able to at least discuss excise tax matters with the IRS regardless of whether IRS staff is currently servicing the specific excise tax hotline (866-699-4096).
11. Allow all impacted Form 730 filers to repay any amounts transferred to other IRS modules/tax types that cannot be reversed or to state taxing authorities without applying any penalties or interest since such “underpayments” arose due to no fault of the taxpayers (thus also reducing the administrative burden associated with taxpayers filing and the IRS reviewing abatement reasonable cause claims).

INTERNAL REVENUE SERVICE ADVISORY COUNCIL

Information Reporting Subgroup Report

Susan Nakano, Subgroup Chair

Beatriz Castaneda

Jared Goldberger

Manuela Markarian

Adam Robbins

Peter Smith

Nicholas Yannaci

INTRODUCTION

The 2025 IRSAC Information Reporting (IR) subgroup is a diverse group of seven tax professionals with expertise in information reporting and withholding issues spanning Chapters 3, 4, and 61 of the Internal Revenue Code. The subgroup members represent various industries including financial services, client advisory, gambling, and digital assets. The IR subgroup collaborated with representatives from the IRS on a wide range of issues impacting retirement accounts, non-wage withholding and information reporting.

Information reporting issues impact every business operating division within the IRS and the IR subgroup is grateful for the cooperation we received from members of the various divisions in producing this report. We are especially thankful for the assistance given by both Tanya Barbosa and Christine Kingston as IR Subgroup Liaisons. We could not have been successful without their tireless efforts to manage and organize meetings with various business operating divisions of the IRS.

The IR Subgroup offers the following topics in this report:

1. Address Change for Large Businesses
2. Non-tax Identity Theft and Account Takeover Fraud
3. De minimis Threshold for Reconciling Form 1042 and Form 1042-S
4. Character and Source of Staking Income
5. Recommendations for Increasing the Tax Information Reporting
6. Comments regarding Changed E-Filing Requirements

ISSUE ONE: Address Changes for Large Businesses

Executive Summary

Large businesses, particularly Financial Institutions (FI), have long been experiencing problems resulting from inadvertent changes of address, and these incidents are seemingly increasing. The IRS may change an entity's address based on information that is fraudulent or negligent. For example, the incorrect address may be a residential address of a customer or a person with no relation or authority to act on tax matters on behalf of the entity. As the result of any incorrect address changes, all correspondence from the IRS that is intended for the FI is sent to that unauthorized, unrelated taxpayer. The IRSAC recommends that the IRS examines and improves its controls to prevent and detect fraud and errors related to business changes of address. We also recommend that the IRS respond to the increased level of fraud and provide guidance to entities impacted on how to protect themselves and resolve this problem.

Background

Revenue Procedure 2010-16 explains how the IRS is informed of a change of address to update the taxpayer's address of record. Regulation §301.6212-2 Definition of Last Known Address, refers to the a taxpayer's last known address as "the address that appears on the taxpayer's most recently filed and *properly processed* Federal tax return" (emphasis added). This "last known address" is used to send the various documents that are required to be sent to the taxpayer. Provision of notices by the IRS is legally effective even if the taxpayer never receives the notices or documents sent to it if sent to the "last known address."

According to the revenue procedure, there are multiple ways to update a taxpayer's address of record: 1) Automatic update based on weekly database updates from the United States Postal Service (USPS); 2) Taxpayer's filed tax return with different address from that on file at the IRS; 3) Clear and concise notification from the taxpayer that is written, electronic or oral, including filing *Form 8822, Change of Address,* or *Form 8822-B, Change of Address or Responsible Party – Business*.

FIs have experienced fraudulent and erroneous changes of address resulting from the last two methods: fraudulently filed Forms 8822-B and tax returns filed with erroneous data, including the address.

When the address of an entity, such as an FI, is changed without authority of that entity, correspondence intended for the FI is sent to unrelated persons that gain unauthorized access to correspondence, notices, and checks. See actual examples below:

- An FI's 2022 Form 945 refund check for a significant amount was sent to a residence in CA. The FI is not a resident of CA. The IRS stopped payment on the check and reissued.
- An FI's 2023 CP2100 Notice was mailed to a residence in OH. The FI is not a resident of OH. [42]
- An FI's 2016, 2017, 2018 CP2100 Notices were sent to an address that was a personal storage unit. [43]
- An FI was contacted by a customer that received at their business address the FI's refund check for 2021 Form 945 for a significant amount.
- An FI's 2020, 2021, 2022 and 2023 CP2100 Notices on compact disks (CD) containing clients' personal information were sent to addresses that were not the FI's address and in a different state.[44]
- An FI's name and address on their Transmitter Control Code (TCC) used for many years to file information returns through the IRS FIRE system was changed without the owner's knowledge or consent.
- An FI was unable to authenticate with the IRS to pursue services because the FI's address had been inappropriately changed to that of a customer. The FI employee could not verify the address in IRS records and was required to execute another address change via Form 8822-B to correct the FI's address and then pursue IRS service.

[42] The CP2100 notice contains the personal details of the person to whom a payment was made and 1099 was issued. When the notice contains fewer than a few hundred detail rows of data, it is mailed on paper. For more than a few hundred rows the IRS creates the notice on encrypted, electronic media (a CD) and mails the CD to the 1099 issuer.
[43] Ibid
[44] Ibid

- An FI's large refund check was sent to an unknown address and cashed, requiring steps by the FI and the IRS to reissue the payment to the FI.

Mailing errors not only disrupt communication between an FI and the IRS, causing additional work for the FI and IRS, but it also adds a high risk of data breach. For example, paper Notices CP2100 intended for an FI or their subsidiaries, have the payee or customer's name, address, Social Security Number (SSN), and account number in clear, printed text. When these notices are provided on CDs, the same personal information in higher volume could be exposed to an unauthorized person or fraudster if the CD encryption codes could be obtained or cracked. The FI industry belief is that this change of address problem is more common to FIs due to the large number of information returns they file. Cryptocurrency entities that will be filing significant numbers of Forms 1099-DA are likely to also experience this address change problem in the future.

The IRS has been aware of the address change problem and responded by implementing Notices CP148A and B a few years ago. This is an informative letter that is sent to the entities for which the IRS processed a change of address. The letter is sent both to the old and the new address. This has been helpful. Also, recently the IRS responded to the increased fraudulent activity of address changes by placing defenses that are meant to detect the suspicious activity, refer the cases for additional review of potential identity theft, and ultimately place a lock on an IRS account to prevent further changes. When the lock code is placed on the account, a letter is sent to the taxpayer and changes, such as to the address, are subject to additional review by IRS personnel.

Recommendations

1. The IRS should examine address management holistically to understand the root cause of the long-standing and increasing incidents of unauthorized address change. The IRS should identify control points that should be enhanced, enforce current controls, and implement new ones to reduce the incidents of unauthorized address change.
2. Implement robust controls focused on authentication, verification, and process oversight to reduce the risk of fraudulent submissions and processing of *Forms 8822-B, Changes of Address or Responsible Party – Business*. Current Internal Revenue Manual (IRM) procedures allow for requests and signatures on address changes to

be accepted *prima facie* if there is no contradicting evidence to dispute the authenticity of the request. In the current environment of increased taxpayer identity fraud, the IRM procedures may be outdated. The IRS should leverage its work on Business Tax Accounts (BTA) for corporations and apply the same authentication mechanisms with respect to who is authorized to be the responsible party that can sign Form 8822-B. Form 8822-B should be added to the list of tax forms in BTA when BTA for corporations is fully implemented and eliminate further paper submission of the change of address form.

3. The IRS must strictly enforce existing controls for validation of returns to detect errors, identity theft, and fraud before changing the address. A properly processed tax return should include, at a minimum: Name/EIN match, appropriateness of tax form filed for the entity type, and signature on return. When these do not align with the IRS records, the return should be flagged for additional review before the last known address is changed. For entities that have a Large Corporate technician, that IRS team should review the address changes to detect fraud or errors. Examples that should require additional review before the address change is processed include:
    a. the EIN and the name on the return not being a match to IRS records,
    b. the IRS receives an unexpected return type. For example, the IRS receives a 1041 Return from an entity that has historically filed the 1120 income tax return, or
    c. the signature name on the return is different from prior year.
4. Bring public awareness to the improperly changed address problem and communicate applicable solutions. The communication should also include the steps for large corporations to apply for the IRS Large Corporation Program, where a Large Corporate technician is assigned as a point of communication with the large corporation personnel. In addition, the published communication should describe how impacted entities can request that the IRS places a lock on their accounts to prevent further attempts of invalid change of address. The 2024 IRSAC report discussed in IR Issue Four: Businesses Need Support from IRS Large Corporation Representative recommending improved service from representatives. Address change monitoring is another problem for which the Large Corporate technician may help provide relief.

ISSUE TWO: Non-tax-related Identity Theft and Account Takeover Fraud

Executive Summary

Identity theft continues to be a rapidly growing problem that now impacts more than 20 million Americans per year.[45] The Bureau of Justice Statistics estimates that nearly 22.4 percent of Americans age 16 or older (i.e. nearly 59 million people) will be victimized by identity thieves at least once during their lifetimes.[46] The Federal Trade Commission's (FTC) most recent Consumer Sentinel Network Data Book reflects a similarly increasing trend in the number of fraud, identity theft, and other reports filed with the agency.[47] This FTC report indicates that the agency received approximately 5.39 million fraud, identity theft, and other reports during 2023 with identity theft being the most common report category.[48] This represents a more than 1,500 percent increase in the number of such reports filed with the FTC since reporting began in 2001.[49] While this 2023 total report volume is less than the all-time high set in 2020 during the COVID-19 pandemic, this volume of FTC reports still significantly outpaced the approximately 3.49 million reports filed in 2019.[50] As noted in the most recent Information Sharing and Analysis Center Annual Report, the proliferation of artificial intelligence is only worsening the situation by increasingly empowering cyber criminals to exploit taxpayers' sensitive information and documentation to perpetrate large scale, highly sophisticated identity theft schemes.[51] Meanwhile, the National Taxpayer Advocate (NTA) explicitly highlighted how the IRS continues to struggle to adapt to this rapidly evolving identity theft challenge in its most recent report to Congress.[52] For example, the NTA cited the continued increase

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[45] Department of Justice – Bureau of Justice Statistics. *Victims of Identity Theft, 2021*. (2021). https://bjs.ojp.gov/document/vit21.pdf.
[46] *Id*.
[47] Federal Trade Commission. *Consumer Sentinel Network Data Book*. (2024). https://www.ftc.gov/system/files/ftc_gov/pdf/CSN-Annual-Data-Book-2023.pdf.
[48] *Id*. The FTC received 1,036,903 reports related to identity fraud during 2023 representing 19.23% of the total fraud, identity theft, and other reports received that year.
[49] *Id*. The FTC received approximately 0.33 million fraud, identity theft, and other reports during 2001.
[50] *Id*. This represents a more than 70 percent increase when compared to pre-COVID 19 pandemic FTC fraud, identity theft, and other report levels.
[51] Information Sharing and Analysis Center. *2024 Annual Report*. (2024). https://www.irs.gov/pub/newsroom/2024-isac-annual-report.pdf.
[52] Department of Treasury – National Taxpayer Advocate. *2024 Annual Report to Congress*. (2024). https://www.taxpayeradvocate.irs.gov/reports/2024-annual-report-to-congress/full-report/.

in the average processing time to resolve a refund claim impacted by identity theft from 556 days in fiscal year 2023 to 676 days in fiscal year 2024 as an example of the worsening impacts of identity theft on tax administration.[53] The increasing prevalence of identity theft in the United States necessitates the continued evolution of IRS procedures to maintain a proper balance between preventing fraudulent tax return identity theft claims and addressing valid tax return identity theft claims in an efficient and effective manner.

Background

Non-tax-related Identity Theft

The IRS defines identity theft to include situations when "someone uses an individual's personal information, such as name, SSN, or other identifying information without permission or knowledge, to commit fraud or other crimes." [54] The IRS categorizes all incidences of identity theft as either tax-related identity theft or non-tax-related identity theft.[55] Tax-related identity theft includes situations when someone uses a stolen SSN to file a tax return claiming a refund or when someone engages in other fraudulent activities that have a direct effect on a taxpayer's filing and payment requirements.[56] [57] Conversely, non-tax-related identity theft includes all instances of identity theft that do not have a direct impact on the administration of a taxpayer's tax filing and payment requirements.[58] Separately, the IRS classifies the intentional misuse of another person's taxpayer identification number to obtain employment, claim gambling winnings, receive unemployment benefits, or report other types of income for which the defrauded taxpayer is unaware (such as the sale of assets or the cancellation of debt) as income related identity theft.[59] Income related identity theft is not considered tax-related

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[53] *Id*. This represents the continuation of a worrying trend that has seen this average processing time to resolution increase by over 424 percent since fiscal year 2020 when the average processing time to resolution was just 129 days.
[54] IRM § 25.23.1.3(1).
[55] IRM § 25.23.1.3(2).
[56] Department of Treasury – Internal Revenue Service. *Publication 5027, Identity Theft Information for Victims*. (2018). https://www.irs.gov/pub/irs-pdf/p5027.
[57] IRM § 25.23.1.3(2). The Internal Revenue Manual (IRM) states that fraudulent activities have a direct effect on a taxpayer's filing and payment requirements when those activities impact the taxpayer's ability to file a tax return, receive a refund, or take other actions associated with their filing and payment requirements.
[58] *Id*.
[59] IRM § 25.23.13.2(1)-(2).

identity theft unless it impacts the administration of the impacted taxpayer's tax account.[60] As such, when income related identity theft results in the issuance of an information return to a victim, that incident is classified as non-tax-related identity theft because the issuance of an information return alone does not directly impact the administration of the victim's tax account in this way.

Victims of tax-related identity theft are currently advised to proactively inform the IRS of their situations by filing a Form 14039 – *Identity Theft Affidavit*.[61] However, existing IRS guidance creates uncertainty regarding whether victims of non-tax-related identity theft may utilize Form 14039 to proactively report their situations to the IRS in the same manner. Fact Sheet 2022-25 covering when a taxpayer should file an Identity Theft Affidavit directly addresses whether a taxpayer should file Form 14039 with regards to cases of non-tax-related identity theft.[62] In the "What is non-tax-related identity theft?" section of this publication, taxpayers are advised that, "[v]ictims of non-tax-related identity theft do not need to file Form 10439 [*sic*]."[63] This same section further advises victims of non-tax-related identity theft to take the following steps in lieu of filing a Form 14039: (1) pursue an identity theft claim with the FTC; (2) contact the Social Security Administration to report the identity theft incident; and (3) report the identity theft incident to the appropriate local law enforcement agency (when applicable).[64] This publication then explicitly directs victims of non-tax-related identity theft not to file Form 14039 in the subsequent "Filing Form 14039, Identity Theft Affidavit" section of this publication when taxpayers are advised that, "[o]nly taxpayers who believe they're victims of tax-related identity theft – and who haven't received one of the IRS letters outlined above – should complete Form 14039."[65]

To complicate matters further, Section B on Form 14039 covering how the taxpayer has been impacted currently only provides check boxes related to the fraudulent

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[60] IRM § 25.23.13.2(3).
[61] Department of Treasury – Internal Revenue Service. *Identity Theft Affidavit*. (2024). https://www.irs.gov/pub/irs-pdf/f14039.pdf.
[62] Department of Treasury – Internal Revenue Service. *Fact Sheet 2022-25 – When to file an Identity Theft Affidavit*. (2022). https://www.irs.gov/newsroom/when-to-file-an-identity-theft-affidavit.
[63] *Id*. Form 14039 is incorrectly referred to as "Form 10439" within this statement despite Form 14039 being referred to correctly throughout the rest of this publication.
[64] *Id*.
[65] *Id*.

filing of federal tax returns which could be misinterpreted by taxpayers to mean that the Form 14039 can only be filed when reporting such tax-related identity theft matters.[66] Only the Internal Revenue Manual (IRM) confirms that Form 14039 can be filed with regards to cases of non-tax-related identity theft (albeit indirectly since the IRM only address how IRS staff should process Forms 14039 that report cases of non-tax-related identity theft).[67] As such, there is currently a high risk that taxpayers who receives an information return reporting income that they did not receive might incorrectly conclude that they are unable to file Form 14039 to proactively report the underlying cases of non-tax-related identity theft, especially when the more accessible taxpayer-facing IRS guidance addressing when to file an Identity Theft Affidavit explicitly instructs such taxpayers not to file Form 14039.

In the absence of proactive reporting by victims, the IRS oftentimes has no way of knowing when a victim of non-tax-related identity theft has justifiably disregarded income reported to them on an information return. As a result, information return-income tax return mismatches triggered when victims do not include such separately reported income on their income tax returns due to non-tax-related identity theft are currently at risk of being presumed to be return errors. In such cases, the Automated Underreporter will flag the income tax return for review by a tax examiner due to the information return-income tax return mismatch.[68] If the tax examiner is unable to independently identify the fraudulent nature of the implicated information return, they will then issue a Notice CP2000 to inform the non-tax-related identity theft victim that they have been presumed to have underreported the income that was reported on the implicated information return. In effect, when the IRS issues a Notice CP2000 in such cases, the victim is presumed to have improperly excluded income from their income tax return. Within this current paradigm, overcoming this presumption often places a substantial burden on the victims of non-tax-related identity theft while also creating significant administrative obligations

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[66] Department of Treasury – Internal Revenue Service. *Identity Theft Affidavit*. (2024). https://www.irs.gov/pub/irs-pdf/f14039.pdf.
[67] IRM § 25.23.13.2.1.
[68] Department of Treasury – Internal Revenue Service. *Topic no. 652, Notice of underreported income – CP2000*. (2024). https://www.irs.gov/taxtopics/tc652.

for the IRS.[69] Moreover, growing identity theft case volumes and staffing limitations at the IRS both continue to significantly extend resolution timelines.

The IRM indicates that identity theft cases are to receive priority treatment.[70] This priority treatment is automatically triggered when the IRS is notified of identity theft incidents such as via the filing of a Form 14039.[71] However, since non-tax-related identity theft is not reported via a Form 14039 in many cases for the reasons discussed above, victims of non-tax-related identity theft who receive a Notice CP2000 are oftentimes not afforded the same level of priority treatment at the onset of their interaction with the IRS. Instead, many of these victims only receive the benefits of this priority treatment policy if their case remains unresolved once they have overcome the presumed underreporting of income that triggered the Notice CP2000 at issue. Overcoming this presumption can be a lengthy process that places substantial administrative burdens on such victims and the IRS. Revising IRS guidance to clearly authorize and encourage victims of non-tax-related identity theft to instead proactively report underlying cases of income related identity theft via Form 14039 could significantly streamline the process for both the victims and the IRS. Furthermore, Section B of Form 14039 could be revised to require taxpayers to provide whatever additional information the IRS might need to implement controls to guard against those who might seek to fraudulently exclude income that was property reported to the IRS via information returns by abusing this improved Form 14039 filing process.

In many cases, the IRS requires information return filers to issue forms to non-tax-related identity theft victims even when those filers have independently verified the veracity of the underlying identity theft claims. However, the IRS has issued guidance allowing the filers of Form 1099-C *Cancellation of Debt* to consider non-tax-related identity theft when determining their information reporting filing obligations.[72] [73] When

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[69] The IRM repeatedly acknowledges both the inherent complexity of identity theft cases and the burdens that such situations can place on both the victims and IRS staff.
[70] IRM § 25.23.2.2.2(1)-(2).
[71] *Id*. The IRM specifically indicates that Form 14039, Form 14039(SP), Form 14027-B, Form 4506-F, and Form 15227 (EN-SP) should receive priority handling.
[72] Department of Treasury – Internal Revenue Service. *Cancellation of Debt*. (2025). https://www.irs.gov/pub/irs-pdf/f1099c.pdf.
[73] Department of Treasury – Internal Revenue Service. *Instructions for Forms 1099-A and 1099-C*. (2025). https://www.irs.gov/pub/irs-pdf/i1099ac.pdf.

fraudulent debt is canceled due to a substantiated non-tax-related identity theft incident, this IRS guidance indicates that a Form 1099-C should not be filed.[74] The IRS allows this because it only wants Forms 1099-C reporting the cancellations of debts for which the debtor actually incurred the underlying debt.[75] Allowing the filers of other types of information returns to also forego filing those forms in cases of substantiated non-tax-related identity theft could entirely eliminate the possibility of an information return-income tax return mismatch. Furthermore, this approach would alleviate the burdens associated with issuing and responding to underreporting penalty notices for both the IRS and the taxpayers, respectively. Alternatively, adding a box to allow these information return filers to indicate when they are issuing a form that is related to a substantiated non-tax-related identity theft incident could help better inform IRS tax examiners who are tasked with reviewing information return-income tax return mismatches once they are flagged by the Automated Underreporter without requiring impacted victims to file a Form 14039.

Account Takeover Fraud

Account takeover ("ATO") fraud occurs when cyber criminals deliberately gain unauthorized access to a victim's online financial or e-commerce account with the goal of misappropriating the victim's money or assets, stealing the victim's sensitive personal information, and/or utilizing the victim's account to facilitate other criminal activity (e.g., money laundering). Unlike with many other kinds of fraud via which criminals utilize victim's sensitive personal data to establish illicit financial or e-commerce accounts (oftentimes without the knowledge of the victims), ATO fraud targets valid accounts that were previously established by the victim. This means that ATO fraud oftentimes occurs after the victim has utilized their account to engage in valid potentially reportable financial or e-commerce transactions. Moreover, victims of ATO fraud also oftentimes utilize the implicated accounts to engage in further valid potentially reportable financial or e-commerce activities after regaining control of their accounts. As such, only the transactions perpetrated by the ATO fraudster during the ATO fraud event are fraudulent in nature. Any other transactions processed by the rightful account owner outside the

[74] *Id*.
[75] *Id*.

scope of the ATO fraud event are valid potentially reportable transactions. ATO fraud is also unique in that account administrators will oftentimes reset the victim's account cash and/or asset balances to the levels that would have existed had there been no ATO fraud incident. In some cases, these account administrators could even be required to do so by law or due to preexisting contractual obligations between the account administrator and victims. In such cases, the resetting of the account balances ensures that the account holder derives no income and suffers no loss due to the fraudulent activity perpetrated during the ATO fraud event. These unique aspects of ATO fraud can present significant challenges for information return filers due to the current lack of specific IRS information reporting guidance regarding ATO fraud.

The IRS has not issued guidance clarifying how information return filers must treat transactions that are determined by their internal fraud function to be verifiable fraudulent activity resulting from an ATO fraud event. In many cases, treating such fraudulent activity as transactions that are potentially reportable to the ATO fraud victim would result in the income and/or loss that has been eliminated via an account reset still being reported to the victim. Furthermore, in the case of information returns that report aggregate account activity, reporting such transactions would inadvertently comingle this fraudulent ATO activity with valid transactions undertaken by the rightful owner of the implicated account either before or after the ATO fraud event. Account holders rarely have the visibility necessary to determine which transactions occurred during an ATO fraud event meaning that they would usually be reliant on the account administrator to provide the necessary information to properly distinguish valid transactions from the fraudulent transactions undertaken during an ATO fraud event. As such, unlike with identity theft events, the IRS is already indirectly relying on the fraud functions of information return filers to substantiate whether transactions are verifiably fraudulent. However, absent IRS guidance, information return filers have no inherent obligation to record/retain the information and documentation that account holders would need to substantiate which transactions are verifiably fraudulent nor do they have an obligation to provide this information to the account holders. As such, it is entirely possible that victims may be unable to substantiate the distinction between valid transactions and fraudulent transactions within the context of ATO fraud events if fraudulent ATO activity were to be comingled with valid reportable account activity in this way.

Recommendations

Non-tax-related Identity Theft

1. To better inform the application of current IRS' procedures covering information return-income tax return mismatches triggered by alleged non-tax-related identity theft:
    a. Consider revising current information returns (e.g., Form 1099-B, Form 1099-DA, and Form W-2G) to allow the filers of these information returns to proactively report suspected non-tax-related identity theft when issuing such forms to recipients who have been determined to be victims of non-tax-related identity theft by the information return issuer's internal fraud team.
    b. Consider revising Form 14039 to create a mechanism via which victims of income related identity theft can proactively report the exclusion of income from their income tax returns to the IRS when they receive an information return related to fraudulent income which they never received.
2. In order to reduce the administrative burden on the IRS and victims of non-tax-related identity theft:
    a. Consider revising Form 14039 and related IRS guidance to clearly authorize, encourage, and better facilitate victims of non-tax-related identity theft to proactively report underlying cases of income related identity theft via Form 14039 to streamline the process for the IRS and victims while also enhancing the IRS's ability to identify and address fraudulent tax return identity theft claims.
    b. Consider commissioning a study to determine whether the current approach to allowing Form 1099-C filers to forgo issuing an information return with regards to debt that has been cancelled due to identity theft based on determinations made by the information return filers' internal fraud functions could be expanded to cover any other circumstances especially within industries that are required to maintain fraud teams capable of complying with complex FINCEN Anti-Money Laundering and Combating the

Financing of Terrorism requirements and similar anti-fraud federal and state regulations.

Account Takeover Fraud

1. Issue guidance clarifying that there is no reportable income nor any information reporting obligations associated with situations when an ATO fraud victim derives no income and suffered no loss because the account administrator reset the victim's account cash and/or asset balances to the levels that would have existed had there been no ATO fraud incident as required by law or contractual obligation.
2. Issue guidance clarifying the information reporting obligations of account administrators (if any) in situations when an account administrator resets an ATO fraud victim's account cash and/or asset balances to the levels that would have existed had there been no ATO fraud incident at its own discretion despite having no legal or contractual obligation to do so.

ISSUE THREE: De minimis Threshold for Reconciling Form 1042 and Form 1042-S

Executive Summary

Qualified Intermediaries (QIs) frequently find, that despite best efforts, differences between Forms 1042-S filed by the QI and Forms 1042-S received by the QI from its custodians cannot be reconciled or explained. These unreconciled or unexplained differences may be due to: (i) differences in characterization, source, or timing of the payment, (ii) a Form 1042-S not being filed with the IRS, or (iii) a Form 1042-S lost in the mail. Many unreconciled or unexplained differences will result in a significant amount of time and resources by both the QI and the IRS in attempting to understand the bases of the differences, which sometimes ultimately cannot be determined.

The IRSAC recommends that the IRS incorporate a de minimis threshold of gross income amounts and total tax withheld reported on Forms 1042-S where unreconciled or unexplained differences below such de minimis threshold are accepted. As a secondary consideration, the IRSAC recommends that any taxpayer, including, but not limited to, QIs, subject to Form 1042-S reconciliation questions from the IRS be granted access to the IRS' Form 1042-S data that was (i) received from the taxpayer, and (ii) received from the taxpayer's payors and custodians reporting amounts paid to the taxpayer.

Background

Withholding agents (other than an individual who is not acting in the course of a trade or business with respect to a payment) must make an information return on Form 1042-S, Foreign Person's U.S. Source Income Subject to Withholding, to report specified amounts from U.S. sources, including fixed or determinable annual or periodical (FDAP) income, paid to foreign persons (including persons presumed to be foreign).[76] Withholding agents required to make an information return on Form 1042-S are also required to file an income tax return on Form 1042, Annual Withholding Tax Return for U.S. Source Income of Foreign Persons, for income paid that the withholding agent is required to report on an information return on Form 1042-S.[77] In addition to amounts that

[76] See Treas. Reg. §§ 1.1461-1(c) and 1.1474-1(d).
[77] See Treas. Reg. §§ 1.1461-1(b) and 1.1474-1(c).

are paid by a withholding agent, foreign withholding agents that act in an intermediary capacity and receive reportable amounts on behalf of foreign persons (including persons presumed to be foreign) may also receive an IRS Form 1042-S from the payor of such amounts, depending on the capacity in which the foreign withholding agent is acting. The most common foreign withholding agent subject to the Form 1042-S reporting requirements, both as payor and recipient, is a QI.

Form 1042 Basics

Amounts that are reported by a withholding agent on Forms 1042 and 1042-S are generally expected to reconcile. For example, the 2024 Instructions for Form 1042 includes the following note: "Be sure to reconcile amounts on Form 1042 with amounts on Forms 1042-S (including Forms 1042-S filed electronically) to avoid unnecessary correspondence with the IRS." [78] There is an added level of reconciliation considerations for QIs that do not assume primary withholding responsibilities (a no withholding QI), where such a QI's upstream custodian or payor will be responsible to impose withholding on amounts paid to the QI and report the amount withheld on the Form 1042-S issued by the custodian or payor to the no withholding QI. In such a scenario, the gross income and withholding tax amounts that are reported on Forms 1042-S received by a QI and Forms 1042 and 1042-S that are filed by a QI are generally expected to reconcile as well. Revenue Procedure 2022-43 (the QI Agreement) includes several Form 1042 and Form 1042-S reconciliation related requirements, including the QI periodic reviewer requirement to reconcile amounts shown on Forms 1042 with amounts shown on Form 1042-S (including the amount of taxes reported as withheld).[79] Revenue Procedure 2022-43 included a new requirement for QIs in Appendix III, where a QI is required to provide specified Form 1042 and Form 1042-S reconciliation data. Further, Appendix III requires an explanation of differences between Forms 1042-S filed and received.

[78] 2024 Instructions for Form 1042, page 7; https://www.irs.gov/pub/irs-pdf/i1042.pdf.
[79] Revenue Procedure 2022-43, p. 152.

Reconciliation Issues

The general expectation that amounts reported to and by a QI on Forms 1042 and 1042-S should reconcile is reasonable. The IRSAC is not questioning this expectation of reconciliation. However, the IRSAC is recommending that the IRS ease the burden placed on both withholding agents, such as QIs, as well as on the IRS, where unreconciled or unexplained differences may not be known or determinable. This situation may arise in two distinct scenarios. First, there may be known differences in a QI's Forms 1042 and 1042-S compared to the Forms 1042-S that the QI received from its upstream custodians or payors. These known unreconciled or unexplained differences may be due to differences in determination of characterization, source, or timing of the payment by the QI compared to the upstream custodian or payor. Second, despite a QI's Forms 1042 and 1042-S reconciling with the Forms 1042-S that it received from its upstream custodians or payors, there may be differences between a QI's filings and the IRS' data that it has compiled. These unknown unreconciled or unexplained differences may be due to the following:

- situations where the IRS's data includes duplicative amounts;
- situations where the IRS's data takes into account an original Form 1042-S where the QI (or the QI's custodian or payor) filed an amended Form 1042-S; or
- situations where a recipient copy of a Form 1042-S was never received by the QI and the QI treated the income as non-US source (i.e., not subject to Form 1042/Form 1042-S reporting).

In both the known and unknown difference scenario, the process of determining the origin of the unreconciled differences typically will result in a significant amount of time and resources by both the QI and the IRS. The IRSAC is aware of instances where the determination of the unreconciled differences has taken multiple years. Further, there are certain instances where the difference simply cannot be determined by the QI despite data being provided by the IRS.

Recommendations

1. Allow for a de minimis threshold of gross income amounts and total tax withheld reported on Forms 1042-S for unreconciled or unexplained differences (whether known or unknown by the withholding agent) such that as long as the unreconciled or unexplained differences are below such de minimis threshold, these amounts would not be questioned as part of a larger reconciliation inquiry, as well as not considered for the purposes of projection or penalties. This de minimis threshold may be a percentage of the withholding agent's or taxpayer's gross income amounts/total tax withheld as reported on its Form 1042. (Amounts taken into consideration for this de minimis threshold would not include reconciled or explained differences.)
2. To the extent unreconciled or unexplained differences exceed any de minimis threshold, or should the IRS decide against allowing for a de minimis threshold, withholding agents and taxpayers should be granted access to the Form 1042-S data that is held by the IRS. Specifically, the withholding agent/taxpayer would be granted access to the data compiled by the IRS with respect to Forms 1042-S that were (i) filed by the withholding agent/taxpayer, and (ii) filed by the withholding agent's/taxpayer's custodians or payors reporting amounts paid to the withholding agent/taxpayer as recipient. This data will greatly assist the withholding agent/taxpayer in assessing Form 1042 reconciliation questions from the IRS and will save the withholding agent/taxpayer time and resources in attempting to determine how the differences arose.
3. To the extent the prior two recommendations are not accepted, the withholding agent/taxpayer should be allowed to provide its own reconciliation spreadsheet to the IRS. To the extent the IRS determines there are unreconciled or unexplained differences between the Forms 1042 or 1042-S filed by the withholding agent/taxpayer compared to the IRS's data (largely from the Forms 1042-S received by the IRS from the withholding agent's/taxpayer's custodians or payors that are reported as paid to the withholding agent/taxpayer as recipient), the IRS can request a reconciliation spreadsheet from the withholding agent/taxpayer that displays the withholding agent's/taxpayer's data (i.e., information from its Form

1042, Forms 1042-S it received from its custodians, and Forms 1042-S that it filed). The reconciliation spreadsheet provided by the withholding agent/taxpayer to the IRS will allow the IRS to either (i) determine why there is a difference when comparing the withholding agent's/taxpayer's data and the IRS' own data, and identify such difference to the withholding agent/taxpayer so that the withholding agent/taxpayer can diligence the delta, or (ii) accept the withholding agent's/taxpayer's reconciliation spreadsheet and suspend any further reconciliation-related queries. As a basic template, the reconciliation spreadsheet could include the following sections: (i) data from the withholding agent's/taxpayer's Form 1042, including total gross amount reported (line 62c), total net tax liability (line 64e), total tax withheld/paid by other withholding agents (line 63b(1) and (2)), tax withheld by withholding agent (line 63a), total tax reported as withheld or paid (line 63e), and total payments (line 68); (ii) data from the Forms 1042-S received by the withholding agent/taxpayer, including income code (box 1), gross income (box 2), total withholding credit (box 10), and unique form identifier; (iii) data from the Forms 1042-S filed by the withholding agent/taxpayer, including income code (box 1), gross income (box 2), federal tax withheld (box 7a), tax withheld by other agents (box 8), total withholding credit (box 10), tax paid by withholding agent (box 11), and unique form identifier; and (iv) a comparison of the gross income and tax withheld/paid from the first three sections (Form 1042, Forms 1042-S received, and Forms 1042-S filed). The reconciliation spreadsheet could be expanded to include additional data applicable to a withholding agent's/taxpayer's specific situation. Should the withholding agent/taxpayer prefer not to provide the IRS with such reconciliation spreadsheet, then the withholding agent/taxpayer can address any reconciliation questions by the IRS in the same manner as is currently undertaken.

ISSUE FOUR: Character and Source of Staking Income

Executive Summary

The IRSAC recommends that the Department of the Treasury and the IRS issue guidance clarifying that income from staking rewards earned through a passive arrangement, such as staking-as-a-service, is sourced to the residence of the recipient, as determined under Section 865(g).

Background

The proliferation of digital assets and the development of proof-of-stake (PoS) consensus mechanisms have created new income-generating activities for taxpayers. One of the most common activities is "staking," where a taxpayer commits crypto assets to a network to help validate transactions. In return, the taxpayer can earn staking rewards.

A significant portion of this activity occurs through "staking-as-a-service" providers. In this model, the taxpayer provides their assets to a third-party validator who performs all the necessary technical functions and operates the computer infrastructure. The taxpayer is a passive capital provider and does not perform any services. The rewards generated by the network are then distributed to the taxpayer, less a service fee.

There is currently significant uncertainty regarding the geographic source of this income for U.S. tax purposes under the sourcing rules of Sections 861 through 865. The source of income is critical for determining the U.S. tax liability of non-U.S. persons (Sections 871 and 881) and the foreign tax credit limitations for U.S. persons (Section 904). The decentralized and geographically ambiguous nature of digital asset networks makes applying traditional sourcing rules challenging.

Discussion

The determination of the source of income from a passive staking arrangement requires an analysis of the character of the income and the application of the existing sourcing framework. However, the unique nature of decentralized networks means that rules designed for traditional transactions are inadequate and lead to ambiguity and administrative difficulty.

Inadequacy of Traditional Sourcing Rules

An application of traditional sourcing rules to passive staking rewards demonstrates their limitations:

- **Compensation for Personal Services:** Sourcing staking reward income under Section 861(a)(3) and Section 862(a)(3), which look to the geographic location where services are performed, is inappropriate. The recipient of the reward is a passive investor who performs no services. The validation services are performed by a separate party (the validator), and attributing the location of those services to the passive investor would be inconsistent with the economic reality of the distinct transactions (a service arrangement for the validator and an investment return for the taxpayer). Furthermore, as validators often operate nodes in numerous jurisdictions simultaneously, determining a single source for the service would be administratively unworkable for both taxpayers and the IRS.
- **Rents or Royalties:** One could argue staking is analogous to renting or licensing intangible property, with the reward representing a rental or royalty payment. This income is sourced under Section 861(a)(4) and Section 862(a)(4) to the location where the property is used. However, a staked crypto asset is an intangible asset used on a global, decentralized network. There is no single, identifiable location of use, making this rule impossible to apply with any certainty.
- **Interest:** While staking rewards represent a return on property, sourcing them under the interest sourcing rules is also unworkable. The statutory rule for interest sources the income to the residence of the *obligor* under Section 861(a)(1). In a staking transaction, the "obligor" paying the reward is the network protocol itself—a set of rules executed by smart contracts across thousands of computers worldwide. The protocol is not a legal entity and has no tax residence, rendering the obligor-based rule inapplicable.

The Appropriate Framework: Sourcing as a Return on Financial Capital

Given the failure of traditional sourcing rules, the most appropriate framework is one that treats staking rewards as what they are in economic substance: a return on financial capital in a modern, abstract financial arrangement. Where the Internal Revenue Code and Treasury Regulations are silent, courts have held that the source of income should be determined by reference to the most analogous type of income for which a sourcing rule is provided.[80]

Staking reward income is not earned because of work performed or property used in a specific place. It is earned by providing capital and bearing the significant financial risks of the investment—including price volatility and the potential loss of principal through "slashing" penalties[81]—from one's place of residence. The validator's role is that of a paid service provider, separate from the investor's role as a capital provider. This rationale applies with equal, if not greater, force to staking reward income.

The preamble to the notional principal contract (NPC) final regulations notes that residence-based sourcing was adopted because the income is generated by undertaking contractual risk, an activity most closely associated with the recipient's place of residence.[82] Therefore, the strongest analogy is that staking is most akin to an NPC. Treas. Reg. § 1.863-7(a) provides that the source of NPC income is generally determined by reference to the residence of the taxpayer. The Treasury Department, in promulgating this rule, explicitly recognized that for certain financial products, sourcing rules based on the location of underlying assets or activities are unworkable.

Tax Policy Principles Support Residence-Based Sourcing

Adopting a residence-based rule aligns with core principles of tax policy:

- **Certainty and Ease of Administration:** A bright-line residence rule provides clarity for taxpayers and the IRS. It avoids intractable factual inquiries into the global location of a validator's computer servers, which is information a taxpayer is unlikely to have or be able to verify.

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[80] *See Bank of America v. United States*, 680 F.2d 142, 147 (Ct. Cl. 1982) ("When an item of income is not classified within the confines of the statutory scheme nor by regulation, courts have sourced the item by comparison and analogy with classes of income specified with the statutes.").

[81] Investors must post collateral to participate in staking. Violating rules or other nefarious actions can cause the investor to lose their collateral.

[82] Preamble to T.D. 8491, 1993-2 C.B. 215.

- **Neutrality and Economic Substance:** This rule is neutral, treating income from staking similarly to income from other modern financial instruments where the location of activity is indeterminate. It prevents structuring opportunities where a taxpayer might select a validator based on its location in a low-tax jurisdiction to artificially generate foreign-source income. Most importantly, it aligns the tax outcome with the economic substance of the transaction—a return on a passive investment decision made from the taxpayer's residence.

Recently Proposed Tax Provisions Support Residence-Based Sourcing

Section 988 provides rules for the tax treatment of foreign currency transactions. Critically, the sourcing rule under Section 988(a)(3) generally sources gains and losses based on the residence of the taxpayer realizing the gain or loss. This prevents a U.S. resident from easily converting U.S. dollars to euros and back on a foreign server and claiming the income is "foreign source". Senator Lummis proposed and released the following amendment [83] to Section 988, which aligns with the principles discussed:

> (f) Source of Income Related to Consideration Received.—(1) The source of any income related to validation of digital asset transactions shall be determined by reference to the residence of the recipient at the time of receipt.

The proposal treats digital assets like sophisticated financial instruments, not like physical goods. It adopts the principle from Section 988 that the economic reality of the transaction is tied to the participants, not to the ephemeral location of the technology. By sourcing to the recipient, it's a small but important modification of the Section 988 principle, adapted for a peer-to-peer digital system.

<u>Recommendations</u>

1. Issue binding guidance to clarify that the sourcing rules under Sections 861-865 apply to digital asset staking rewards.
2. Provide that income received by a taxpayer from a staking-as-a-service arrangement, or any similar arrangement where the taxpayer is acting as a

[83] Office of Sen. Cynthia Lummis, *Discussion Draft of a Bill to Provide Tax Clarity for Digital Assets* (July 3, 2025), https://www.lummis.senate.gov/wp-content/uploads/Lummis-Crypto-Tax-Bill.pdf.

passive capital provider, is sourced to the residence of the taxpayer receiving the rewards. The definition of residence should be consistent with that provided in Section 865(g).

ISSUE FIVE: Recommendations for Increasing the Tax Information Reporting Threshold for Slot Machine Jackpot Winnings

Executive Summary

The current threshold for tax information reporting was set at $600 by Section 6041. However, the tax information reporting threshold for slot machine jackpot winnings at casinos was set at $1,200 in 1977 through Treasury regulation (Treas. Reg. § 1.6041-10) and has been stagnant since then. Since establishing the $1,200 threshold in 1977, inflation has decreased the value of that threshold, resulting in an increased number of Form W-2G reports filed each year. Failure to index this reporting threshold has placed an unnecessary compliance burden on the player (taxpayer), increased administrative costs for tribal and commercial casinos, and creates paperwork backlogs and operational burdens at the IRS.

When accounting for inflation, a comparable jackpot reporting threshold today is estimated to be approximately $5,800. The IRSAC recommends raising the reporting threshold and subsequently increasing it based on inflation cost-of- living-adjustments each year. In the alternative, the IRS should consider incrementally increasing the threshold over a period of three to five years or until such time as the threshold meets an inflation adjusted amount equal to the threshold established in 1977.

On July 4, 2025, President Trump signed H.R. 1 into law (P.L. 119-21), which includes an increase in the tax information reporting threshold under Section 6041 from $600 to $2,000. Given the longstanding jackpot reporting threshold of $1,200 (double the statutory amount of $600), regulatory action to increase this threshold to $4,000 to continue to be double the statutory threshold of $,2000, adjusted annually for inflation per P.L. 119-21, is appropriate.

Background

Treas. Reg. § 1.6041-10 currently sets the tax reporting threshold for slot machine jackpot wins at $1,200. When a customer at a tribal or commercial casino wins a jackpot at a slot machine of $1,200 or more of gross winnings, a Form W-2G must be provided to the customer and filed with the IRS. The value of a $1,200 jackpot today is not the same as a $1,200 jackpot in 1977. According to the Bureau of Labor

Statistics, since the implementation of this threshold (June 30, 1977) a comparable jackpot reporting threshold today would be $5,838.63.[84] The IRSAC notes that H.R. 3125 [85] was introduced in the House of Representatives on May 5, 2023, to amend the Internal Revenue Code of 1986 to increase the information reporting threshold for slot winnings to $5,000.[86]

The static reporting threshold has led to a dramatic increase in the number of reportable jackpots and thus the operational and labor costs of the IRS. In 2020, a year when most casinos closed for a portion of the year and reopened at significantly reduced capacity levels due to COVID-19, the IRS processed 15,842,229 Forms W-2G.[87] By the IRS' own estimates, the number of Forms W- 2G will increase to 18,042,600 by 2029.[88] Historical data also shows this number has been increasing significantly over time, with under 9 million Forms W-2G processed in 2005.[89]

At the same time, most slot machine customers are in a net loss position at the end of the year. Unlike other forms of tax information reporting that report actual income, the Form W-2G reporting of a "payment" on a gross basis is different from the ultimate determination of the patron's taxable gain or loss from slot play. Updating the slot jackpot reporting threshold to a realistic level such as $4,000 would reduce some of this W-2G "flag" reporting and help the IRS focus on forms and taxpayers associated with net gambling income at the end of the taxable year.

Raising the reporting threshold above $2,000 to $4,000 to reflect inflation would not only be beneficial to IRS operations but would also ease operational burdens on the tribal and commercial casino operators. Casinos bear significant labor costs and a business revenue loss because of this tax information reporting, as slot machines must be shut down and taken out of production of revenue to fulfill tax information

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[84] CPI Inflation Calculator; https://data.bls.gov/cgi-bin/cpicalc.pl?cost1=1%2C200.00&year1=197707&year2=202212.

[85] H.R. 3125 (118th Congress); https://www.congress.gov/bill/118th-congress/house-bill/3125/text?s=1&r=3.

[86] H.R. 3125 would add Section 6041(h) to place the slot machine reporting threshold in the IRC and adjust it annually for inflation. Currently, the threshold is set in Treasury regulations under Section 6045 (Treas. Reg. 1.6041-10).

[87] See Table 2, p. 5: "Projections of Information and Withholding Documents United States All Media Grand Total: Calendar Years 2021–2029;" https://www.irs.gov/pub/irs-pdf/p6961.pdf.

[88] Ibid.

[89] See Table 2 in "Historical Publication 6961 Tables": https://www.irs.gov/statistics/soi-tax-stats-calendar- year-projections-publication-6961.

reporting obligations. While casino employees obtain information from slot machine customers to fill out Form W-2G, slot machines are locked down anywhere from 20 to 45 minutes. As noted earlier, there are millions of Forms W-2G sent to the IRS each year, resulting in significant lost revenue and valuable employee time.

The IRSAC acknowledges that an increase in the threshold may initiate additional legislative action at the state level to address the impact to existing state statutes that are based on the W-2G threshold (i.e., debt setoff program matching).

The Department of Treasury has regulatory authority to update the slot jackpot reporting threshold and has exercised such authority in the past. Treasury described this regulatory history in the preamble to the proposed version of Treas. Reg. §1.6041-10 in 2015:

> "Section 6041 generally requires information reporting by every person engaged in a trade or business who, in the course of such trade or business, makes payments of gross income of $600 or more in any taxable year. The current regulatory reporting thresholds for winnings from bingo, keno, and slot machines deviate from this general rule. Prior to the adoption of the current thresholds in 1977, reporting from bingo, keno, and slot machines, was based on a sliding scale threshold tied to the amount of the wager and required the wager odds to be at least 300 to 1. On January 7, 1977, temporary regulation §7.6041-1 was published establishing reporting thresholds for payments of winnings from bingo, keno, and slot machine play in the amount of $600. In Announcement 77-63, 1977-8 IRB 25, the IRS announced that it would not assert penalties for failure to file information returns before May 1, 1977, to allow the casino industry to submit, and the IRS to consider, information regarding the industry's problems in complying with the reporting requirements. After considering the evidence presented by the industry, the IRS announced in a press release that effective May 1, 1977, information reporting to the IRS would be required on payments of winnings of $1,200 or more from a bingo game or a

> slot machine play, and $1,500 or more from a keno game net of wager. On June 30, 1977, § 7.6041-1 was amended to raise the reporting thresholds for gross winnings from a bingo game and slot machine play to $1,200, and the reporting threshold for gross winnings from a keno game to $1,500.[90]

The amendment to Treas. Reg. § 7.6041 raising the slot reporting threshold to $1,200 in 1977 was "issued under the authority contained in section 7805 of the Internal Revenue Code of 1954."[91] The new tax reporting threshold in P.L. 119-21 could also be increased by regulation for slot machine jackpots from $2,000 to $4,000.

Recommendations

1. Pursue addition to the IRS Priority Guidance Plan to modify Treas. Reg. §1.6041-10 to increase the tax reporting threshold for slot machine jackpot winnings to $4,000, adjusted annually for inflation as required by P.L. 119-21.
2. For calendar years beginning after the first year of a $4,000 threshold, consider periodic increases to increase the threshold to a dollar amount multiplied by the cost-of-living adjustment.

[90] See Preamble to Prop. Reg. § 1.6051-10 (REG-132253-11), 80 Federal Register 11600 (March 4, 2015); https://www.govinfo.gov/content/pkg/FR-2015-03-04/pdf/2015-04437.pdf.
[91] T.D. 7492, 42 Federal Register 33286 (June 30, 1977): https://www.govinfo.gov/content/pkg/FR-1977-06-30/pdf/FR-1977-06-30.pdf. Note that this regulation has been replaced with Reg. 1.6041-10 (see preamble to T.D. 9807 (Jan, 4, 2017); https://www.govinfo.gov/content/pkg/FR-2016-12-30/pdf/2016-31575.pdf.

ISSUE SIX: Comments regarding Changed E-Filing Requirements

Executive Summary

The Taxpayer Services division of the IRS, including Customer Assistance, Relationships & Education (CARE), Media & Publications (M&P), and Tax Forms & Publications (TF&P) requested that the IRSAC consider and comment on four specific areas.

The four question areas involve:

- The information reporting threshold change from 250 to 10 forms,
- IRS provision of information return products,
- Timing of the release of information return products, and
- Two suggestions made in a letter in 2024 to then-Commissioner Werfel regarding certain encoding on the Form 1099-R (Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.).

The IRSAC welcomes this opportunity to provide feedback and recommendations to the IRS regarding these areas.

Background

IRS Taxpayer Services Requests of the IRSAC

The IRSAC was asked to assess the impact on industry and recipients of the change in the e-file threshold of 250 per type of Form 1099 (and some other information returns) required to be filed and issued by the filer versus the new requirement to e-file if the filer is required to file 10 or more information returns in aggregate across the enterprise. (“Threshold Change”).

The IRSAC was asked to make recommendations about the development, printing, and distribution of the information return products (“Information Return Products”).

The IRSAC was asked to make recommendations about the timing of IRS release of information reporting products. (“Product Release Timing”). The IRS notes that most recently they released, for example, the 2025 1099 Forms (to be filed beginning January

2026) in April of 2025, well in advance so that filers had advance knowledge of what they would need to report the following January.

The IRSAC was asked to review and comment on these proposed changes to Form 1099-R:

- Expand box 7 and replace the IRA/SEP/SIMPLE checkbox of the Form 1099-R with a code to report retirement plan classification type. ("Proposed 1099-R Account Type Code"), and
- Adding new code "Y" to the list of codes for Box 7 to identify a qualified charitable distribution (QCD). ("1099-R QCD Code")

Discussion

Threshold Change

On July 1, 2019, the President signed into law the Taxpayer First Act (TFA), Public Law 116-25, 133 Stat. 981 (2019) amending Section 6011(e) to gradually reduce the threshold number of returns above which a taxpayer must file electronically. This threshold was lowered for most information return (IR) files to 10 forms beginning after 2021. Final regulations published in 2023 postponed the e-file requirement to tax year 2024. [92]

The IRSAC understands the need for less paper filings and more electronic filings. Large taxpayers and financial institutions are generally e-filers. They were substantially unaffected by the threshold change from 250 information returns (IR) calculated separately by return-type to 10 information returns in aggregate across the enterprise. Small-to-medium business (SMB) taxpayers that were not e-filers or did not e-file all returns continue to be most-impacted by this threshold change.

The threshold change had a significant impact on the nonprofit sector, particularly for smaller nonprofits. The great majority of the nonprofit sector is comprised of small nonprofits. Many smaller nonprofits that previously self-prepared/self-filed their annual federal nonprofit tax returns had to engage practitioners for the sole reason to satisfy the broader e-filing mandate for nonprofits. This triggers a significant budgetary impact to

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[92] IRS Treasury Decision, Final Rule, TD 9972, 88 FR 11754, Electronic-Filing Requirements for Specified Returns and Other Documents, https://www.federalregister.gov/documents/2023/02/23/2023-03710/electronic-filing-requirements-for-specified-returns-and-other-documents

many small nonprofits. To be able to continue to self-file would help the nonprofit sector reduce tax administration costs.

The IRS has created a filing system where some entities otherwise willing to self-file are forced to request a hardship waiver, engage a third party, or invest in personnel and technology to satisfy the technical requirements for IR filing. The IRS Final Rule on Electronic-Filing Requirements for Specified Returns and Other Documents suggests that the “prevalence of tax return preparers, and third-party services,” “availability of tax preparation software,” and existing voluntary e-filing evidences that e-filing is “common, accessible, and economical.” [93] The IRSAC suggests that the IRS should not apply the fact that some taxpayers have technological or economic wherewithal to satisfy the e-file requirement as evidence that e-file is not challenging for other taxpayers.

One large IR service provider notes that in recent years, they have experienced “major growth” in SMB engagement of their services. Another IRSAC member stated that to accommodate the reduced e-filing threshold they needed to expand an existing third-party engagement for an additional annual contract-cost beginning at $2500 to e-file approximately 20 returns that were previously paper-filed under the 250-form threshold.

Experience in the practitioner community reflects this increase in third party engagement. One practitioner reported that, "those that I have spoken to will use professionals/third party vendors rather than trying to support the transition from paper to e-file with current or increased internal staff.” Another practitioner and member of IRSAC serving individuals and small businesses found Filing Information Returns Electronically (FIRE) to be too complicated to self-file IR for clients, so engaged a third-party to perform the filings and will continue to use this third-party rather than attempt to learn how to use Information Returns Intake System (IRIS). These various examples demonstrate that IR issuers are incurring third-party costs to comply with the e-file requirement.

IR is positively correlated to tax compliance and reduction in the tax gap. The NYU Tax Law Center repeated the statistic that correct information reporting results in correct income tax reporting by individuals 80% of the time, while income that was not present

[93] Ibid, Section II.A.

on information returns is misreported over half the time. [94] IR is an effective way to reduce the tax gap, and practices that reduce information returns provided to the IRS increase income tax non-compliance. The IRSAC believes that to maximize IR filing and thereby provide positive impact to the tax gap, IR filing should be accessible to all without requiring or presuming engagement of a third party. Training and access to supporting resources are important to facilitate self-filing and to help each IR issuer determine whether build-or-buy is the right solution.

The IRS should also consider in the context of IR filing the imminent decommissioning of FIRE in 2026 in favor of the IRIS. There are taxpayers that have established systems to e-file via FIRE. These taxpayers must transition to IRIS and they are seeking direction and assistance from the IRS.

The IRIS 101 sessions offered by the IRS in 2025 filled up quickly and the IRSAC notes that more training opportunities are needed. Where a taxpayer currently uses FIRE, there is a need for training to help IR issuers transition from FIRE to IRIS. Self-filers such as nonprofits, U.S. states, and certain businesses need technical training to help them create systems capable of filing using IRIS. This transitional training needed is different from the paper-to-efile transitional training needed by those that are impacted only by the e-file threshold reduction.

Transitioning from FIRE to IRIS involves changes beyond IR file formatting from the ASCII layout described in IRS Publication 1220 to the XML schema or upload templates accepted by IRIS. The data itself in source systems must be refactored. For example, where in the FIRE layout the recipient name is Name Line 1/Name Line 2, the IRIS schema requires first name, middle initial, last name. This change will require data parsing from a source database application or enterprise resource planning (ERP) system to conform to the new data requirement. Where algorithms fail to parse names or do it incorrectly, the IR filer will receive name/TIN mismatch notices under Section 6721 and the related penalties. This data refactoring is further complicated by long names and

[94] Yan, Sophia, *Tax Bill's Information Reporting Changes Will Increase Deficit and Make it Harder for Honest Taxpayers to Comply with Tax Laws*, 2025, July 10, NYU Tax Law Center, https://taxlawcenter.org/blog/tax-bills-information-reporting-changes-will-increase-deficit-and-make-it-harder-for-honest-taxpayers-to-comply-with-tax-laws

hyphenated names. The IRS should give the industry penalty relief for name/TIN mismatch issues during the transition from FIRE to IRIS.

Information Return Products

IR products are heavily relied upon by the industry. The IRSAC recommends industry engagement in the design and modification through the various existing advisory councils and tax filing software associations.

IRIS education is a recurring theme heard by members of the IRSAC. For example, U.S. states have used FIRE to file information returns with the IRS. As FIRE is being decommissioned in favor of IRIS, large self-filers such as states need technical support to perform the transition. A state tax professional involved in the transition from FIRE to IRIS said that IRIS 101 "was good but really user focused, and not helpful for the overall transition from FIRE." Further, even the IRIS 101 classes are filling up so more sessions are needed for taxpayers and practitioners desiring to use IRIS.

It would be helpful for the community supporting IRS filing to know when a newly updated form must be used. For example, when a new version of Form W-9 is released, it is often not released with instructions regarding when the new version should be used. Guidance stating when a new version of Form W-9 must be in use would be helpful for example for large entities to prioritize the various technology projects associated with IRS form changes. IRS Announcement 2001-15 is an example of guidance requested. The same applies to other new and updated forms such as Form 15397. When released, Form 15397 did not specify whether use of this new form was optional or required, and whether the prior method to request extensions could continue to be applied. Lack of clarity causes taxpayers to seek both IRS and outside counsel, where clarity promotes taxpayer compliance.

In the IRS 2024 Public Report [95] the IRSAC noted in General Issue #13 beginning on page 92 that taxpayers including IR issuers may not be aware of new and revised draft forms and miss the opportunity to provide comments. That report recommended that draft forms should be posted to the IRS Draft Tax Forms website and the URL should be

[95] Internal Revenue Service Advisory Council Public Report, November 2024, Retrieved through: https://www.irs.gov/tax-professionals/internal-revenue-service-advisory-council-irsac

included in the Federal Register as well as in an IRS news release. The Report also noted that a form and its instructions might be published at different times. When one is released without the other, the comment period for both should coincide, including extending the comment period for an item released earlier.

Members of the community responsible for implementing IR requirements in industry have indicated that it would be useful to be able to reference versions of drafts at IRS.gov. When an IR product is published in draft form, members of the IR processing community begin to discuss potential implementation. When the IRS makes changes by replacing one draft version with an updated draft version, it may be difficult to know what has changed between revisions, adding complexity to implementation discussions. The IRSAC requests that while a product is in revision, the versions of drafts be retained at IRS.gov for reference.

Another specific “product” of the IR process is the fraud prevention rules that reject IR e-files containing certain questionable content. The rejected records must be removed from the e-file submission and submitted on paper for independent review. This approach is cumbersome to industry and counter-intuitive to a drive by the IRS to eliminate paper. A fallout process that allows the IRS reviewers to work these items electronically rather than on paper will help the industry more efficiently file returns to the IRS and help the IRS distinguish between a questionable return filed by a large issuer from truly fraudulent forms filed on paper by bad actors. The IRSAC notes, however, that these items being rejected by e-file intake are often not errors, and the paper-file version is identical to the e-file version that was rejected. Manipulating the e-file records to remove rejected content increases the risk of IR forms being double-filed or not-filed. Further, paper-filing subjects the filer to failure to file on magnetic media penalties under Section 6721. Finally, paper filing requires paper stock that an e-filer might not have on hand.

Product Release Timing

The IR service provider and form issuer industries appreciate that Forms such as the 1099 are generally released early enough in the year that minor changes may be accommodated by the annual furnishing deadline of January. There are forms, however, that are furnished earlier than January of the next year. For example, the Form W-2G

Certain Gambling Winnings, might be issued in a “window transaction” in the first minute of a new calendar year. The Form 1099-INT might also be issued in a window transaction at a bank such as for savings bond redemptions. The IRS should make it clear that if an IR form has been issued to a payee for a transaction, a subsequent change to the form for the same calendar year does not require the issuer to provide an updated form to the payee.

Related to forms furnished in window transactions early in the year, any inflation adjustments to reporting limits also need to be programmed into systems by issuers at the beginning of a calendar year. As such, those forms and amounts must be available well before the beginning of the year for system updates to take place in time for immediate IR issuance and for tracking against reporting and withholding thresholds throughout the year as is required for backup withholding in Section 3406.

Form and instruction updates are fundamentally a technology project at each issuer. Technology project priorities are set within an organization, especially at a large organization, potentially even before a calendar year begins. The IRSAC suggests that the IRS considers the lead times required to implement IR changes. Any change that requires new information to appear on an IR form should not be required to appear until organizations are given sufficient opportunity to make the data and programming changes required to support the change through automation. Where insufficient lead-time is provided to the industry to implement a change, provision of that information should be optional / best-effort until there is adequate time for issuers to make the change. A rule the IRSAC continues to advocate is that a minimum of 18 months should be allowed to implement any moderate-size change.

While the industry is grateful for any reprieve received in implementation, a meaningful implementation timeframe from the outset makes planning more effective. It is frustrating for tax professionals to advocate for immediate changes that are suddenly required, to negotiate for resources, to report to management that other projects must be re-prioritized, and then ultimately for the IRS to issue a notice that an implementation requirement is delayed.

Timing of system availability for Form 1099 filings in January is later than some practitioners require. Not having the IRS systems available by January 2 has driven some practitioners to third-party systems where data might be managed more efficiently off the IRS systems, during the very busy month of January.

When a new reporting requirement is established, look-back requirements should be avoided. See *1099-R QCD code* below for an example. Where a reporting requirement appears during a calendar year, there should not be required reporting for that calendar year. Another example might be the Passenger Vehicle Loan Interest deduction in Section 163(h)(4) under the One Big Beautiful Bill Act (OBBBA). OBBBA created Section 6050AA requiring information reporting by lenders. As of this writing in August 2025, specific auto loan interest reporting requirements are not known. The IRS provided guidance that those reporting requirements are not mandatory for calendar year 2025. If requirements are not published until 2026, then lender reporting should not be mandatory also for calendar year 2026.

IRIS and FIRE IR filing specifications are typically released in the fall. IR service providers must test with the IRS after the IRIS specifications are released just as they must for Modified e-File (MeF). One impact to that release and testing schedule is that states that leverage and rely upon the federal specifications, publish their changes after federal requirements release. States release changes as late as January and even February. An earlier release by the IRS would allow states to make their releases earlier and help IR issuers remain compliant with both federal and state filing requirements.

When the law changes, IR forms or requirements may need to change. An IR service provider and others voiced these examples of problems caused by untimely communications, specifically of Notices that clarify new or changed IR requirements:

- Form 1099-R related impacts due to SECURE Act and Secure 2.0
    - Form issuers waited for Notices and needed to scramble to make last-minute changes required by the Notices.
- Delayed implementation of the threshold changes on the Form 1099-K (in late December), and the repeated changes to the reporting threshold were confusing for both federal and state requirements given that many of the state requirements are dependent on federal requirements.
- Numerous notices addressing Affordable Care Act IR furnishing requirements (now finalized) with insufficient time for the industry to react.

- Changes year-over-year to whether mortgage insurance premiums must or must not be provided on Form 1098.
- When the American Rescue Plan Act (ARPA) modified Section 108(f) to exclude cancellation of student loan debt from income, it was December before the IRS issued a notice excluding such debt cancellation from Form 1099-C reporting. Because of the late issuance of the notice, lenders were forced in the months before year-end to prepare for the two potentialities of needing to issue Forms 1099-C and not needing to issue Forms 1099-C.

CP2100/CP2100A (B-Notice) and 972CG Civil Penalty Notices are often not timely received by issuers. These notices contain significant personally identifiable information (PII) and are delivered by US mail. The IRS management of the primary mailing address for entity taxpayers results in entity addresses being changed without entity knowledge as also discussed in Information Reporting Issue # 1 in this report. Inadvertent address changes subsequently cause these highly sensitive notices to be misdelivered, introducing potential confidential PII data exposure, preventing timely response by the IR issuer, causing delays in notification to form recipients as required by Section 6724, efforts by issuers to contact the IRS for notice regeneration, and delays in penalty abatement. The IRSAC and other industry groups encourage the IRS to create a mechanism to reliably deliver these notices electronically to the intended recipients.

Proposed 1099-R Account Type Code

It has been proposed to update box 7 on Form 1099-R expanding the checkboxes for retirement plan type to a list of codes. This is the list of codes proposed for a new box 7b on Form 1099-R, identifying the account type from which a distribution is made:

A. Qualified defined benefit plans (traditional or cash balance)

B. 401(a), 401(k), 403(b), 457(b)

C. Money purchase plan

D. Employee stock ownership plan (ESOP)

E. Roth IRA

F. Traditional IRA other than an SEP or Simple IRA

G. SEP IRA

H. Simple IRA

J. Commercial insurance product (annuity or life insurance)

K. Defined contribution plan.

Given enough time to implement such a change (see *Product Release Timing*), the IRSAC encountered no objections to this proposal. The industry does advise that multiple codes must be allowed based on the proposal shared with the IRSAC. Here are some examples of multiple codes that would be used:

- "401(a)" will cover all qualified retirement plans – both defined benefit and defined contribution. Therefore, a traditional defined benefit pension plan will need to use codes A & B.
- A money purchase plan is a 401(a) plan. It is also a defined contribution plan. A money purchase plan will need to use codes B, C & K.
- Some ESOPs have an elective deferral [i.e., 401(k)] feature. Those plans will need to use codes B, D & K.
- Even a garden variety 401(k) plan will need to use multiple codes – B & K. That's because all 401(k) plans are defined contribution plans.

1099-R QCD Code

This item was implemented by the IRS via an update to the 1099-R instructions. This new Qualified Charitable Distribution (QCD) code requirement appeared in the Form 1099-R instructions dated April 15, 2025 for reporting beginning in 2026 for tax year 2025. The instructions now tell the IRA trustee or custodian that the new distribution code Y should be used where "the taxpayer intends [a distribution] to be a QCD."

The IRS posted in October 2025 that use of the distribution code Y is optional for tax year 2025. [96] In the months between April and October, the retirement industry spent considerable effort discussing and planning for various potentialities discussed below. Earlier guidance could have reduced efforts spent hypothesizing and instead allow industry to focus resources on solving for the requirement.

[96] *See* Entering code "Y" in a 2025 Form 1099-R, box 7; is optional; https://www.irs.gov/forms-pubs/entering-code-y-in-a-2025-form-1099-r-box-7-is-optional

That the requirement was not known until well into 2025 begged the question of how such distributions should appear on Forms 1099-R, especially if the distribution occurred before the updated instructions were released. Various advisors outside the IRS suggest that IRA trustees or custodians should look back to earlier in 2025 to identify distribution transactions that should be reported as QCDs rather than according to the pre-April instructions as Normal (7) or Death (4) distributions. Look-back was mentioned above at *Product Release Timing.* Such a look-back would have required manual or other custom examination of distribution records to discern those that appear to be intended by the taxpayer to be QCD. It would be helpful for the retirement community to know that an IRA trustee or custodian is not required to make corrections with respect to QCD reporting for tax year 2025, and for taxpayers to have clarity regarding recognizing a QCD on a Form 1040 Individual Income Tax Return for 2025 if the Form 1099-R does not show distribution code Y.

The IRS should clarify how a QCD should be reported if the distribution is from a ROTH IRA plan. While ROTH distributions are generally not subject to income tax, there are situations where a ROTH distribution is subject to tax. If there is an intent that to the greatest extent possible, QCDs should be indicated on Form 1099-R in a way that helps the taxpayer avoid paying tax on those distributions, the instructions should allow additional distribution code combinations, such as T with Y for a ROTH distribution.

Recommendations

Threshold Change

1. Consider the various needs and categories of IR filers. Create training and reference materials for each category of impacted taxpayer. Consider in this training that every IR issuer should be able to interact with the IRS without engaging a third-party servicer. There should be training available for both:
    a. New IRIS e-filers that have historically filed IR on paper,
    b. New IRIS e-filers that have historically filed IR through FIRE.
2. Organize in one place on IRS.gov the resources an IR filer requires to establish itself as an IRIS e-filer. Provide a workflow for the IR filer to learn about and establish the filer setup, provide access to historical and future scheduled trainings,

provide an FAQ, and consider that the users of this site will have different needs such as SMB first-time e-filers versus established e-filers that must transition from FIRE to IRIS. The IRSAC made a similar recommendation beginning on page 37 of the 2021 IRSAC Public Report on the topic of the *Reduction in Electronic Filing Threshold for Information Return Filers* [97].

3. The *Forms, instructions and publications* page at IRS.gov provides fillable-PDF versions of IR forms. At IRS.gov, an IR-filer should be able to: Extract the extensible markup language (XML) from the fillable PDF for IRIS filing or submit forms for filing directly from the IRS.gov form template.
4. Provide IR issuers penalty relief for name/TIN mismatches arising under Section 6721 during the transition from FIRE to IRIS.

Information Return Products

5. Increase outreach to members of industry impacted by new or modified IR forms through various existing advisory councils and tax filing software associations.
6. Consistently post draft forms on the IRS *Draft Tax Forms* website, and include the URL to the draft form in the Federal Register as well as in an IRS news release. Also ensure that comment periods are scheduled to allow comments considering both the form and the instructions to that form.
7. Clarify by when new or modified products must be in use, if it is not obvious.
8. When products are going through design or revision rather than replacing one draft version with an updated draft version, retain earlier versions of drafts at IRS.gov for reference.
9. Implement a fallout process to e-file that prevents an IR issuer from needing to remove certain flagged forms from the e-file submission and then file those forms on paper. If filing on paper is required, there should be automatic penalty abatement for any failure to e-file under Section 6721.

[97] Internal Revenue Service Advisory Council Public Report; 2021, https://www.irs.gov/pub/irs-prior/p5316--2021.pdf

10. If an IR filer needs paper stock for an unplanned paper filing due to form rejection by IRS on e-file upload, permit the IR filer to file a paper IR return by printing from the templates at IRS.gov.

Product Release Timing

11. Clarify that if an IR form has been issued to a payee for a transaction, a subsequent change by the IRS to the form for the same calendar year does not require the issuer to provide an updated form to the payee.
12. Make inflation adjustments to reporting limits available sufficiently early for use in window transactions occurring at the beginning of a calendar year and to facilitate proper backup withholding throughout the year.
13. Do not mandate application of a new or modified reporting requirement that were not available to IR form issuers for the entire reporting year. A rule the IRSAC continues to advocate is that a minimum of 18 months should be allowed to implement any moderate-size change. Confer with industry and implement standards that include meaningful implementation timeframes for new or modified IR requirements.
14. Strive to make systems available for filing earlier. The practitioner community would welcome system availability by January 2.
15. When a new reporting requirement is established, look-back requirements should be avoided. Clarify that look-back is not required for new or changed reporting requirements.
16. IRIS, FIRE and MeF filing specifications should be released as early as practicable to allow states relying on those specifications to timely release their own changes to the IR filing community.
17. Work with industry to understand the specific questions outstanding after a change in the law or a new IR requirement arises and prioritize getting those answers and clarifications to the industry.
18. Create a means to reliably deliver the CP2100/CP2100A (B-Notice) and 972CG Civil Penalty Notices electronically to the intended recipients such as through the taxpayer’s online account with an alert to the recipient of the posting.

Proposed 1099-R Account Type Code

19. If the requirement to expand the Account Type Code on Form 1099-R is enacted, the industry must have ample opportunity to automate the reporting solution in both data and application programming.
20. Consider that as currently described, multiple codes may be required to describe one retirement plan on a Form 1099-R.

1099-R QCD Code

21. Consider other distribution codes that could be combined with the new code Y, such as T.
22. Confirm in 1099-R issuer instructions or guidance that for 2025, it is not necessary to look-back to distributions made before the reporting requirement appeared in the Form 1099-R instructions, and that use of code Y is optional for calendar year 2025 reporting. Confirm that an IR issuer should use its best efforts for reporting calendar year 2025 distributions that are QCDs. IR service providers should support the use of code Y for calendar year 2025 calendar year filings performed in 2026. [Guidance provided by the IRS on October 16, 2025. [98]]

[98] *See "Entering code "Y" in a 2025 Form 1099-R, box 7; is optional"; https://www.irs.gov/forms-pubs/entering-code-y-in-a-2025-form-1099-r-box-7-is-optional*

INTERNAL REVENUE SERVICE ADVISORY COUNCIL

Large Business & International Subgroup Report

Andrew Bloom, Subgroup Chair

Anthony Massoud

Thomas Wheadon

Selvan Boominathan

David Heywood

INTRODUCTION

The 2025 IRSAC Large Business and International (LB&I) subgroup consists of five members, all of whom are attorneys. The subgroup members currently practice or previously practiced in the areas of corporate finance, high net worth individuals, general corporate, international tax, real estate, partnerships, trusts, strategic tax planning, mergers and acquisitions, and reporting.

The Large Business and International (LB&I) Division is responsible for tax administration activities for domestic and foreign businesses with a United States tax reporting requirement and assets equal to or exceeding $10 million as well as the Global High Wealth and International Individual Compliance programs. Its vision, as a world class organization responsive to the needs of its customers in a global environment while applying innovative approaches to customer service and compliance, is to apply the tax laws with integrity and fairness through a highly skilled and engaged workforce, in an environment of inclusion where each employee can make a maximum contribution to the mission of the team.

The LB&I subgroup valued the opportunity to work collaboratively with former LB&I Commissioner Holly Paz, former Deputy Commissioner Jennifer Best, former Division Counsel Robin Greenhouse, Special Assistant to the Commissioner Mireille Khoury, and other BOD officials. We also especially appreciated the assistance of Anna Millikan, IRSAC Program Manager, Tyonna Harrison LB&I Subgroup Liaison, and Shawn Hooks, LB&I Communications Public Affairs Specialist.

We are pleased to present two reports with recommendations that we worked on in 2025. The topics of the reports and recommendations in this 2025 report:

1. IRC §§ 6038 and 6038A Penalty Administration
2. Recommendations for Modernizing Form 1065, U.S. Return of Partnership Income

These two topics above were identified by the LB&I Subgroup.

Observations on 2024 LB&I Subgroup Recommendations: The LB&I Subgroup appreciates the IRS full or partial implementation of the recommendations made in our

2024 report regarding exam procedures and net operating loss carrybacks. We appreciate the limitations regarding two of our 2024 recommendations and hope that solutions can be found to lead to implementation in the near future.

With respect to our 2024 recommendation regarding simplification of reporting for Section 962 elections, we strongly urge the IRS to, at a minimum, update the relevant instructions and guidance for taxpayers. Clear and comprehensive instructions are essential to ensure that taxpayers understand how to make a valid Section 962 election and provide all necessary information in a manner that allows the IRS to accurately identify, process, and track these elections. Specifically, if the IRS is unable to fully integrate the recommended changes—such as new schedules, checkboxes, or expanded reporting frameworks—into Forms 8992, 5471, and related schedules at this time, then updated instructions should:

- Clearly outline the steps required to make a valid Section 962 election.
- Specify the information that must be provided and where it should be reported.
- Provide examples or templates for any required statements or schedules.
- Clarify how taxpayers should report deemed paid foreign taxes, PTEP distributions, and other Section 962-related items.
- Ensure that tax software and IRS processing systems can reliably identify and track Section 962 elections and related calculations.

By updating instructions, the IRS will help taxpayers comply with the law, reduce errors and delays, and improve the accuracy of IRS data collection and processing—even as broader recommendations are under review. We believe this is a practical and necessary interim step that will benefit both taxpayers and the IRS.

With respect to our 2024 recommendation regarding revising and expanding the Streamlined Domestic Offshore Procedures (SDOP), we appreciate the IRS's consideration of our proposals. However, we respectfully note that while the Delinquent International Information Return Submission Procedures (DIIRSP) is available to a wider range of taxpayers, it does not offer a practical or efficient pathway for resolving multiple years of noncompliance. As outlined in our report, DIIRSP requires year-by-year filings and may result in upfront penalty assessments without guaranteed consideration of reasonable cause statements, making it a less attractive option. This is particularly true for taxpayers with a longer history of inadvertent noncompliance or those simply missing informational filings.

Regarding the Title 26 Miscellaneous Offshore Penalty (MOP), we understand the IRS's concern about maintaining fairness in tax administration. However, the notion that revising penalty structures would compromise fairness by treating taxpayers differently based on timing is not, in our view, a compelling reason to preserve the status quo. This rationale could be used to justify the continuation of any burdensome policy. We urge the IRS to evaluate whether the current MOP framework continues to serve its intended purpose and aligns with broader goals of promoting voluntary compliance and equitable treatment.

ISSUE ONE: Recommendations for Modernizing Form 1065, U.S. Return of Partnership Income

Executive Summary

Form 1065, U.S. Return of Partnership Income, is one of the most widely used business tax forms. According to the most recent publicly available data, approximately 4.5 million partnership returns are filed annually.[99] Despite its significance, Form 1065 has not undergone a comprehensive modernization in decades. The current version contains outdated questions, disorganized reporting structures, and unnecessarily complex disclosure requirements. In particular, excessive codes on Schedule K-1, overlapping information requests, and inclusion of foreign-related disclosures that apply to only a small fraction of partnerships create confusion, increase compliance costs, and reduce overall accuracy.

The IRSAC recommends a comprehensive revamp of Form 1065 that:

1. Streamlines reporting by eliminating duplicative or obsolete questions.
2. Creates a simplified version of Form 1065 for small partnerships.
3. Separates foreign-related information on Schedule B into a dedicated schedule applicable only to entities with cross-border activities.
4. Consolidates the number of codes on Schedule K-1 to a manageable level, emphasizing clarity and materiality

These changes will improve taxpayer compliance, reduce administrative burdens, and improve the IRS's ability to collect accurate and actionable data.

Background

Form 1065 is the primary reporting mechanism for entities taxed as partnerships. Form 1065 serves two purposes:

[99] https://www.irs.gov/statistics/soi-tax-stats-partnership-statistics.

i. To allow partnerships to report income, deductions, credits, and other tax-relevant items, and

ii. To provide information regarding the partners' distributive share of items of income, deduction, gain, loss, and credit, which are used by the partners in preparing their own income tax returns.

While the form has served its purposes for decades, tax law changes and evolving compliance challenges have rendered many components outdated and inefficient. IRS statistics indicate a steady increase in the number of partnership returns being filed, yet the form itself has not kept pace with modern business realities.

Modernizing Form 1065 is long overdue. The current version of the form is burdened by outdated questions, disorganized structure, numerous codes, and unnecessary inclusion of foreign information for the vast majority of taxpayers, as evidenced by the current form's 72 pages of instructions.[100] By simplifying and restructuring the form, the IRS can reduce compliance costs, improve taxpayer accuracy, and enhance the efficiency of IRS enforcement.

<u>Areas of Concern</u>

1. **Outdated and Redundant Questions**
Many questions on Schedule B of Form 1065 no longer align with current tax law or enforcement priorities. For example, certain questions regarding consolidated reporting or tax shelters are no longer relevant in most partnership contexts. Retaining such items adds unnecessary length and complexity, discouraging accurate responses.

2. **Disorganization of Reporting**
The content of Form 1065 has become disorganized over time as new line items and disclosures were added in piecemeal fashion. Important information is often buried among less relevant details, making it difficult for both taxpayers and IRS examiners to quickly identify key compliance data.

[100] See https://www.irs.gov/pub//irs-pdf/i1065.pdf.

3. **Numerous Codes on Schedule K-1**
Schedule K-1 has grown into a highly complex document, with dozens of lettered and numbered codes representing income, deductions, and credits. In 2024, the IRS instructions for the IRS Form 1065 exceed 70 pages and the instructions[101] for the Schedule K-1 exceed 35 pages,[102] and many codes apply only in highly specialized cases. This complexity leads to widespread misreporting and imposes a disproportionate burden on small partnerships and taxpayers.

   Taxpayers would benefit if the IRS consolidated the most commonly used codes into a summary table and included it on the first page of Schedule K-1. Less frequently used codes could be placed on a second page. Additionally, partnerships and taxpayers often spend considerable time attempting to accurately report de minimis amounts for certain credits or deductions—an effort that imposes significant administrative burdens on stakeholders while offering minimal value to the IRS.

4. **Foreign Information Overlap**
Although international tax compliance is a priority, most partnerships have no foreign partners, assets, or operations. Current placement of foreign disclosure questions within Schedule B of Form 1065 forces taxpayers to review and interpret questions that do not apply to them, creating confusion. A more efficient approach would separate foreign-related disclosures into a stand-alone schedule, required only when relevant.

Recommendations

1. In consultation with stakeholders, including tax professionals, software developers, and business representatives, undertake a full review of Form 1065 with the goal of simplifying presentation, removing outdated questions, and ensuring alignment with current tax law. Updates should emphasize plain-language clarity and logical sequencing of items.

[101] https://www.irs.gov/pub/irs-pdf/i1065.pdf.
[102] https://www.irs.gov/pub/irs-pdf/i1065sk1.pdf.

2. Small partnerships, which represent the vast majority of filers, should be permitted to file a simplified version of the form.[103] A simplified form option would reduce compliance costs while still collecting essential information for IRS oversight.

3. Consolidate the most commonly used codes into a summary table and include it on the first page of Schedule K-1. Less frequently used codes could be placed on a second optional page. This would significantly reduce the length of K-1 instructions, improve accuracy, and make the form more accessible to both taxpayers and preparers.

4. Consolidate all foreign-related questions on Schedule B into a new distinct schedule. Only partnerships with foreign partners or material foreign assets or income would need to complete this schedule. This change would prevent unnecessary completion by domestic-only partnerships while ensuring the IRS still receives relevant cross-border data.

5. Consider implementing a de minimis threshold for reporting certain categories of credits or deductions under a single code. Where applicable, all items within a category—such as “energy credits” or “portfolio income”—could be aggregated and reported under a single code if the amounts are below the threshold. This approach would streamline reporting and reduce unnecessary complexity for taxpayers and partnerships.

[103] According to the most recent publicly available data, over two-thirds of partnerships report less than $1,000,000 of assets and more than a quarter report no or negative assets. See https://www.irs.gov/statistics/soi-tax-stats-partnership-data-by-size-of-total-assets.

Executive Summary

Sections 6038 and 6038A require U.S. persons to furnish detailed information about certain foreign corporations and foreign-owned domestic corporations, generally on Forms 5471 and 5472. The statutory penalty frameworks are stringent: Form 5471 carries a $10,000 initial penalty per form per year, while Form 5472 carries a $25,000 initial penalty per form per year.[104]

Under current procedures, these penalties are systemically assessed when required international information forms are attached to certain late filed returns. If a return is timely filed but missing a required form, the IRS advises taxpayers not under examination to file through normal procedures but cautions that penalties "may be assessed in accordance with existing procedures." The result is automatic assessments followed by lengthy abatement requests.[105]

The current reliance on systemic assessments, especially for taxpayers who voluntarily correct past omissions, produces high reversal rates, prolonged case cycles, and unnecessary administrative burden. The IRSAC recommends a pre-assessment screening model to better align administration with taxpayer rights, conserve resources, and allow the IRS to focus enforcement on high-risk noncompliance.

Background

Section 6038 requires U.S. persons to provide information with respect to certain foreign corporations and partnerships. Failures to timely file complete and accurate information returns result in an initial $10,000 penalty, plus continuation penalties up to $50,000. Section 6038A imposes requirements on 25-percent foreign-owned domestic corporations and certain foreign corporations engaged in a U.S. trade or business; the

[104] IRC § 6038(b)(1)-(2); Treas. Reg. § 1.6038-2(k)(3), (k)(4); IRC § 6038A(d)(1)-(2); Treas. Reg. § 1.6038A-4(b), (d)(4).
[105] IRM 21.8.2.20.2; IRM 21.8.2.21.2.

initial penalty is $25,000 with continuation penalties of $25,000 per 30-day period after notice.

Historically, these penalties were imposed during examinations, where taxpayers often had an opportunity to supply missing information or demonstrate reasonable cause before assessment.[106] Beginning January 1, 2009, the IRS began systemic assessment of Section 6038(b)(1) penalties for Forms 5471 attached to late-filed corporate returns, later expanding to late-filed partnership returns in 2014 and to Section 6038A(d)(1) penalties for Forms 5472 attached to late-filed corporate returns in 2013.[107] In other contexts, however, such as the approach used for Form 3520, penalty assertions are not automatic and reasonable cause is considered prior to assessment.[108]

The current uniform systemic assessment doesn't distinguish between inadvertent omissions and willful noncompliance. Less sophisticated taxpayers bear disproportionate consequences because they are less likely to have internal or specialized counsel. Moreover, automatic uniform assessment of penalties disincentivizes voluntary compliance. IRS public guidance instructs taxpayers to file delinquent information returns "through normal procedures" if they are not under examination, but states plainly that penalties may be assessed under existing procedures.

Further, available IRS data show high and persistent abatement activity. The Taxpayer Advocate Service (TAS) reported that for calendar years 2014 through 2018, systemically assessed penalties under Sections 6038/6038A were abated at rates ranging from 55 to 72 percent by number of taxpayers and 71 to 88 percent by dollar amount. By contrast, manually assessed penalties during examination were abated less frequently (17 to 39 percent by number; 8 to 66 percent by dollars). The significant rate of abatements indicate that most automatic penalties are levied despite facts that

[106] Under the Taxpayer Bill of Rights, 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." See https://www.irs.gov/taxpayer-bill-of-rights.
[107] Under IRC 6501(c)(8), the statute of limitations on a tax return does not start to run until informational returns until Forms 5471 and 5472 are filed in a substantially complete manner.
[108] See https://www.taxpayeradvocate.irs.gov/news/nta-blog/irs-hears-concerns-from-tas-and-practitioners-makes-favorable-changes-to-foreign-gifts-and-inheritance-filing-penalties/2024/10/.

ultimately support reasonable cause relief, which is creating unnecessary burden on both taxpayers and the IRS.[109]

Taxpayer Experience

Many taxpayers, especially small businesses and individuals who lack international tax expertise, may not be aware of their Section 6038/6038A reporting obligations until after an applicable filing deadline (e.g. upon the engagement of a new preparer or responding to a due diligence request). The taxpayer must then decide whether to disclose and face certain penalties, or to delay and risk discovery. The size of potential assessments, often tens or hundreds of thousands of dollars across multiple forms and years, often deters compliance. A frequent scenario involves a late return with all Forms 5471/5472 attached. Despite the completeness of the filings, the late filing (which could be the result of something as innocuous as missing an extension) triggers automatic penalties for each individual late form.

Once assessed, penalties remain on the account while the taxpayer prepares a reasonable cause submission. The package typically includes a detailed narrative of facts, sworn statements, supporting documents, and legal citations to the regulations. For unrepresented taxpayers, this is daunting. Resolution can take months or even over a year, creating prolonged uncertainty and stress—even when relief is ultimately granted. This uncertainty can force a taxpayer to account for the penalties in their financial statements or impact operations.[110]

Authority Questions and Administrative Process

A related source of friction is legal uncertainty around the assessment mechanism. TAS and several commentators have questioned whether Chapter 61 penalties, including those under Sections 6038 and 6038A, are "assessable penalties" within the meaning of Section 6201(a), noting that they are not listed in Chapter 68, Subchapter B and

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[109] Taxpayer Advocate Service, 2020 Annual Report to Congress, Most Serious Problem #8: International Information Return Penalties

[110] Taxpayer Advocate Service, 2020 Annual Report to Congress, Most Serious Problem #8: International Information Return Penalties. https://www.taxpayeradvocate.irs.gov/wp-content/uploads/2021/01/ARC20_MSP_08_International.pdf

historically were imposed through examination or through Department of Justice actions. The IRS maintains that because these penalties are not subject to deficiency procedures, they are assessable under Section 6201(a). The IRSAC does not opine on the ultimate legal question here, but the ongoing litigation and conflict among the courts on this assessment authority issue, [111] combined with very high abatement rates for systemic assertions, reinforce the case for front-end screening and clear administrative safeguards.

IRS Resource Considerations

High reversal rates strain the IRS's increasingly scarce resources. A single abatement submission can involve multiple IRS personnel before final resolution. Each handoff adds time, while the payoff is limited because most reversed penalties involve taxpayers who preemptively or promptly provide the required information, resulting in abatement.

Recommendations

To reduce taxpayer and IRS burden, strengthen fairness and transparency in tax administration, and focus enforcement where it matters most, the IRSAC recommends that the IRS:

1. *Adopt pre-assessment reasonable cause review for Forms 5471 and 5472.* Update the Internal Revenue Manual (IRM) to require a front-end review of contemporaneously filed reasonable cause statements before systemic assessment. This would align procedures with the approach used for Form 3520., where penalty assertions are not automatic and reasonable cause is considered prior to assessment.

2. *Segregate voluntary compliance cases.* Establish a dedicated intake code for delinquent but complete filings submitted outside examination and route them to a pre-assessment screening team. Publish clear criteria (e.g., one-time error, no tax underpayment, prompt correction) that prioritize future compliance over penalties.

[111] See information on the conflict in, for example, *Mukhi v. Commissioner*, 162 TC 177 (2024).

3. *Pilot international reporting safe harbors*. Test a limited “first-time filer” safe harbor or capped penalty for first-year inadvertent failures (distinct from general first-time abatement).

INTERNAL REVENUE SERVICE ADVISORY COUNCIL

Small Business/Self-Employed Subgroup Report

Annette Nellen, Subgroup Chair

Caroline Bruckner

Christine Freeland

David Gannaway

Charles Markham

Lawrence Sannicandro

Kristofer Thiessen

INTRODUCTION

The 2025 IRSAC Small Business/Self-Employed (SB/SE) Subgroup consists of seven members, including CPAs, Enrolled Agents, attorneys, and academics. The collective tax experience of this collaborative group includes representation of individual and entity taxpayers in tax return preparation, tax planning and advice, and tax litigation and procedure, public service including through VITA and individual and group efforts to improve the tax law, as well as teaching and instructing current and future tax professionals.

The SB/SE Business Operating Division (BOD) supports tax reporting for over 160 million individual tax returns, approximately one million small business entities and over 38 million employment, excise, estate and gift tax returns filed annually.[112]

The SB/SE Subgroup members are honored to serve on the IRSAC. We thank all the IRS personnel whom we worked with for their cooperation and assistance. For exemplary assistance and guidance throughout the year, we especially thank:

- Tanya Taylor, SB/SE Subgroup Liaison through May 2025
- Bruce Simmons, SB/SE Subgroup Liaison for June through August 2025
- Maritza Rabinowitz, SB/SE Subgroup Liaison for August through November
- Tambra Eppard, SB/SE Division
- Anna Millikan, Tax Pro Partnerships & Advisory Groups
- John Lipold, Acting Director, C&L Office of National Public Liaison; Chief, Tax

We are pleased to present five reports with recommendations that we worked on in 2025. In addition, we worked on a sixth topic identified by the BOD for which feedback was desired prior to the release of the IRSAC's final report in November.

The topics of the reports and recommendations in this 2025 report:

1. Broadening and Promoting Settlement Programs
2. Enhancing Digital Tools for Taxpayer Engagement

[112] For additional information on the SB/SE Division, see https://www.irs.gov/about-irs/small-business-self-employed-division-at-a-glance, as updated June 5, 2025.

3. Expanding ADR and the Pool of Eligible Mediators
4. Using Proactive Prompts to Improve Small Business Voluntary Compliance
5. Expanding and Developing Resources to Increase Tax Literacy for Small Business Owners

The first three topics above were identified by the BOD and the last two were identified by the SB/SE Subgroup with support from the BOD.

The sixth issue we addressed was requested by the BOD regarding ideas for educating and encouraging the general public and tax professional community to use online services and self-help tools such as voice and bot technology and Online Accounts to get answers related to Collection activities. After learning more about these tools from subject matter experts, the IRSAC SB/SE Subgroup provided the following real-time feedback to the BOD:

1. While there are occasional press releases from the IRS about voice and chat bots (such as IR-2022-56 (3/10/22)), the public does not follow these releases and they are not widely picked up by the press and social media. To increase awareness of the tools, promote and explain them regularly via IRS social media and the IRS stakeholder liaison group, and with tax professional organizations.
2. Create one or more short videos that highlight how any digital tool can help taxpayers, remind them not to enter personal information, let them know the IRS doesn’t track users or their answers after the chat ends. A link to the video should be near the chat bot link, appropriately labeled, such as “click here to learn more about how IRS chat bots work.”
3. Consider noting at the start of the chat that in addition to the list of answers, there is also a box to enter your question should none of the stated answers be on point.
4. Consider adding a link to any website with digital tools that provides users with a way to report any error or problem with the site and to offer suggestions.

Observations on 2024 SB/SE Subgroup Recommendations: The SB/SE Subgroup appreciates the IRS implementation of many of the recommendations made in our 2024 report and the continued work on several that remain active. We understand limitations regarding three of our 2024 recommendations and hope that solutions can be found to lead to implementation in the near future. These three issues:

1) Creation of a position for Director of Civil Penalties to help in effective resolution of penalty issues. We continue to believe this would help to more quickly and fairly resolve various issues for some penalty assessments and save time and frustration for both taxpayers and the IRS.
2) Finding a way that any disaster postponement to October 15 include giving individuals one more month so those who are owners in a passthrough entity do not have to deal with receiving their Schedule K-1 on the due date for their Form 1040.
3) Digitizing the process under Treas. Reg. 1.1033(a)-2(c)(3) for requesting additional time to replace property in an involuntary conversion. As we learned in 2025 in working on Issue #2 on digital tools, the Digital Mobile Adaptive Forms (DMAF) procedure should help with this recommendation similar to what the IRS accomplished with Form 15620, Section 83(b) Election. The DMAF approach would also entail creation of a DMAF for the Section 1033 request for additional time to replace property, similar to the IRS creation of a digital Form 15620 in 2024. Taxpayers should also be allowed to mail the request to the IRS, if preferred over a digital option.

ISSUE ONE: Broadening and Promoting Settlement Programs

Executive Summary

The IRS asked the IRSAC to evaluate the IRS's use of settlement and voluntary disclosure programs and to identify barriers that discourage participation. These programs are intended to provide taxpayers with certainty and closure while conserving enforcement resources and reducing the tax gap. Yet, these programs are not widely pursued and participation remains limited due to narrow eligibility, complexity, cost, and lack of sufficient awareness by taxpayers and tax advisers. To address this issue, the SB/SE Subgroup met with subject matter experts from the IRS and Office of Chief Counsel and reviewed the range of settlement programs currently available, as well as targeted initiatives used in recent years. These discussions revealed recurring problems and highlighted the absence of any federal program for taxpayers whose domestic tax noncompliance was non-willful but who are unable to demonstrate reasonable cause. This report describes our findings and highlights the shortcomings across existing programs. It recommends expanding eligibility, simplifying participation, improving transparency, modernizing administrative tools, and adopting a federal program modeled on successful state practices to strengthen voluntary compliance.

Background

Settlement Programs at the Federal Level

To better understand the IRS's use of settlement programs, members of the IRSAC requested from the IRS information about the principal settlement initiatives and voluntary disclosure programs administered by the IRS. Through those discussions, as well as our own research, we learned that these programs vary considerably in their scope, eligibility criteria, and effectiveness, but they collectively illustrate the IRS's evolving approach to encouraging voluntary compliance. The following sections summarize various federal programs, identifying their key features, benefits, and drawbacks, as well as their role in the overall compliance framework.

1. VDP

The IRS's Voluntary Disclosure Practice (VDP) is a long-standing program administered by Criminal Investigation that provides taxpayers with a path back into compliance from potential criminal exposure from willful violations of the tax laws. Although not an amnesty program, participation has historically weighed against prosecution if disclosures are timely and complete.[113] For willful taxpayers, it provides the only structured path to avoid criminal liability, with penalties generally capped within a six-year lookback.

The VDP, however, is narrowly tailored and leaves non-willful taxpayers outside its scope. Participation is costly and often requires burdensome amended filings and a mandatory audit of the submission, while examiner discretion can lead to inconsistent application of penalties and, in some cases, expanded liability. Concerns also persist about the potential sharing of disclosure information with other agencies, which may further discourage participation. Despite these shortcomings, the VDP remains central to the IRS's enforcement strategy, though the IRS does not publish participation statistics, making it difficult to assess its effectiveness.

As of June 2025, the National Taxpayer Advocate (NTA) reported that the IRS has agreed to remove the "willfulness" checkbox from Form 14457, which required taxpayers to affirm under oath that their prior noncompliance was willful.[114] This checkbox had created a chilling effect by effectively prompting self-incrimination. Its removal is expected to allay practitioner concerns and encourage broader participation in the VDP.

2. <u>QARs</u>

Quiet disclosures, generally involving the filing of amended returns without formally entering an IRS settlement program, are not technically settlement initiatives but remain a critical compliance pathway. Treas. Reg. §1.6664-2(c)(2) and (3) establishes the procedures for a "qualified amended return" (QAR), which generally allow taxpayers to reduce the accuracy-related penalty base to zero if an amended return is filed before the IRS contacts the taxpayer.

In practice, the IRS has acknowledged that filing a QAR is a viable path back into compliance, at least for underreporting issues, and thus it occupies a critical place in the

[113] *See* Internal Revenue Manual (IRM), pt. 9.5.11.9 (Sept. 17, 2020).
[114] NTA, Posting of Criminal VDP: TAS Reports a Win For Taxpayers – IRS Agrees to Remove Willfulness Checkbox on VDP Application Form to the NTA Blog (June 24, 2025), https://www.taxpayeradvocate.irs.gov/news/nta-blog/criminal-vdp-tas-reports-a-win-for-taxpayers-irs-agrees-to-remove-willfulness-checkbox-on-vdp-application-form/2025/06/.

overall compliance landscape. This framework encourages taxpayers to correct errors proactively, but its scope is limited: QARs do not address non-filing or non-payment, they provide no relief from interest, and they often require multiple amended filings across years. Moreover, when taxpayers submit amended returns quietly, outcomes can be inconsistent – some taxpayers face little scrutiny while others are audited or penalized – creating uncertainty and discouraging some taxpayers from attempting to correct errors proactively.

3. VCAP-ET

The Voluntary Closing Agreement Process for Employment Tax (VCAP-ET) is an administrative procedure through which certain employment tax issues may be resolved permanently by a closing agreement.[115] Authorized under Section 7121 and implemented through IRS guidance, VCAP-ET is intended for cases where amending returns would not permit prompt, conclusive resolution. It applies to non-willful employment tax issues not easily resolved through amended returns, such as reorganizations or when wages cannot be precisely allocated among employees.

The process provides certainty and finality through closing agreements, so is useful in business transactions requiring definitive resolution. Yet examiner discretion and the possibility of rejection, even when taxpayers come forward, undermine confidence, since penalties may still apply.

4. VCSP

The Voluntary Classification Settlement Program (VCSP), introduced in 2011 and updated in Announcement 2012-45,[116] allows employers to voluntarily reclassify workers as employees for future periods with partial relief from federal employment taxes. Eligibility requires consistent prior treatment of the workers as nonemployees, filing of Forms 1099 for the preceding three years, and no ongoing IRS, Department of Labor, or state worker classification audit. Taxpayers must file Form 8952, Application for Voluntary Classification Settlement Program (VCSP), to apply to participate in this program. In exchange for participation and execution of a closing agreement, employers pay only 10

[115] IRS, *Voluntary closing agreement process - Employment tax issues (VCAP-ET)*, https://www.irs.gov/businesses/small-businesses-self-employed/voluntary-closing-agreement-process-employment-tax-issues-vcap-et (last updated June 2, 2025).
[116] I.R.B. 2012-51.

percent of the employment tax liability that would otherwise have been due for the most recent year, calculated at favorable Section 3509(a) rates, with no interest or penalties and audit protection for prior years. By providing reduced liability, closure, and prospective certainty, the VCSP encourages voluntary compliance in industries where misclassification is common, though participation has remained limited and the IRS does not publish data on uptake or outcomes.[117] Generally, participants must still resolve the classification issue at the state level; there is no coordination of the VCSP with state tax agencies.

5. CSP

The Classification Settlement Program (CSP) was established to resolve worker classification issues during IRS examinations, offering settlement options when the IRS challenges an employer's treatment of workers as independent contractors.[118] Unlike the voluntary VCSP, CSP applies only once an audit is underway and provides graduated settlement terms based on the strength of the employer's position: taxpayers with arguable positions may settle for 25 percent of the employment tax liability for the year under exam, while weaker cases may settle for 100 percent, both calculated under the favorable Section 3509(a) rates. CSP reduces prolonged disputes by providing structured, predictable outcomes and saving enforcement resources, but its use is limited to audit situations, and, like other programs, no participation data are published, making its overall impact on compliance difficult to measure.

6. Tip Reporting Compliance Agreements

The IRS has long used agreements to promote compliance in tip-intensive industries, historically through programs such as the Tip Rate Determination Agreement (TRDA) and the Tip Reporting Alternative Commitment (TRAC). In 2023, the IRS proposed a revenue procedure to establish the Service Industry Tip Compliance Agreement (SITCA) program described as "a voluntary tip reporting program offered by the IRS to employers in the service industry (excluding gaming industry employers)" and "intended to replace the Tip Reporting Alternative Commitment (TRAC) program and the

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[117] Additional information is at IRS, Voluntary Classification Settlement Program (VCSP); https://www.irs.gov/businesses/small-businesses-self-employed/voluntary-classification-settlement-program.
[118] *See generally* IRM, pt. 4.23.6 (Feb. 13, 2024).

Tip Rate Determination Agreement (TRDA) program … as well as the Employer-Designed Tip Reporting Program (emTRAC)."[119] The SITCA program was not finalized or implemented.

7. Streamlined Procedures

The Streamlined Filing Compliance Procedures (Streamlined Procedures) were introduced in 2012 to address widespread concerns about taxpayers with unreported foreign financial accounts and income who acted non-willfully.[120] Designed as an alternative to the more punitive Offshore Voluntary Disclosure Program, the Streamlined Procedures require taxpayers to file three years of amended or delinquent returns and six years of delinquent FinCEN Forms 114, *Report of Foreign Bank and Financial Accounts* (FBARs), certify non-willfulness under penalties of perjury, and pay a reduced penalty (or, for nonresidents, no penalty at all). Anecdotally, the program quickly became one of the most widely used disclosure options, striking a balance between accountability and leniency by offering reduced penalties in exchange for honest disclosure.

The benefits of the Streamlined Procedures are substantial. For taxpayers, they provide a defined path back into compliance with limited lookback periods and reduced penalties, removing much of the uncertainty surrounding foreign reporting failures.[121] For the IRS, the program has generated significant revenue and substantially increased reporting of foreign accounts and assets. Yet, the program is limited to taxpayers with foreign income or assets, excluding domestic taxpayers with similar non-willful issues. Certification of non-willfulness is inherently subjective, creating concern among practitioners that taxpayers who make honest mistakes could be second-guessed, and the IRS has not consistently published data on participation or outcomes, making it difficult to evaluate the program's true impact on voluntary compliance. Greater transparency in participation data would help both the IRS and taxpayers assess whether streamlined options are meeting compliance goals.

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[119] IR-2023-19 (Feb. 6, 2023); https://www.irs.gov/newsroom/irs-introduces-new-service-industry-tip-reporting-program, and Notice 2023-13.

[120] IRS, *Streamlined filing compliance procedures*, https://www.irs.gov/individuals/international-taxpayers/streamlined-filing-compliance-procedures (last updated July 10, 2025).

[121] *See* IRS, *U.S. taxpayers residing in the United States*, https://www.irs.gov/individuals/international-taxpayers/us-taxpayers-residing-in-the-united-states (last updated July 9, 2025) (reduced penalties); IRS, *U.S. taxpayers residing outside the United States*, https://www.irs.gov/individuals/international-taxpayers/us-taxpayers-residing-outside-the-united-states (last updated July 10, 2025) (no penalties).

8. DIIRSP

The Delinquent International Information Return Submission Procedures (DIIRSP) were introduced in 2014 as a mechanism for taxpayers with unfiled international information returns, such as Form 5471, *Information Return of U.S. Persons With Respect To Certain Foreign Corporations*, and Form 3520, *Annual Return To Report Transactions With Foreign Trusts and Receipt of Certain Foreign Gifts*, whose conduct was non-willful but who were not eligible for the Streamlined Procedures. Taxpayers could file the delinquent forms accompanied by a reasonable cause statement explaining their noncompliance, with the expectation that penalties would not be imposed if the explanation was accepted. The program thus appeared to provide a safe harbor for taxpayers who had made mistakes but did not have unreported income or did not fit within the streamlined framework.

9. Select Settlement Initiatives

In addition to standing disclosure programs, the IRS has in recent years offered targeted settlement initiatives aimed at discrete areas of noncompliance, such as the Employee Retention Credit Voluntary Disclosure Program (ERC VDP),[122] micro-captive insurance arrangements,[123] and syndicated conservation easements.[124] Generally, these initiatives are limited to taxpayers already under examination,[125] require execution of a closing agreement, and offer penalty or liability reductions in exchange for finality. Their chief advantage is efficiency: they allow the IRS to resolve large volumes of contentious

[122] *See* IRS, *Employee Retention Credit - Voluntary disclosure program*, https://www.irs.gov/coronavirus/employee-retention-credit-voluntary-disclosure-program (last updated May 29, 2025).

[123] IR-2019-157 (Sept. 16, 2019), IRS offers settlement for micro-captive insurance schemes; letters being mailed to groups under audit; https://www.irs.gov/newsroom/irs-offers-settlement-for-micro-captive-insurance-schemes-letters-being-mailed-to-groups-under-audit.

[124] *See, e.g.*, IR-2024-174 (June 26, 2024), IRS sending settlement offer letters in July to certain taxpayers who participated in Syndicated Conservation Easement transactions; https://www.irs.gov/newsroom/irs-sending-settlement-offer-letters-in-july-to-certain-taxpayers-who-participated-in-syndicated-conservation-easement-transactions.

[125] One recent exception was the special initiative launched in October 2023 for withdrawal of Employee Retention Credit (ERC) claims; see IR-2023-193 (Oct. 19, 2023); https://www.irs.gov/newsroom/irs-announces-withdrawal-process-for-employee-retention-credit-claims-special-initiative-aimed-at-helping-businesses-concerned-about-an-ineligible-claim-amid-aggressive-marketing-scams. In December 2023, the IRS launched a new voluntary disclosure program for certain ERC claims including ones where the taxpayer had already received their refund. See IR-2023-247 (Dec. 21, 2023); https://www.irs.gov/newsroom/irs-new-voluntary-disclosure-program-lets-employers-who-received-questionable-employee-retention-credits-pay-them-back-at-discounted-rate-interested-taxpayers-must-apply-by-march-22.

cases quickly, conserve enforcement resources, and provide taxpayers with certainty while avoiding costly litigation. They also serve an important deterrent function by signaling IRS priorities in high-risk areas. Because they are limited to taxpayers already identified, however, they do little to encourage proactive compliance and, without prominent participation data, cannot be systematically evaluated. As a result, while targeted initiatives are useful tactical tools, they are no substitute for broader disclosure programs that offer taxpayers a predictable, structured way to resolve noncompliance before enforcement action begins.

Absence of a Federal Program for Non-Willful Taxpayers Without Reasonable Cause and States' Approach to Same

In reviewing the IRS's existing settlement and disclosure programs, the IRSAC identified a significant gap: there is no federal program directed to domestic taxpayers whose noncompliance was non-willful but who cannot demonstrate reasonable cause. The Voluntary Disclosure Practice is available for willful taxpayers, and the Streamlined Procedures apply to non-willful foreign income reporting, but domestic taxpayers who acted without intent and without reasonable cause are left with no structured means of resolving their obligations. Their only options are to attempt a "quiet disclosure" by amending returns or to remain outside the system. This gap in federal practice is particularly noteworthy given the importance of reducing the tax gap and encouraging voluntary compliance.

State-Level Settlement Programs

By contrast to federal voluntary disclosure practice, many states have developed general voluntary disclosure programs that address this very category of taxpayers. Jurisdictions such as New York, New Jersey, Rhode Island, and California, along with the Multistate Tax Commission, offer programs that typically limit the lookback period, reduce or waive penalties when taxes and interest are paid, and provide closure through written agreements. Some even allow anonymous participation until the agreement is finalized, further lowering barriers to entry. These programs demonstrate that broad, structured disclosure opportunities can bring taxpayers into compliance who might otherwise remain outside the system.

Taken together, the absence of a comparable federal program and the success of these state initiatives underscore the need for the IRS to adopt similar measures and to strengthen its existing settlement programs.

Recommendations

1. Recommendations for all settlement programs:
    a. Adopt a federal program modeled on successful state practices to provide domestic non-willful taxpayers without reasonable cause a structured path back into compliance. A detailed proposal, that was presented to and discussed with the BOD, is included as Supplement A. A taxpayer-facing summary suitable for use on the IRS's website is included as Supplement B, and provided pursuant to requests from the IRS.
    b. Expand eligibility criteria across settlement programs to make them accessible to a broader group of taxpayers.
    c. Simplify participation requirements by reducing unnecessary complexity and burdensome filing obligations.
    d. Align penalty structures with compliance goals so that voluntary participants face modest, predictable, and proportionate penalties.
    e. Increase outreach and education efforts to raise awareness of settlement opportunities among taxpayers and practitioners.
    f. Improve transparency by collecting and publishing participation and outcome data for all settlement programs.
    g. Update Form 906, *Closing Agreement*, and related administrative tools and use them more widely to provide closure and certainty in settlement agreements.
    h. Clarify IRS guidance to distinguish acceptable use of qualified amended returns from impermissible "quiet disclosures."
    i. Clarify the meaning of non-willfulness in the Streamlined Filing Compliance Procedures to provide taxpayers and practitioners with greater certainty.
    j. Reform the Delinquent International Information Return Submission Procedures to ensure that taxpayers who certify non-willfulness and provide adequate reasonable cause statements are not subject to automatic penalties.

Supplement A: Proposal to the IRS for a Domestic Voluntary Disclosure Program for Non-Willful Taxpayers Without Reasonable Cause

Date: August 11, 2025 [as revised in response to comments received on August 12, 2025]

Re: Draft Proposal for VDP for Non-Willful Taxpayers with Domestic Tax Noncompliance

Proposed VDP for Non-Willful Taxpayers with Domestic Tax Noncompliance

This memorandum sets forth the terms of a proposed voluntary disclosure program ("VDP") that we would like the Internal Revenue Service ("IRS") to consider adopting for taxpayers who are noncompliant with U.S. federal tax laws but non-willful in their actions. The program targets those who are not eligible for the IRS's streamlined procedures for unreported foreign assets and income but need assistance in resolving noncompliance related to underpayment, non-filing, and/or underreporting. The program aims to bring these taxpayers into compliance in a transparent, fair, and efficient manner, helping to reduce the gross tax gap while addressing the IRS's need for more effective compliance strategies.

Program Overview

The VDP will provide a clear and structured path for non-willful taxpayers to voluntarily disclose their noncompliance, pay any taxes owed, and resolve outstanding issues without facing overly harsh penalties.[1] The program aligns with IRS Policy Statement 5-133, which provides guidance on the lookback period for enforcement actions and emphasizes proportionality in voluntary disclosures. This program also includes features designed to provide certainty, closure, and an incentive for taxpayers to come forward voluntarily. It is tailored to support the IRS's strategic goals of encouraging voluntary compliance and efficiently allocating limited enforcement resources.

Reasons Program Is Needed

Noncompliant taxpayers may be unwilling to cure tax noncompliance because the nature of their tax noncompliance makes them ineligible for existing IRS programs or

[1] These penalties are described as "harsh" not as a critique of Congress's intent to deter and penalize misconduct, but because of the way they are mechanically applied. In cases of a single, ongoing act of noncompliance, such as the failure to file or underpayment of taxes over multiple years, penalties are assessed separately for each affected year. This results in a cumulative penalty amount that can exceed the underlying tax liability (and, it is worth noting, may even discourage a taxpayer from coming into voluntary compliance). The magnitude of the penalties, therefore, is not necessarily proportionate to the taxpayer's conduct, but instead is amplified solely due to the multi-year duration of a single noncompliant action. We believe penalty mitigation is warranted under such cases, particularly where a taxpayer voluntarily self-identifies their noncompliance.

because the cost of such programs is prohibitive. For example, the IRS's updated voluntary disclosure practice is reserved for taxpayers who willfully violate tax laws. As another example, the streamlined filing compliance procedures are reserved for taxpayers who did not willfully violate tax laws but who have unreported foreign assets and income. As a third example, quiet disclosure, where taxpayers amend their returns without notifying the IRS through formal disclosure programs, also can be an unattractive option because it exposes taxpayers to substantial penalties, including the risk of facing a maximum penalty rate and the possibility of an unlimited lookback period, which could lead to unpredictable financial exposure. Additionally, taxpayers who have noncompliance issues that don't fall under the qualified amended return procedures of Treasury Regulations section 1.6664-2, such as non-filing or non-payment, are unable to resolve their issues through the standard amended return process, which is designed primarily for errors on previously filed returns. As a result, these taxpayers may find themselves in a situation where none of the existing IRS programs appropriately address their needs, leaving them without a clear, structured way to become compliant. Rather than subjecting themselves to unlimited penalties, many of these taxpayers instead assume the risk that the IRS will not enforce the internal revenue laws against them. This is a bad outcome for tax administration because it discourages tax compliance. For these reasons, a new VDP designed for non-willful taxpayers with domestic tax noncompliance issues is appropriate and necessary.

Alignment with State-Level Initiatives and Broader Compliance Impact

Similar voluntary disclosure programs already exist at the state level, including in jurisdictions such as New York and California, where non-willful taxpayers can come forward to resolve outstanding liabilities in exchange for reduced penalties and a defined lookback period. These state-level programs demonstrate the effectiveness of structured disclosure mechanisms in encouraging compliance. Adoption of a federal program by the IRS may also serve as a catalyst for more states to implement similar initiatives. A coordinated federal and state approach would allow many taxpayers to comprehensively resolve their tax obligations and increase the likelihood of future compliance at all levels of government.

The remainder of this memorandum discusses the terms of a new VDP program designed for non-willful taxpayers with domestic tax noncompliance issues. We would be pleased to discuss any questions you may have.

Eligibility Criteria

- Non-willful Noncompliance: Taxpayers must certify that their failure to comply was non-willful and not intentional.
- No Foreign Assets/Income: Taxpayers with unreported foreign income or assets are not eligible for this program, as they would qualify for the IRS's

streamlined filing procedures for foreign assets.

- Noncompliance Types: The program is applicable for taxpayers who are:
  - Underreporting Income: Taxpayers who have filed returns but underreported income.
  - Underpayment of Taxes: Taxpayers who owe taxes but have not paid in full.
  - Non-filing: Taxpayers who have failed to file returns altogether.
- Lack of Reasonable Cause: The program is specifically for taxpayers who do not have reasonable cause for their noncompliance.

Key Features of the Program

1. Limited Lookback Period:
   - 3 Years: For underreporting and underpayment of taxes.
   - 6 Years: For non-filing cases. This period aligns with IRS Policy Statement 5-133, which allows for a general 6-year lookback period. This period is designed to encourage taxpayers to come forward without fear of excessively long financial exposure.
2. Penalty Structure: For non-willful taxpayers entering the VDP, we would propose reducing these penalties significantly for the voluntary disclosure process, to incentivize compliance. For example:
   - Underreporting & Underpayment: Taxpayers who have underreported their income or underpaid their taxes will face a 10% penalty on the unpaid tax amount. This is lower than the typical penalties for failure to file and failure to pay (which can reach up to 30%), making it a more taxpayer-friendly option for those who come forward voluntarily.
   - Non-Filing: Taxpayers who have failed to file their returns will face a 10% penalty on the unpaid tax amount. This reduced penalty encourages taxpayers to file missing returns and resolve noncompliance.
   - Interest: Interest will accrue from the due date of the original tax filings.
3. Terms of Payment: To ensure that liabilities resolved under the program are conclusively closed, taxpayers would be required to make full payment

of all tax, interest, and reduced penalties at the time the closing agreement is executed. Payment would generally be due within 30 days of acceptance into the program, subject to limited extensions in cases of demonstrated hardship. This requirement balances fairness with administrative efficiency and avoids the creation of outstanding accounts receivable under the program. This approach does not condition tax compliance on ability to pay but instead reflects a careful balancing of administrability, fairness, and the need for finality in voluntary disclosure programs.

4. Certification of Non-willfulness:

    - Taxpayers must certify under penalties of perjury that their noncompliance was non-willful and not the result of negligence or intentional disregard.

    - False certifications will expose taxpayers to criminal prosecution and a 75% civil fraud penalty.

5. Audit Considerations: Acceptance into the program would not insulate taxpayers from future examinations respecting issues within or without the scope of the disclosure. This approach mirrors longstanding practice in other disclosure programs, providing taxpayers with certainty while preserving the government's enforcement authority.

6. Closing Agreement:

    - Closing Agreement Required: Taxpayers and the IRS will be required to complete a binding, non-negotiable agreement between the IRS and the taxpayer. This agreement will provide certainty by:

        - Limiting the lookback period;

        - Stipulating no reopening of the case unless fraud or misrepresentation is identified; and

        - Clearly stating that the IRS will not disclose information provided by the taxpayer to other agencies unless required by law.

7. Collateral Agreement on Future Compliance: As a condition of participation, taxpayers would be required to remain fully compliant (other than with respect to estimated tax payments) for a defined period (*e.g.*, five years) following resolution under the program. The failure to honor this collateral agreement during the defined period would result in the reinstatement of liabilities compromised under the program. This condition reinforces the program's purpose of restoring long-term voluntary compliance while deterring recidivism.

8. No Guarantee Against Criminal Prosecution: Participation in the VDP does not provide immunity from criminal prosecution. False certifications may result in criminal investigation and penalties.

Benefits for the IRS

- Efficient Compliance Path: By providing a structured compliance path, the program encourages voluntary disclosure, helping to close the gross tax gap.

- Resource Efficiency: As described in the Key Features section, *infra*, the use of a standardized lookback period and reduced penalty structure will allow the IRS to focus its limited resources on more complex compliance issues, as taxpayers voluntarily disclose their noncompliance.

- Enhanced Certainty: Taxpayers will benefit from clear terms that reduce ambiguity and provide a predictable outcome, increasing their confidence in coming forward.

- Reduction in Administrative Burden: The use of a closing agreement pursuant to section 7121 of the Internal Revenue Code of 1986, as amended ("Code") will streamline the process and reduce the need for individual audits and complex negotiations.

Benefits for Taxpayers

- Reduced Penalties: Taxpayers will benefit from a substantially reduced penalty structure, including a 10% penalty on underreporting and underpayment, and a 10% penalty on non-filing. This is significantly lower than typical IRS penalties, which can reach 30% or more.

- Limited Lookback Period: The 6-year lookback period for non-filers and 3 years for underreporting/underpayment offers taxpayers an opportunity to resolve their noncompliance without fear of extended financial liability, aligning with IRS Policy Statement 5-133.

- Certainty and Closure: Participation in the program provides certainty and closure, as taxpayers enter into a binding Closing Agreement with the IRS. This agreement defines the taxpayer's future obligations and ensures that the IRS will not reopen their case unless fraud or misrepresentation is discovered.

- Avoidance of Criminal Prosecution: Taxpayers who come forward under the VDP are less likely to face criminal prosecution as long as they certify non-willfulness and are actually non-willful. This creates an incentive for taxpayers to resolve their tax obligations voluntarily, as it provides a path to compliance without the threat of criminal charges, unless there is fraud.

- Streamlined Process: The VDP simplifies the process for taxpayers who have not filed returns or have underpaid taxes. By participating, they avoid complex audits and investigations, and instead work directly with the IRS to address their issues and settle their obligations quickly.

Program Administration

- Voluntary Disclosure Process: Taxpayers will be required to submit amended returns, pay taxes owed, and sign a certification of non-willfulness.

- Formal Resolution: Once a taxpayer enters the program, they will sign a Closing Agreement under Code section 7121, providing both parties with certainty and closure. This agreement will outline all future obligations and will not be open to revision.

Conclusion

The VDP for non-willful taxpayers with domestic tax noncompliance will allow the IRS to increase tax compliance, reduce the gross tax gap, and make the best use of its available resources. The program is structured to provide certainty, closure, and a predictable outcome for both taxpayers and the IRS, while aligning with IRS Policy Statement 5-133. By offering a limited lookback period, reduced penalties, and a binding closing agreement, the IRS can help taxpayers resolve their issues while maintaining the integrity of the tax system.

Supplement B: Proposed Website Summary of Domestic Voluntary Disclosure Program for Non-Willful Taxpayers Without Reasonable Cause

The following summary describes the proposed voluntary disclosure program in taxpayer-facing language, modeled on the style of the IRS's current streamlined filing compliance webpage, and is intended to provide the Service with a ready framework for public communication if such a program is adopted.

Overview

The Domestic Voluntary Disclosure Program provides taxpayers with an opportunity to resolve past domestic tax noncompliance where the conduct was non-willful, but the taxpayer cannot demonstrate reasonable cause. The program allows eligible taxpayers to file delinquent or amended returns, pay the tax owed with reduced penalties, and come back into compliance with certainty and finality.

Who Is Eligible?

- Certify that their noncompliance was non-willful.
- Have only domestic (U.S.-source) income or assets at issue.
- Not be under an IRS examination or criminal investigation.
- Not be eligible for another IRS settlement or disclosure program.

What Types of Noncompliance Are Covered?

- Underreporting of income on filed returns.
- Underpayment of taxes reported on filed returns.
- Non-filing of required returns.

The program does not apply to taxpayers whose conduct was willful or fraudulent.

What Is Required?

- File delinquent or amended returns for the program's lookback period.
- Pay the full amount of tax, interest, and reduced penalties within 30 days of acceptance into the program. Taxpayers who cannot meet these payment terms should use other options to resolve their tax obligations (*e.g.*, file original or amended returns, request penalty relief, or apply for a payment plan)
- Pay a reduced penalty as described below.
- Sign a standardized closing agreement with the IRS confirming resolution of the matter.

Lookback Period

- 3 years for underreporting or underpayment cases.
- 6 years for non-filing cases.

Penalty Structure

- 10% of unpaid tax for underreporting or underpayment cases.
- 10% of unpaid tax for non-filing cases.

No other accuracy-related, late-filing, or late-payment penalties will be imposed for years covered by the program.

Certification

Taxpayers must provide a signed statement, under penalties of perjury, that their noncompliance was non-willful. False statements may result in criminal prosecution and the imposition of fraud penalties.

Benefits of Participation

- Reduced penalties.
- Limited lookback period.
- Certainty and closure through a binding closing agreement.
- Protection from expanded examinations for years covered by the agreement.

Audit Consideration

Submissions made under this program are not automatically subject to audit. However, the IRS reserves the right to review submissions where appropriate.

Future Compliance (Condition of Participation)

Taxpayers must stay compliant for five years following participation in the program. If you fail to file or pay on time during this period, the IRS may reinstate the liabilities that were reduced under the program.

How to Apply

Applications will be submitted to the IRS using a designated form. Additional details on filing instructions, required documentation, and payment procedures will be published when the program is formally announced.

ISSUE TWO: Enhancing Digital Tools for Taxpayer Engagement

Executive Summary

The IRS has embraced the benefits of digital interactions with taxpayers. Digital communication tools are sought out by an increasing number of taxpayers to facilitate their interaction with the IRS. These tools can improve the taxpayer experience, matching the types of interactions taxpayers routinely have with banks, airlines and other service providers, while greatly simplifying IRS processing of incoming forms and data. Expanded adoption of these tools not only delivers more service options for taxpayers, but also complements ongoing modernization efforts at the IRS, such as the "Zero Paper" initiative.[127]

The SB/SE Division requested assistance from the IRSAC on how to:

1. Increase taxpayer usage of Document Upload Tool (DUT), Digital Mobile Adaptive Forms (DMAF), and Secure Messaging (SM) platforms to expedite service, and improve the taxpayer experience.
2. Identify effective marketing and outreach strategies to promote digital tools to taxpayers and practitioners.
3. Gather feedback on the usage and capabilities of the specific digital tools (DUT, DMAF, SM), particularly on potential enhancements and expanded usage by third parties.

Background

IRS digital tools were developed enterprise-wide through the Enterprise Program Management Office (EPMO) or the IT Contact Center Support Division (CCSD). SB/SE's examination and collection groups leverage these tools to securely communicate with taxpayers.

The SB/SE Subgroup met with the IRS product managers and other SMEs to learn more about these digital tools. The SB/SE Subgroup agrees with the IRS that these tools will increasingly become an important component of IRS activities in filings, examinations, and collections. Anecdotal experience from some IRSAC members suggests that adoption of SM and the DUT remains limited, primarily because of enrollment and identity-

[127] IRS, "IRS launches paperless processing initiative," FS-2023-18 (Aug. 2023); https://www.irs.gov/newsroom/irs-launches-paperless-processing-initiative.

verification barriers as well as low awareness by taxpayers and practitioners. IRS statistics confirm this challenge. As of 2024, the IRS reported that the DUT had been used more than one million times, with average monthly submissions growing from roughly 16,000 in 2022 to more than 80,000 by 2024.[128] While this growth demonstrates progress, usage remains modest compared to total IRS correspondence volume, underscoring that technical availability alone does not ensure widespread adoption.

The digital tools addressed in this recommendation:

1. **DUT (Document Upload Tool)**: Enables taxpayers to digitally submit correspondence and documentation (typically in .pdf and .jpg formats) starting with a QR code or transaction code supplied in an IRS notice. The IRSAC notes recent enhancements such as a printable confirmation screen with a time stamp for document uploads. The URL to access DUT is www.irs.gov/dutreply.

   As its name implies, the DUT allows a taxpayer to submit digital correspondence to the IRS. For example, the DUT might be used to respond to a "CP2000 notice" information request or to respond to a correspondence examination about a previously filed tax return. The DUT, however, is not meant to facilitate on-going two-way electronic interaction between the IRS and the taxpayer. The DUT is best thought of as an alternative to mailing or faxing document(s) to the IRS.

2. **Digital and Mobile Adaptive Forms (DMAF):**[129] Allows taxpayers to electronically fill out and submit certain forms. Some forms require the taxpayer to have activated their Online Account (OLA) to submit, while others are stand-alone without OLA required. Forms that require OLA access, can be found in the taxpayer's OLA under the "Forms" menu. Once a taxpayer submits a DMAF form, a copy of the submission is not saved in the taxpayer's OLA.

[128] IRS, Document Upload Tool reaches key milestone; 1 million submissions received (IR-2024-155) (June 5, 2024); https://www.irs.gov/newsroom/document-upload-tool-reaches-key-milestone-1-million-submissions-received.

[129] According to conversation with IRS product managers, DMAF may be changing its name in the future.

Compared to the other two products the IRSAC reviewed (DUT and SM), the DMAF product is more of a ”one form at a time” tool. For example, in lieu of mailing correspondence, such as an election under Section 83(b) to the IRS, that election can now be sent digitally via a DMAF product (Form 15620). The DMAF tool as implemented does not always include a role for a taxpayer's representative. Unlike paper submissions, the representative is not copied on any submissions or allowed to make a DMAF submission on behalf of a taxpayer unless the submission involves a form that does not require a signature, such as F11652, Questionnaire and Supporting Documentation Form 1040 Schedule C. Finally, making a DMAF submission does not necessarily create an entry (permanent record) in a taxpayer's OLA or IMF account.

3. **Secure Messaging (SM)**: Facilitates secure, direct communication between the IRS and taxpayers and their representatives. Taxpayers and representatives can access the SM portal by using https://www.irs.gov/connect. The taxpayer or representative will need to be authenticated[130] prior to using SM. If the taxpayer is working with an IRS employee from Collections, Field Examinations or Appeals, that employee can send an individualized access code that will enable the taxpayer and/or representative to use SM. This results in the taxpayer or representative being able to communicate securely with that particular employee. The parties can exchange messages and even send documents back and forth.

   In addition to supplying a specific employee's access code, a taxpayer can also use the SM system to respond to specific IRS notices.[131] The submission will then be routed to the unit handling the request. One apparent drawback of a representative using SM is that in some circumstances IRS requires that **both** the taxpayer and the representative

[130] Taxpayers and their representatives currently use “ID.ME” to authenticate themselves.
[131] The specific IRS notices are currently CP2000/2501, Letter 566/525 (notice of correspondence exam), Letter 12C (non-postable return) and letters 3659/3660/3661 (Innocent Spouse).

have established accounts. This can present a problem as many represented taxpayers may find signing up for ID.ME to be problematic.

IRS statistics indicate that over 50% of individual income tax return filers use a paid preparer.[132] The IRSAC would expect a similar percentage to apply to subsequent taxpayer interactions with Examinations and Collections. Thus, permitting representatives to utilize digital tools and represent their clients digitally is critical to the long term success of these new tools.

The IRSAC notes that many tax professionals are unaware of these digital tools and when they should be used. Tax pros and taxpayers also have some questions and uncertainties regarding privacy, security, and proof of receipt. At present, no mechanism provides proof of document upload or messaging similar to that provided by a physical mailing via the post office, certified, return receipt requested.

While IRS employees in all divisions (Examinations, Collections and Independent Office of Appeals) can make use of DUT and SM, the IRSAC notes that the usage of these tools among frontline collection employees seems to be limited, perhaps because it is at the discretion of the individual Collections' employees. The IRSAC suggests that Collections management encourage the use of digital tools to make the transmitting of collection information more efficient for the IRS and taxpayers.

The IRSAC believes that use of the DUT or SM would greatly improve taxpayer experience with the Offer in Compromise (OIC) unit as taxpayers frequently complain that they are unable to reach their offer examiner by phone and that requests for documentation can arrive via mail with little time to respond. Use of digital tools would eliminate these delays. The IRS should pilot mandatory use of DUT in specific Collections programs, such as OICs or review of currently not collectible status, to evaluate efficiency gains and taxpayer satisfaction relative to paper processing.

The DUT and DMAF tools as currently implemented (as verified in September 2025) have a perceived drawback when the taxpayer uploads a document. While there

[132] NTA, Posting of "Important Considerations as You Select Your Return Preparer This Filing Season" to the NTA Blog (Mar. 5, 2024); https://www.taxpayeradvocate.irs.gov/news/nta-blog/important-considerations-as-you-select-your-return-preparer-this-filing-season/2024/03/.

is a "splash screen" that thanks the taxpayer for the submission, no tracking or confirmation number is provided to the taxpayer. Thus, the taxpayer has no "proof" or assurance that a submission was correctly made and has been received, and no evidence if challenged by the IRS. The concern amongst taxpayers and their representatives is that an online submission, while timely, might be misformatted, corrupted, misrouted, deleted, or otherwise lost. To broaden usage of digital tools, there should be an assurance (some type of proof) that submitting a document will be treated as timely even if the submission later is deemed to have issues. This would include an "opportunity to cure" if a submission is later deemed unusable.

If a taxpayer mails a paper response to the AUR/CP2000, they receive a written response from the AUR unit acknowledging their correspondence and giving a future response date. These notices may be repeated over time. The acknowledgment for a DUT/SM submission should be identical.

Recommendations

1. Use existing communication channels (IRS Stakeholder Liaisons, webinars, IRS Nationwide Tax Forums, PTIN renewals, trade associations, social media, etc.) to explain and promote digital tools to tax professionals.
2. Revisit recommendations made in the IRSAC's 2024 Public Report[133] to promote Online Account adoption that apply equally to digital tools.
3. Rewrite taxpayer communications that require a response (such as "Letter 12C"[134]) and list a number of options for responding (fax, letter, upload, etc.); the IRSAC recommends that the digital upload option be listed first.
4. Enable representatives (POA) to use online tools, in particular DMAF, on behalf of their clients. For example, allow a POA to prepare a DMAF online form and forward it to their client's OLA account for approval, similar to current processing of Forms 2848.

[133] IRSAC Public Report, Nov. 2024, Pub. 5316 (Rev. 11-2024); pp. 49 – 52; https://www.irs.gov/tax-professionals/internal-revenue-service-advisory-council-irsac.
[134] A "12C notice" is a letter sent when a return is "un-postable" and in suspense. The letter includes a specific fax number and even provides a sample fax cover sheet. The digital response option is listed *after* the fax response. IRS should consider listing digital response first.

5. Expand digital tool usage in the Collection/OIC functions. Promote these tools amongst collection personnel, particularly the OIC units, with all employees required to offer DUT and SM options.
6. Submissions via digital tools (particularly DUT and DMAF) should generate an acknowledgement of submission along with a unique confirmation number (which could then be searched to confirm filing and provide proof of filing). A taxpayer could then rely on this number to verify timely submission. The submission number and the completed DMAF forms should also be noted in the taxpayer's online account.
7. Prioritize POA integration features in DUT and DMAF in future software development over other potential feature enhancements such as expanded business file access, pay.gov, etc. Without prioritizing representative access, adoption will remain limited, since a significant share of taxpayers interact~~s~~ with the IRS through intermediaries, such as tax return preparers and representatives.
8. Include technical support features and online feedback features for digital tools as they are developed. As a minimum first step, the IRSAC recommends that the IRS dedicate a page on irs.gov for users to be able to provide feedback on each tool. Each tool should include a link to this feedback page. This could generate a one-way email sent to an appropriate product specialist; there is no need for a response, other than to acknowledge that a comment was received.
9. Expand digital tools to include multilingual functionality and accessibility features so they reach a broader range of taxpayers. Tools and guidance should be available in multiple languages and designed for taxpayers with disabilities or limited digital literacy to improve and ensure equitable access to all IRS resources that serve to simplify and streamline tax compliance.
10. Seek stakeholder input before developing new digital tools or modifying existing ones.

ISSUE THREE: Expanding ADR and the Pool of Eligible Mediators

Executive Summary

The IRS offers several alternative dispute resolution (ADR) programs designed to resolve tax controversies more efficiently, yet SB/SE taxpayers seldom use them due to restrictive eligibility rules, limited awareness, and doubts about the programs' independence. In response to the IRS's request, the IRSAC evaluated these barriers and recommends revising Revenue Procedure 2017-25 to expand eligibility, requiring examiners to present ADR options consistently, authorizing the use of taxpayer-funded outside mediators, updating IRS publications to highlight ADR, and creating pathways for low-and-middle-income (LMI) taxpayers through low-income taxpayer clinics (LITCs) and pro bono mediation programs. These steps would improve fairness, conserve IRS resources, and strengthen taxpayer confidence in the tax resolution process.

Background

Current State of the Law and ADR Options

Alternative dispute resolution in the tax context encompasses several programs, each administered at different points in the examination and appeals processes. Some of these programs are long-standing, while others are more recent pilot initiatives. Together, they reflect the IRS's efforts to provide taxpayers with avenues for resolving disputes outside of prolonged examinations or litigation. For SB/SE taxpayers, however, access to these programs is uneven, and participation rates remain low. Appeals reported that, as of April 2025, there have been approximately 6,400 closures across all ADR initiatives since inception, a modest number relative to the hundreds of thousands of IRS examinations conducted annually. The following discussion summarizes the principal ADR mechanisms, their governing authorities, and the limitations that affect their use.

1. Administrative Appeals before Appeals

The IRS Independent Office of Appeals (Appeals) is the primary forum for resolving administrative controversies without litigation. Appeals was established by statute to operate independently of IRS compliance functions, with its independence reinforced by the Internal Revenue Service Restructuring and Reform Act of 1998 and later by the

Taxpayer First Act of 2019. Despite these protections, many taxpayers remain skeptical of Appeals' independence, with some perceiving it as an extension of the IRS rather than a neutral arbiter. This skepticism is particularly acute among small business and self-employed (SB/SE) taxpayers, who may lack representation and may have had negative interactions with the IRS earlier in the process. The availability of credible ADR options within Appeals is therefore critical for efficiency as well as maintaining taxpayer trust.

2. Revenue Procedure 2017-25 & Revenue Procedure 2016-57

Revenue Procedure 2017-25 formally established the Fast Track Settlement (FTS) program for SB/SE examination taxpayers. It provides the procedural framework under which SB/SE taxpayers can attempt to resolve factual and legal issues in dispute while the case remains within SB/SE jurisdiction. Importantly, however, the revenue procedure also enumerates several exclusions from ADR eligibility.

Once FTS was established, its predecessor, Fast Track Mediation (FTM), was rarely used for examination cases but FTS was not available for collection cases. Rather than eliminating FTM altogether, the IRS created SB/SE Fast Track Mediation – Collection (FTMC) under Revenue Procedure 2016-57. FTMC is limited to legal and factual issues, certain OIC cases or issues, and certain TFRP cases or issues. Collection due process (CDP) and Collection Appeal Program (CAP) cases are excluded from FTMC since these are separately defined appeal processes related to certain collection actions. Cases worked at an SB/SE Campus site are also explicitly excluded from FTMC. Excluding these disputes from ADR can have adverse consequences, as collection actions often represent the most pressing controversies for SB/SE taxpayers.

The exclusions limit ADR to a relatively narrow segment of the SB/SE population, leaving many taxpayers without a practical ADR pathway and forcing them into the traditional adversarial system.

3. FTS

SB/SE FTS is a mediation program jointly administered by SB/SE and Appeals. Once an issue is fully developed, a taxpayer may request resolution through FTS, with an Appeals officer serving as mediator. The process is designed to conclude within 60 days and permits consideration of so-called "hazards of litigation," a factor not otherwise available to revenue agents that makes it possible to arrive at percentage-based settlements. In practice, however, FTS remains underutilized. A 2023 Government Accountability Office (GAO) review found that from fiscal years 2013 to 2022, ADR usage declined by 65 percent and resolved disputes in fewer than 0.5 percent of cases handled by Appeals.[135] The GAO further concluded that the IRS lacks consistent data collection, measurable objectives, and taxpayer experience monitoring to manage and evaluate its ADR programs effectively. According to data provided to the IRSAC by the IRS, FTS closures since inception totaled approximately 1,380 for SB/SE, 1,049 for LB&I, and 103 for TE/GE. Given the number of examinations conducted each year, these figures suggest limited penetration of ADR among eligible taxpayers. Moreover, FTS is not available in correspondence audits, which constitute the overwhelming majority of SB/SE examinations.[136] The combination of narrow eligibility and limited awareness has significantly curtailed the program's impact. IRS training materials emphasize that SB/SE FTS should generally be completed within 60 days of acceptance, with applications reviewed and assigned within strict 3- to 5-business-day timeframes. These deadlines are designed to provide taxpayers with prompt resolution, though in practice timeliness varies.

4. FTS Improvements and Last-Chance FTS

In January 2025, the IRS announced a series of FTS procedural pilots. One group of procedural changes was aimed at increasing the availability and flexibility of FTS throughout the IRS, including in SBSE. One important change was that FTS can now be requested on an issue-by-issue basis, rather than being limited to situations where all issues in a case were eligible for FTS. Additionally, under the pilot, tentative denials of FTS requests are now subject to first-line executive review and approval.

The IRS also developed a limited scope pilot program for certain SB/SE exam cases called "Last-Chance FTS."[137] Under this program, Appeals personnel proactively contact taxpayers or their representatives after a protest is filed but before the case is

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[135] GAO, *Tax Enforcement: IRS Could Better Manage Alternative Dispute Resolution Programs to Maximize Benefits* GAO-23-105552 (May 31, 2023); https://www.gao.gov/products/gao-23-105552.
[136] For FY 2024, 78% of examinations closed were correspondence exams. See IRS, 2024 Data Book Table 18; https://www.irs.gov/pub/irs-pdf/p55b.pdf.
[137] IR-2025-14 (Jan. 15, 2026), IRS initiates Fast Track Settlement pilot programs in effort to make Alternative Dispute Resolution faster and easier; https://www.irs.gov/newsroom/irs-initiates-fast-track-settlement-pilot-programs-in-effort-to-make-alternative-dispute-resolution-faster-and-easier.

formally transferred to Appeals, offering FTS at that late stage. The pilot reflects an acknowledgment that taxpayer awareness of ADR has been insufficient. By introducing this last-minute opportunity, the IRS seeks to measure whether additional outreach increases participation. Although the initiative is still in its early stages, it demonstrates a willingness to experiment with ways to expand ADR use.

5. PAM

Post-Appeals Mediation (PAM) is available when a case reaches an impasse in Appeals. Under PAM, an Appeals officer not previously involved in the case facilitates negotiation between the taxpayer and Appeals. The process is non-binding but provides a final opportunity to resolve disputes before litigation. Some have described PAM as effective when used, but participation has historically been very low. Nevertheless, PAM usage is on an upswing, with PAM receipts increasing by 110% in FY2024 and by another approximately 50% through the end of August 2025.[138] One limitation is that the mediator is still an IRS employee, which can undermine perceptions of neutrality. For this reason, the revenue procedure allows taxpayers to hire an independent co-mediator at their own expense to work alongside the IRS mediator. Another limitation is that taxpayers may hesitate to invest additional time and resources after an unsuccessful Appeals process. Announcement 2025-06 also amended the rules to confirm that participation in FTS does not disqualify a taxpayer from subsequently pursuing PAM, addressing prior concerns that taxpayers had to choose one process over the other.

6. Early Referral to Appeals

Early referral allows taxpayers to send fully developed issues to Appeals while an examination or collection activity is still ongoing. For collection issues, early referral is known as the Collection Appeal Process and is widely used by taxpayers. For examination issues, early referral can reduce the time needed to resolve large, complex cases by permitting Appeals to consider specific issues before the entire case is closed. Although potentially useful in theory, the procedure is rarely employed by SB/SE

[138] In IR-2025-100 (Oct. 1, 2025), the IRS Independent Office of Appeals announced a two-year PAM pilot program where taxpayer may request PAM at the end of an unsuccessful Appeals proceeding. If that request is accepted, "the parties meet in an accelerated mediation session where they make a final attempt to negotiate a mutually acceptable resolution;" https://www.irs.gov/newsroom/irs-independent-office-of-appeals-starts-post-appeals-mediation-pilot-program.

examination taxpayers, mainly because most SB/SE cases would close before Appeals could complete its consideration of the referred issue. The need for IRS consent and the fact that most SB/SE disputes arise in correspondence exams, where early referral is often not a practical option, have limited the utility of early referral for this taxpayer population.

The IRS Does Not Allow Outside Mediators for SB/SE FTS

At present, SB/SE taxpayers cannot engage outside mediators in the FTS process. The assigned mediators in FTS and PAM are IRS employees, typically from Appeals. In PAM, the taxpayer has the option to hire a non-IRS co-mediator at their own expense to work with the IRS mediator. The limitation of IRS employees serving as mediators in FTS has two main consequences. First, many taxpayers view the process as insufficiently independent, since Appeals personnel still operate within the IRS and often work near compliance staff, although typically in a separate space not accessible by Compliance personnel. Second, the absence of outside mediators constrains capacity, particularly when IRS resources are limited.[139]

IRS leadership initially expressed concern that allowing outside mediators would impose costs on the IRS. Once the IRSAC clarified that its proposal envisioned taxpayers covering those costs, the IRS subject matter experts withdrew that objection. Existing legal frameworks address confidentiality: Section 6103 governs disclosure of returns and return information; the Administrative Dispute Resolution Act[140] protects the confidentiality of dispute-resolution communications; and Revenue Procedure 2017-25

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[139] IRS leadership recognized that outside co-mediators could be considered but noted that outside mediators would not have the authority to offer hazards-based settlements, a key component of FTS. As the SB/SE Subgroup envisions it, an outside mediator (as opposed to an outside arbitrator) would not have the authority to offer a settlement on the basis of hazards of litigation but rather would help the parties reach their own agreement. While the SB/SE Subgroup believes that arbitration has an appropriate role in tax disputes, that role is properly addressed through the U.S. Tax Court's voluntary binding arbitration process. *See* TAX CT. R. 124(a). In the experience of some members, the IRS Office of Chief Counsel has been unwilling to participate in voluntary nonbinding arbitration. This report does not address arbitration. Moreover, IRS leadership has explained that IRS employees would feel that outside mediators lack the credibility and perception of independence that examiners would require in order to feel comfortable agreeing to a resolution. We do not share this concern. The IRS and taxpayer would jointly select a mediator from among a list of IRS-credentialed mediators who have prior government or litigation experience. Moreover, various federal appellate courts successfully utilize nontax mediators. The many ways in which outside mediators can be successfully used by the IRS is outside the scope of this report, but we suggest that the IRS convene a task force to understand (and implement) best practices for mediation in tax disputes (see our Recommendation 1 below).

[140] P. L. No. 105-315, 112 Stat. 2993 (codified as amended at 5 U.S.C. §§571–574).

incorporates both regimes for FTS. With appropriate safeguards, such as requiring the IRS to certify that all relevant information in its possession has been shared with the taxpayer, outside mediators could operate effectively, conserve Appeals resources, and strengthen taxpayer confidence in ADR. Outside mediators would need to meet specified standards in terms of experience and training.

ADR for LMI Taxpayers

LMI taxpayers face distinctive challenges in accessing ADR. Although the IRS supports LITCs, which provide pro bono or low-cost representation in audits, administrative appeals, collection disputes, and litigation, these clinics do not currently integrate ADR into their services. While this restriction is not imposed by the IRS, it is a practical limitation caused at least in part by lack of integration of ADR by LITCs. As a result, taxpayers who might benefit most from a quicker, less adversarial resolution process often cannot use it.

This gap is significant because LMI taxpayers are disproportionately subject to correspondence exams, especially in areas such as earned income tax credit eligibility, and these disputes are, as a practical matter, excluded from FTS and other ADR programs because they typically arise in a correspondence examination. Without explicit pathways for ADR in these cases, and without IRS-credentialed mediators available on a pro bono or low-cost basis, LMI taxpayers remain effectively shut out of ADR. Expanding ADR eligibility to these controversies and leveraging LITCs as a vehicle for access would promote fairness and enhance trust in the system.

Identifying Barriers to ADR for SB/SE Taxpayers

Despite the theoretical availability of ADR to SB/SE taxpayers, participation has remained very limited. The IRSAC's discussions with subject matter experts and external practitioners reveal several categories of barriers: structural, procedural, and perceptual.

1. Common Barriers

The most significant structural barrier for SB/SE taxpayers to ADR is ***eligibility***. Under Revenue Procedure 2017-25, ADR is unavailable for correspondence audits, which account for the vast majority of SB/SE examinations. Collection cases are likewise excluded from FTS, despite their prevalence in tax controversy matters. Other categories, such as "whipsaw" cases[141] or issues designated for litigation, are also barred. However, most SB/SE taxpayers with field examinations can access ADR.

Even for eligible cases, procedural *complexity* is another deterrent. ADR requires understanding distinctions among programs and meeting technical prerequisites such as "fully developed issues." For unrepresented taxpayers, or for those whose representatives lack expertise at the intersection of tax controversy and ADR, these requirements can be especially daunting. IRS publications such as Publication 5022 (Fast Track Settlement) are dense and difficult for lay taxpayers to follow, while materials such as Publication 3498 (The Examination Process) are distributed too late in the exam process to foster early taxpayer understanding and trust.

2. Auditor Obligations to Offer ADR at Examination Closure

Awareness is another barrier. Many SB/SE taxpayers are unaware ADR exists, and IRS communications rarely highlight it. IRS training materials instruct examiners to discuss ADR options with taxpayers at the initial contact stage and again when audit findings are unagreed. Consistent with this training, IRS policy requires revenue agents to provide Publication 5022 (Fast Track Settlement) during unagreed field examination cases and again at the 30-day letter stage in field examination. Examiners must also update case status codes when FTS is offered, underscoring that ADR is intended to be a routine part of exam closure. In practice, however, IRSAC members and practitioners report that this requirement is unevenly followed, leaving many taxpayers without timely information about ADR options. Clarifying and enforcing these requirements would help ensure all taxpayers are informed of ADR at appropriate points in the examination process.

3. Psychological and Cultural Barriers

Beyond structural and procedural limitations, *psychological* barriers remain significant. Many taxpayers distrust Appeals' independence, believing IRS employees cannot truly serve as neutral mediators. Others fear that opting into ADR could invite

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[141] A "whipsaw issue" in tax generally refers to a situation where the Service risks being caught between two or more taxpayers taking inconsistent positions on the same transaction, such that if the Service accepts one taxpayer's position, it may be precluded from collecting the proper amount of tax from the other. Whipsaw issues can also arise across different types of taxes (*e.g.*, estate and gift tax, or estate and income tax), where conflicting characterizations of the same transfer could otherwise allow it to escape taxation altogether.

additional scrutiny. For unrepresented taxpayers, the prospect of navigating a specialized process like ADR can be intimidating. These cultural and perceptual factors help explain why participation remains low, even when ADR could provide faster, more equitable resolution.

Recommendations

1. Convene a task force to understand the ways in which the IRS can authorize the use of independent, IRS-credentialed mediators in ADR for SB/SE taxpayers, allowing taxpayers to select and pay for certified mediators who have completed an IRS-administered training.
2. Require examiners to discuss ADR options with taxpayers at both the initial contact stage and again if issues remain unagreed, as already contemplated in IRS training materials and Internal Revenue Manual (IRM) 4.10.7.5.5 (Sept. 12, 2022). This should be reinforced through standardized explanatory materials and active managerial oversight to ensure consistency and transparency.
3. Enforce the requirement in IRM 4.10.7.5.5, that taxpayers explicitly be offered ADR options at examination closure, accompanied by a standardized notice and tracked through case management systems to verify compliance.
4. Revise Revenue Procedure 2017-25 and, as necessary, Revenue Procedure 99-28, to eliminate the categorical exclusion of collection matters, expand eligibility to correspondence exams, and clarify that participation in FTS does not preclude PAM.
5. Update IRS Publications 5022 and 5 to present ADR options in plain language, with clear flowcharts, and examples, and distribute these (along with IRS Publication 3498) earlier in the examination process.
6. Establish and maintain comprehensive ADR data tracking and evaluation metrics, including request volumes, case outcomes, timeframes, costs, and taxpayer satisfaction, and use such data to set clear ADR objectives and inform continuous program improvements.
7. Expand and simplify early referral procedures for SB/SE taxpayers by streamlining eligibility criteria, adapting the process beyond its current LB&I and

employment tax focus, and piloting early referral in limited correspondence examination disputes.

8. Expand eligibility for ADR to issues disproportionately affecting low-and-middle-income (LMI) taxpayers, such as disputes over earned income tax credit eligibility, dependency exemptions, and head of household filing status, which typically arise in correspondence examinations currently excluded from ADR.
9. Integrate ADR options into LITC services and provide additional funding to support taxpayer access.
10. Develop a pro bono mediator track so credentialed mediators in training can gain experience by assisting in LMI cases at no cost to taxpayers.
11. Ensure IRS communications about ADR are written in plain language, translated into multiple languages, and distributed early in the examination process.

ISSUE FOUR: Using Proactive Prompts to Improve Small Business Voluntary Compliance

Executive Summary

The IRS conducts outreach to taxpayers, including SB/SE taxpayers, through various channels. Building on this foundation, the IRSAC recommends expanding and strengthening outreach by proactively providing timely compliance prompts to new small business taxpayers as well as small business taxpayers who may be at risk of falling out of compliance. The goal is to increase voluntary compliance and thus reduce the need for downstream enforcement and collection activities. Incorporating compliance prompts into the IRS's broader modernization efforts under the Taxpayer First Act of 2019,[142] including enhanced online account functionality and improved digital communication channels, would further strengthen taxpayer engagement and align with congressional priorities on taxpayer service.

Background

The IRS already conducts outreach to SB/SE taxpayers through events and electronic newsletter subscriptions, including more than 521,000 subscriptions targeted to small business owners.[143] In addition, IRS publications such as Publication 334, Tax Guide for Small Business, and Publication 583, Starting a Business and Keeping Records, are widely distributed but not consistently paired with digital compliance prompts, creating a missed opportunity to reinforce obligations at critical lifecycle points.

The IRSAC commends the IRS for piloting new outreach and compliance initiatives and encourages continued innovation, particularly through expanded use of electronic communications.[144] At the same time, the IRSAC believes the IRS can do more to ensure these efforts are systematically aligned with taxpayer needs, including timely compliance prompts that reduce confusion and promote voluntary compliance. The Government Accountability Office (GAO) has similarly found that while the IRS has gradually improved online services and expanded digital interaction features, it lacks a fully developed, evidence-based framework for measuring whether these tools are effective in improving

[142] P.L. 116-25, 133 Stat. 981 (July 1, 2019).
[143] IRS, 2024 Data Book, Table 9; https://www.irs.gov/pub/irs-pdf/p55b.pdf.
[144] For example, pertinent to this report on proactive compliance prompts, the IRSAC learned that the CPEO program uses secure messaging, letters, and reminders to help with compliance.

taxpayer compliance and experience.[145] Incorporating targeted compliance prompts grounded in such evidence would directly support better taxpayer outcomes and reduce compliance burdens.

Lifecycle-Based Compliance Prompts

Small business compliance prompts, especially when provided soon after inflection points in the taxpayer lifecycle, reduce taxpayer confusion over certain compliance obligations, may increase voluntary compliance, reduce the need for downstream enforcement and collection activities,[146] and improve the overall taxpayer experience.

Examples of specific taxpayer actions or filing events, appropriate for a compliance prompt include:

1. Filing a Form 1040 with a new Schedule C
2. Electing to be treated as a partnership or S corporation for tax purposes[147]
3. Receiving a Form 1099-NEC
4. Requesting an Employer Identification Number (EIN) for certain entity types
5. Filing Forms W-2 and W-3 but not filing Form(s) 941
6. Filing a Form 1065 or Form 1120-S return without corresponding Schedule(s) K-1 attached

Recommendations

1. *Expand Outreach Channels*: The IRSAC recommends expanding delivery methods for small business compliance prompts to include:
   - Mail correspondance;
   - Email;
   - Text message; and
   - Other secure digital communications.

[145] GAO, *Taxpayer Experience: IRS Should Fully Establish Its Approach for Using Evidence to Assess Service Improvement Results*, GAO-25-107408 (July 2025), p. 22; https://www.gao.gov/products/gao-25-107408.
[146] The IRSAC intends that these compliance prompts be viewed as friendly reminders aided by technology and taxpayer interest and thus should not be considered as a factor for exam to apply a penalty that otherwise would not be assessed or to deny or diminish reasonable cause for penalty relief.
[147] Elections made on Forms 8832 and/or 2553.

Additionally, taxpayers should be able to opt-in to receive mail, email and/or text reminders via their Online Account and IRS phone assistors as well as other authenticated and unauthenticated channels, such as the IRS website.[148] Outreach should also leverage partnerships with the Small Business Administration (SBA), SCORE, and community-based organizations that already serve small businesses, thereby increasing trust and reach among underrepresented taxpayers.

2. *New Small Business Taxpayer Compliance Prompts*: New Schedule C filers and recipients of Form 1099-NEC should receive proactive compliance prompts noting:
    - Estimated tax payment due dates;
    - Self-employment tax obligations; and
    - Recordkeeping responsibilities, including maintaining contemporaneous books and records.

    New partnerships and S corporations should receive proactive compliance prompts, including:
    - Upcoming due dates for their income tax returns; and
    - Issuance of Schedule(s) K-1 to their partners or shareholder(s).

    Compliance prompts should highlight recordkeeping responsibilities, such as maintaining contemporaneous books and records.

    New S Corporations should receive compliance prompts regarding their payroll tax obligations, including Form 941 filing requirements.
3. *Tax Filing Compliance Prompts*: The IRS should enable taxpayers to opt in to receive proactive compliance prompts in advance of key due dates, including for:
    - Estimated tax payments;
    - Payroll tax filings; and
    - Income tax returns.

    Prompts should be tailored, where appropriate, to high-risk industries identified through IRS compliance research (*e.g.*, cash-intensive businesses, gig economy

[148] This approach is aligned with the recommendations of the 2024 IRSAC General Issue #2 and reflects how taxpayers increasingly engage digitally seeking 24/7 access to paperless and self-directed tools. IRSAC Public Report November 2024, Publication 5316 (Rev. 11-2024) Catalog Number 71824A Department of Treasury, Internal Revenue Service; https://www.irs.gov/pub/irs-prior/p5316--2024.pdf.

participants), ensuring communications address mistakes commonly observed in those sectors.

4. *Revise Certain Forms to Collect Taxpayer Email Address*: Revise the following forms and schedules to include fields for the taxpayer's email address and an opt-in box for electronic compliance prompts (*e.g.,* through email):
    - Form 2553;
    - Form 8832;
    - Schedule C;
    - Form 1065;
    - Form 1120-S;
    - Form SS-4; and
    - Form W-3.[149]
5. *Forms W-2/W-3 Filed Without Corresponding Forms 941*: If a small business taxpayer files Forms W-2 and W-3 but does not file Form(s) 941, the IRS should issue proactive prompts reminding the taxpayer of their payroll tax filing requirements. The business' Designated Official should have the option to receive these reminders electronically. The IRS should also consider expanding this mismatch approach to other common scenarios, such as Forms 1099-NEC that are filed without corresponding Schedule C or inconsistencies between Forms 1099-K and reported income.

[149] The Form W-3 already includes an entry field for the employer's email address.

ISSUE FIVE: Expanding and Developing Resources to Increase Tax Literacy for Small Business Owners

Executive Summary

The SB/SE Subgroup identified the issue of low tax literacy among small businesses as an issue during our January 2025 meeting. The SB/SE Division agreed to receive feedback about this issue and the SB/SE Subgroup met with IRS personnel from the SB/SE Division (Collections). During that meeting, the IRSAC learned that the IRS has some materials for new business owners (e.g., if a taxpayer searches IRS.gov for information on Form SS-4),[150] and that small business owners may receive alerts when a failure to make payroll deposits is detected. In addition, the IRSAC met with the National Taxpayer Advocate (NTA), who elevated tax and financial literacy to one of the most serious problems facing taxpayers in the 2024 NTA Annual Report to Congress (the "2024 NTA Report").[151] The NTA provided insight as to their recommendations for addressing small business tax literacy challenges. The IRSAC supports several of the recommendations included in the 2024 NTA Report to combat low tax literacy among small business owners including:

- **Developing a strategic tax literacy plan** and creating tax education materials that states could integrate into financial literacy or civics curricula for middle and high school students, as well as age-appropriate materials for elementary and higher education students.
- **Partnering with other federal agencies** to disseminate tax education resources alongside other financial literacy information provided to business owners at critical points in the business lifecycle (e.g., when applying for grants or loans).
- **Creating and publishing user-friendly graphics on IRS.gov** that explain the fundamentals of the U.S. tax system, clarify distinctions between income and employment taxes, and highlight the IRS's role in administering the tax system.

[150] IRS Publication 5868, Starting a New Business?; https://www.irs.gov/pub/irs-pdf/p5868.pdf.
[151] 2024 National Taxpayer Advocate Annual Report to Congress, p. 105; https://www.taxpayeradvocate.irs.gov/reports/2024-annual-report-to-congress.

Background

Need for Small Business Owners to Understand Tax Compliance

There is no question that small business owners need essential financial and tax literacy to effectively run their businesses. In fact, as the NTA noted in the 2024 NTA Report, "[t]ax literacy and financial literacy are fundamentally intertwined when it comes to everyday financial decision-making such as household spending, investing for retirement, paying for education, buying a house, or starting or growing a business."[152] In addition, misinformation and tax scams are on the rise, particularly on social media where taxpayers are exposed to inaccurate and misleading tax information.[153] At the same time, small business tax literacy is low—particularly among taxpayers forming a new business.

For example, a 2025 Intuit QuickBooks survey found that 42% of new small business owners had little to no financial literacy before starting their firms, and almost half (45%) reported losing out on $10,000 in profits as a result of low financial literacy.[154] Given the many tax benefits for small business owners contained in the Code, at least some of those lost profits could be attributable to a failure of small business owners to understand what tax benefits may be available and how and when to comply with filing requirements. Another 2024 survey of small business owners found that even though most relied on tax professionals, business owners still struggled with paperwork requirements and tax law complexity, and more than half were unaware of the 20% deduction on qualified business income for individuals with business income targeted to small businesses (Section 199A).[155]

Tax education is not common in high school or even in higher education—other than for students who study accounting. A 2023 survey of small business owners found that only 7.5% of respondents learned how to do taxes in high school and less than 15% learned in college.[156] At the same time, there is demand for financial literacy and tax

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[152] 2024 National Taxpayer Advocate Annual Report to Congress, p. 105; https://www.taxpayeradvocate.irs.gov/reports/2024-annual-report-to-congress.

[153] IR-2025-26 (Feb. 27, 2025); https://www.irs.gov/newsroom/dirty-dozen-tax-scams-for-2025-irs-warns-taxpayers-to-watch-out-for-dangerous-threats.

[154] Myranda Mondry, 20 Small Business Financial Literacy Statistics to Know in 2025, Intuit QuickBooks Blog (April 2, 2025); https://quickbooks.intuit.com/r/small-business-data/financial-literacy-statistics.

[155] 2024 NFIB Tax Survey, p. 2; https://www.nfib.com/wp-content/uploads/2024/10/2024-NFIB-Tax-Survey.pdf.

[156] 2024 National Taxpayer Advocate Annual Report to Congress, p. 113; https://www.taxpayeradvocate.irs.gov/reports/2024-annual-report-to-congress.

education as more states move to require high school students to complete a financial literacy course to graduate.[157] It appears there is both a need and demand for the IRS to build out its small business education efforts beyond its existing programs.

Existing Small Business Educational Tools

The IRS has various resources available for taxpayer education. In some cases, and as noted in prior IRSAC reports, "these efforts aim to enhance transparency, improve compliance, and foster a better understanding of the IRS's enforcement actions."[158] The IRS does not (and generally cannot) engage in marketing, but it does communicate information to the public through IRS.gov (i.e., the IRS website), social media, press releases, and public service announcements. As noted in the 2024 IRSAC Report, the IRS also holds meetings and workshops with professional organizations representing tax preparers through the National Public Liaison (NPL), Taxpayer Experience Office (TXO), Taxpayer Advocate Service (TAS) as well as financial literacy events conducted through the Stakeholder Partnerships, Education and Communication (SPEC) program administered by the IRS Taxpayer Services Division.

In FY2025, IRS engaged in approximately 800 small business events across the country, primarily through partnering with trade associations, industry organizations, small business development centers (SBDCs), and state and local partners. While the IRS estimates that it impacted approximately 250,000 businesses through this ad hoc outreach approach, there are no formal metrics for measuring either small business tax literacy or outreach impact.

More generally, IRS promotes financial literacy through its SPEC programming, and collaborates with approximately 3,300 organizations (e.g., corporations, faith-based and financial education groups, employee groups, and a range of financial institutions including banks and credit unions).

A prompt to a generative AI tool requesting a list of educational resources available to small business owners on IRS.gov (something some small business owners might do)

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157 2024 National Taxpayer Advocate Annual Report to Congress, p. 114; https://www.taxpayeradvocate.irs.gov/reports/2024-annual-report-to-congress.

158 2024 IRSAC Report, p. 185; https://www.irs.gov/pub/irs-prior/p5316--2024.pdf.

noted that the IRS provides a wide array of educational resources tailored to small business owners, including:

1. Small Business and Self-Employed Tax Center: This is the primary IRS.gov webpage for small business owners that lists tax forms, guidance, educational resources, and information for small businesses, independent contractors, and gig workers. It features extensive help for those with assets under $10 million.[159]
2. Small Business Online Learning Platforms: This webpage includes links to both static and interactive tools such as:
   - "Link and Learn" program, which is an e-learning program for Voluntary Income Tax Assistance (VITA) volunteers to complete for VITA certification;
   - A tax calendar, which includes the due dates for quarterly-estimated payments; and
   - A series of lesson plans (Understanding Taxes) allowing teachers and students to deepen their understanding of tax topics on their own schedule.[160] This tool includes more than 1,100 pages of information with separate information for teachers and students. These lessons are laid out clearly and are easy to follow. The site includes lessons on individual income tax formula elements, as well as on the "whys of taxes" that provide information on the history of taxation, taxpayer rights, how taxes affect the public, and tax terminology. The lessons on the income tax were updated in 2025 to address changes made by the Tax Cuts and Jobs Act of 2017 but have not yet been updated for P.L. 119-21 (One Big Beautiful Bill Act; July 4, 2025). Much of the obsolete content was removed during the update but there are some references to Form 1040EZ, a form which no longer exists. Also, the only content to help students learn about running their own business is a lesson on self-employment tax. Given the high possibility that many high school students will be self-employed at some early point in their life such as a gig worker or starting their own small business, learning about recordkeeping, types of business deductions, estimated taxes, and the need to learn about state and local taxes would be a helpful addition to the lessons. The Small Business Online Learning Platforms page also provides a link to the U.S. Small Business Administration's

[159] IRS, Small business and self-employed tax center; https://www.irs.gov/businesses/small-businesses-self-employed.

[160] IRS, Small business online learning; https://www.irs.gov/businesses/small-businesses-self-employed/small-business-online-learning.

website digital learning platform that has programs designed to educate small business owners on entrepreneurial best practices and available financing options but does not include information on taxes.

3. Small Business Virtual Tax Workshop: This webpage includes a series of interactive lessons specifically designed for new business owners to learn about their tax rights and responsibilities through self-guided online workshops.[161] This tool was unavailable as it was being updated, however, IRS intends to launch a new virtual small business workshop strategy by Oct. 1, 2025.

There are other IRS.gov resources available to small business owners, specifically, self-employed workers and gig workers. For example, the IRS has since 2016 maintained a "Gig Economy Tax Center" on IRS.gov, which is listed on the IRS.gov "Self-Employed Tax Center" page.[162] The information on this website is minimal and not designed to help someone in the process of starting a small business. For example, a gig worker would need guidance before starting to generate income on how to set up recordkeeping systems, establish a bank account, and manage cash flow to ensure timely estimated tax payments.

In addition to online tools, the IRS has a series of publications designated as recommended reading for small businesses (e.g., Publication 334, Tax Guide for Small Businesses; Publication 5801 Tools and Resources for Small Business) that are accessible via IRS.gov and intended to educate taxpayers about small business tax compliance.[163] While a business owner may eventually find these resources by searching IRS.gov or conducting a standard google search, asking a generative AI website to provide a list of small business resources on IRS.gov results in a far more efficient search. An IRS managed and maintained tool would more likely lead to reliable information and encourage small business owners and others to start their search for tax information at the IRS website.

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[161] IRS, Small business virtual tax workshop; https://www.irs.gov/businesses/small-businesses-self-employed/small-business-virtual-tax-workshop. As of Sept. 8, 2025, this webpage noted a "temporary outage" and that the IRS was updating the site. The page suggests visiting the IRS Video Portal but provided no link to that site.

[162] IRS, Self-employed individuals tax center; https://www.irs.gov/businesses/small-businesses-self-employed/self-employed-individuals-tax-center.

[163] IRS, Recommended reading for small businesses; https://www.irs.gov/businesses/small-businesses-self-employed/recommended-reading-for-small-businesses.

The IRS also engages in outreach and small business education efforts such as through the following strategies:

1. Media Engagement:
   • Press releases and news articles
   • Social media campaigns
2. Partnerships with Community Organizations:
   - Collaborations with Non-profits and Advocacy Groups: The IRS partners with community organizations and programs, such as VITA, to offer education and assistance programs. These collaborations help reach underserved communities and provide localized support for resolving tax issues. The IRS Stakeholder Liaison unit has connections with many practitioner, industry and school groups.[164]
   - Taxpayer Assistance Centers (TACs): These centers offer face-to-face assistance for taxpayers dealing with collection and other tax issues.
   - Small Business Tax Workshops, Meetings and Seminars: The IRS maintains a webpage with links to various meetings and seminars on tax issues hosted by other organizations.[165] The webpage is organized by state and users can find information on events in their state. For example, a small business owner in Virginia could see tax-related events hosted by the Virginia SBDC. In reviewing this website, as well as the IRS Small Business Forum program, which the IRS intends to promote over the coming year, it became clear that these important resources are not effectively promoted nor are they necessarily identified in a web search engine or generative AI search of the IRS website for small business tax resources.
   - Training program for IRS Small Business Curriculum. The IRS is developing a training program to teach an IRS small business tax education curriculum. The IRS has targeted tax professionals, SBDC volunteers and college

[164] IRS, Stakeholder Liaison local contacts; https://www.irs.gov/businesses/small-businesses-self-employed/stakeholder-liaison-local-contacts.

[165] IRS, Small Business tax meetings, workshops and seminars; https://www.irs.gov/businesses/small-businesses-self-employed/small-business-tax-workshops-meetings-and-seminars.

students for the training program to make presentations to interested taxpayers.

Overall, IRS resources available to small business owners via IRS.gov can be hard to locate through traditional online searches and may be out of date. Small business owners may face persistent and significant challenges when attempting to navigate the IRS website and locate the information necessary to achieve and maintain tax compliance, particularly if they are not experienced small business taxpayers. The website's navigation is often unintuitive, requiring users to sift through numerous pages and links to find relevant guidance or resources. This difficulty is compounded by the ever-changing complexity of the tax law and low tax literacy, which makes it particularly hard for new business owners to interpret requirements and apply them correctly to their unique circumstances.

These challenges are even more acute for taxpayers with limited English proficiency or without consistent internet access. The IRS's current resources are often only available in English and require reliable broadband, leaving many taxpayers, including small business owners, underserved. Some small business taxpayers do not have foundational tax knowledge to know how to report business income and pay self-employment taxes; likely having no awareness of a Schedule C.

Moreover, IRS initiatives to promote tax education, such as the Understanding Taxes resources,[166] have not been consistently prioritized or sustained over time, resulting in gaps in educational outreach and resource development. Consequently, many small business owners struggle to understand essential obligations and risk costly errors or missed opportunities for compliance, underscoring the need for more strategic, accessible, and user-friendly IRS educational tools and web design improvements.

Notably, small business owners are often able to navigate IRS online resources more effectively by using generative AI platforms (e.g., ChatGPT, Microsoft Copilot, or Perplexity) than by relying solely on IRS.gov or traditional search engines. As U.S. students and future entrepreneurs increasingly shift from conventional search methods

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[166] IRS, Understanding Taxes website with resources for teachers and students has a great deal of helpful information but has not been updated since at least enactment of the TCJA in December 2017 as lessons cover personal and dependency exemptions that were removed by the TCJA. See https://apps.irs.gov/app/understandingTaxes/teacher/index.jsp.

toward generative AI tools, it is important for the IRS to consider how best to adapt its small business educational resources to align with this trend.

Recommendations

The IRSAC recommends that the IRS take the following steps to address the tax literacy and resource challenges that small business taxpayers face, consistent with the NTA's 2024 Annual Report.

1. Develop a strategic plan to improve tax literacy among all types of small business taxpayers, which should include establishment of a task force with public and private stakeholders. The plan should include:
   - Developing standardized metrics for measuring tax literacy and regularly conducting and reviewing surveys to evaluate tax literacy among specific types of taxpayers.
   - Identifying metrics to gauge the success of tax literacy and small business education outreach efforts.
   - Identifying opportunities to seek input from stakeholders and the public regarding tax literacy.
   - Creating customized tax literacy outreach, including for platforms inside and outside IRS.gov, for specific types of small businesses and their individual circumstances.
   - Identifying and implementing strategies to partner with state agencies (including state departments of revenue, secretaries of state, state treasurers, and state education departments) to develop and provide accessible tax education for key moments during the lives of individuals and families and the lifecycles of businesses. Some states have online classes available to taxpayers based on particular circumstance or business.[167] The IRS should actively partner with state agencies where possible to include federal income

[167] California Department of Tax and Fee Administration, Tax Education; https://cdtfa.ca.gov/tax-education. The CDTFA serving thousands of business taxpayers is a good example of focused educational efforts consisting of not only information on the agency's website, but also the ability to attend live classes (virtually) to learn about filing obligations and ask questions.

and employment tax information as appropriate. The IRS should also plan and promote their own live webinars on helping emerging and new small businesses and post recordings on IRS.gov.

- Developing accessible tax education materials in consultation with tax preparer communities, including Enrolled Agents, VITA/TCE programs, and software providers, to integrate into their existing communications with taxpayers. In connection with this work, IRS should plan for annual updates for these materials.
- Creating tax education materials targeted to vulnerable populations including the elderly, immigrants, individuals with disabilities, and low-income taxpayers.

2. Annually update IRS tax education materials (such as at the Understanding Taxes webpages) so that states, public and private organizations, and others can incorporate them into education and outreach programs such as for high school financial literacy coursework and integrate into other types of courses, such as math and government or civics, at various educational levels, including elementary school, high school, and higher education. Include the basic tax rules relevant to someone starting a business as a sole proprietor.
3. Partner and post on IRS.gov links with federal agency partners (such as the Social Security Administration, Department of Education, Department of Labor, Department of Health and Human Services, and Small Business Administration) and with state agencies to deliver IRS tax education materials for key points in the lives of individuals, families and businesses. These partnerships should also incorporate tax literacy content into financial literacy programs across federal and state agencies.
4. Develop and post graphics on IRS.gov and develop and distribute other communications to provide basic information on the U.S. tax system's role in society, including where the money that funds the government comes from and how the government uses it.
5. Explore strategies to ensure IRS educational resources are accessible through emerging technologies. As more small business owners rely on generative AI platforms (e.g., ChatGPT, Microsoft Copilot, or Perplexity) rather than or in addition

to traditional search engines, the IRS should ensure its content is optimized for accurate retrieval and that taxpayers are directed to IRS.gov as the authoritative source.

6. Expand multilingual and plain-language resources to reach diverse small business communities.
7. Consider adding a QR code and instructions on the face of Forms 1099-NEC and 1099-K to direct recipients to information on reporting and compliance for non-employment income and related tax matters.
8. Reach out to cities, particularly those that impose a business license tax or similar tax to see if they will help share information about tax considerations of running a business targeted to small businesses.
9. Expand the certification options available through the Link & Learn curriculum to include a Financial and Tax Education training certificate (e.g., a “Tax Community Education Certificate” or “Taxpayer Education Certificate”). This could leverage the IRS’s existing education resources and would include lessons on the platform followed by a certification test. Such an addition would empower NGOs, teachers, and individuals to build their own capacity development plans.

INTERNAL REVENUE SERVICE ADVISORY COUNCIL

Tax Exempt and Government Entities

Brian Yacker, Chair

Joseph Bender

Sam Cohen

Kendra Cooks

Steven Grieb

Mark Matkovich

Tralynna Scott

Cory Steinmetz

INTRODUCTION

The IRSAC Tax Exempt & Government Entities (TE/GE) subgroup is a diverse group of eight members working collaboratively with representatives of TE/GE regarding a broad range of issues, including employee plans, exempt organizations, Indian tribal governments, state and local government entities and tax-advantaged bonds. The subgroup members include attorneys, certified public accountants and financial and benefit advisors. The TE/GE subgroup is grateful for the cooperation received from members of the Tax Exempt and Government Entities Division of the IRS and for the wonderful efforts of Brian Ward, our IRS Liaison, in producing this report.

Our report addresses the following issues:

- Update Guidance on the Interpretation of "Essential Government Function" for Tribal Governments
- High Cost for Exempt Organizations to Use the PLR Process
- Implementation of the Saver's Match
- Defining Identical Terms Identically for Purposes of the Unrelated Business Income Tax (UBIT) and Real Estate Investment Trusts (REITs) to Avoid Confusion and Facilitate the Effective Administration of Tax Law

ISSUE ONE - Update Guidance on the Interpretation of “Essential Government Function” for Tribal Governments

Executive Summary

Internal Revenue Code (IRC or Code) Section 7871 was enacted to give federally recognized Indian tribal governments (tribes) tax benefits comparable to those accorded to states. However, with respect to the issuance of tax-exempt bonds and excise tax exemptions, tribes are critically limited to activities deemed an "essential governmental function.” The IRS currently interprets this term narrowly, excluding tribally owned businesses (e.g., hotels, casinos, golf courses, etc.) as "commercial." This interpretation creates an unfair disadvantage for tribes compared to states. States routinely use tax-exempt bonds for a wide array of revenue-generating projects (e.g. stadiums, golf courses), which are broadly considered "essential governmental functions" under IRC §115. Tribes, however, are denied this ability for their similar revenue-generating enterprises, even though limited tribal tax bases mean these businesses are tribes’ primary source of governmental revenue to fund essential services like healthcare, education, and public safety.

The IRSAC recommends that the IRS update its interpretation of "essential government function" under §7871 to align with the broader treatment afforded to states under §115. This means that if revenue from a wholly-owned tribal entity flows exclusively to the tribe to fund government operations, it should not be excluded as "commercial.” This change would allow tribes to finance these revenue-generating facilities with tax-exempt bonds and receive excise tax exemptions. Such a revision would eliminate inequities, strengthen tribal self-governance, expand access to affordable capital, and uphold the federal government's trust responsibility to tribal self-determination and economic self-sufficiency.

Background

IRC §7871 was enacted in 1982 as part of the *Indian Tribal Governmental Tax Status Act*. Its purpose was to provide tribes with treatment comparable to that of states for certain provisions of the federal tax code.

Section 7871 granted tribes access to certain tax benefits, including excise tax exemptions, the ability to issue tax-exempt bonds, receive tax-deductible charitable contributions, and utilize other provisions of the Code available to states. However, unlike states, tribes face a critical limitation in that they may only access excise tax exemptions and issue tax-exempt bonds when the activity qualifies as an "essential governmental function."

Excise Taxes and Tax-Exempt Bonds

For excise taxes, tribes are exempt only when purchases directly support essential services such as public safety, healthcare, or infrastructure. Purchases tied to tribally owned businesses that the IRS deems "commercial"—such as hotels, resorts, or retail stores—are denied exemption.

For tax-exempt bonding, the restrictions are even greater. States and municipalities routinely issue tax-exempt bonds for a wide array of projects, including utilities, convention centers, and stadiums. By contrast, tribes may only issue bonds for projects the IRS narrowly interprets as essential—typically schools, health clinics, roads, or water systems. Tribal enterprises that generate revenue for government services are excluded as "commercial."

Evolution of "Essential Government Function" -

The original 1982 Senate Finance Committee[168] report explained the rationale: tribal bonding should be limited to projects that states could also finance tax-exempt, avoiding "double exemptions." Initially, the IRS aligned the definition of "essential government function" under §7871 with the broader definition of the same term in §115,

[168] Senate Finance Report, available at srpt97-6461.pdf. "…the bill includes a number of restrictions on this treatment of Indian tribal governments with respect to commercial or industrial activities or other activities other than essential governmental functions. The purpose of those restrictions is generally either (1) to allow the profits from such activities to be exempt from Federal income tax (because of the basic Federal income tax exemption of Indian tribes and because section 115 does not apply to Indian tribes) or (2) to allow the interest on the obligations where the proceeds are used in such commercial or industrial activities to be exempt from Federal income tax, but not to allow both of these income tax benefits to apply in any one case… These provisions do not permit an Indian tribal government (or subdivision) to issue tax-exempt bonds under circumstances where a corresponding issue by a State (or political subdivision) would not be tax-exempt."

which recognizes most revenue-generating government enterprises as "essential government functions."[169]

This changed in 1987, when Congress amended §7871 to specify that essential governmental functions exclude activities "not customarily performed by state and local governments with general taxing powers." Congress did not define "customarily." After this amendment, IRS adopted a much narrower interpretation of "essential government function" that excluded all activities IRS deemed "commercial or industrial."

In 2006, IRS issued a Notice of Proposed Rulemaking (NPRM) contemplating a three-pronged test that limited essential functions to those that: (1) numerous State and local governments with general taxing powers have been conducting the activity and financing it with tax-exempt governmental bonds, (2) state and local governments with general taxing powers have been conducting the activity and financing it with tax-exempt governmental bonds for many years, and (3) the activity is not a commercial or industrial activity.[170] This NPRM was never finalized, but this three prong test has been adopted and utilized in subsequent technical advice memos.[171]

This interpretation diverged from §115 and significantly narrowed the range of tribal projects eligible for tax-exempt financing. Section 115 provides that income derived from the exercise of essential governmental functions and accruing to a state or political subdivision is exempt from federal income tax. In practice, this has been interpreted broadly to include revenue-generating enterprises, so long as the net earnings accrue to the government itself.

The Resulting Disparity

Today, the narrow reading of "essential governmental function" unfairly limits tribes. State and local governments may issue bonds for projects like convention centers,

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[169] *See* 26 CFR § 305.7871-1(d)(3). "(d) For purposes of section 7871 and this section, an essential governmental function of an Indian tribal government (or portion thereof) is a function of a type which is—(3) An essential governmental function under section 115 and the regulations thereunder when conducted by a State or political subdivision thereof."

[170] *See* IRS advanced notice of proposed rulemaking. Federal Register :: Definition of Essential Governmental Function Under Section 7871 and Limitation to Activities Customarily Performed by States and Local Governments

[171]IRS Technical Advice Memo TAM-146957-05. Available at Microsoft Word - TAM_200704019.doc

hotels, or stadiums—clearly linked to revenue generation and economic growth. Tribes, however, are denied the same authority even though their enterprises serve the identical purpose of supporting government services.

To fully understand the depth of this resulting disparity, an understanding of how tribal economies function is imperative.

States have broad tax bases through property, sales, and income taxes. Tribes, due to centuries of state and federal encroachment, lack comparable taxing authority. Courts have also restricted tribal ability to tax nonmembers, while states often impose their own taxes on reservation activity. Faced with these barriers, tribes have turned to business enterprises as a primary source of governmental revenue. Unlike private enterprises, the purpose of these businesses is not profit for individuals but the generation of governmental revenue to fund government services. Revenue generated by tribal businesses are used to fund essential government services such as healthcare, education, housing, infrastructure, and public safety—functions that would otherwise be supported by tax revenue if tribes enjoyed the same jurisdictional authority as states.

Congress itself has acknowledged this disadvantage. In 1988, it enacted the *Indian Gaming Regulatory Act* (IGRA) specifically to give tribes an opportunity to raise revenue and promote economic development via tribal casino businesses. IGRA demonstrates congressional recognition that tribes need alternative tools to fund governmental responsibilities.

In this context, tribally owned businesses serve as the functional equivalent of state tax systems. Where a state may fund education and healthcare with sales tax receipts, a tribe may use gaming or energy revenues to accomplish the same. Both models reflect a government's responsibility to raise revenue for the welfare of its citizens. The distinction lies not in the purpose of the revenue but in the mechanism by which it is generated. States rely on taxation; tribes rely on business enterprises. For this reason, both the enterprises themselves and the revenue they produce must be understood and treated as governmental in nature, equivalent to state tax revenue. Only through this recognition can tribes achieve true fiscal sovereignty and equity within the federal system.

Recommendations

The IRSAC recommends that IRS update its interpretation of “essential government function” under §7871 and issue guidance of the same.

Specifically, tribal governments should be afforded the same treatment under §7871 as states are under §115: if the revenue is used to fund government operations, the enterprise should not be excluded as “commercial.” Guidance should establish a presumption that wholly-owned tribal entities whose profits flow exclusively to the tribe, and not to any private individual, are not “commercial activities” for purposes of §7871.[172] This presumption would acknowledge that the purpose of such entities is governmental revenue-raising, which is a *quintessential* government function. Consequently, tribes should be able to finance the development of these facilities through tax-exempt bonding, just as state and local governments are permitted. Additionally, the activities performed via these tribally owned businesses should enjoy the same excise tax exemptions as the tribal government.

Revising this definition would not only eliminate inequities but also strengthen tribal self-governance. Allowing tribes to use tax-exempt financing for government-owned enterprises would expand access to affordable capital, enabling the construction of revenue-generating projects that sustain essential services for their citizens. It would also eliminate the excise tax burden that states do not bear. This approach affirms the federal government’s trust responsibility to support tribal self-determination and economic self-sufficiency.

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[172] *See also*, Rev. Rul. 90-74 The revenue ruling states that the income is excludable from gross income so long as private interests do not participate in the organization or benefit more than incidentally from the organization.

ISSUE TWO – High Cost for Exempt Organizations to Use the PLR Process

Executive Summary

The IRSAC TE/GE Subgroup believes that Private Letter Rulings (PLRs) are an essential tool that exempt organizations may use to better understand and comply with their tax responsibilities by seeking clarification in the tax law through the PLR process. Exempt organizations often look for ways to fill in for the lack of precedential guidance; one way to do so is to seek a PLR, which provides a definitive conclusion for the exempt organization regarding the IRS's stance on a particular position. Requests for PLRs are also a helpful tool for the IRS to understand areas where additional guidance may be needed. PLR user fees have significantly increased over the years, resulting in the fees being quite prohibitive for many exempt organizations; thus leading to fewer requests for PLRs by exempt organizations. Fewer requests for guidance from the IRS do not best ensure compliant reporting by exempt organizations, particularly in regards to more complex transactions.

Background

There are approximately two million exempt organizations actively operating in the United States.

Pursuant to §7528 of the Internal Revenue Code and OMB Circular A-25, the IRS has little to no discretion in determining the user fees to be charged to exempt organizations requesting a private letter ruling. Such user fees need to be based upon the IRS 's determination of the "costs" related to going through the whole private letter ruling process (for example, calculating over the past 2-3 years the average time that the IRS takes throughout the PLR process taking into account the complexity of the average PLR request).

Effective February 2, 2025, the fee for a PLR request made by an exempt organization increased from $38,000 to $43,700. There is a reduced user fee available for "smaller" exempt organizations (annual gross receipts of less than $400,000) requesting a PLR from the IRS ($3,450), along with a mid-tier user fee of $9,775 for organizations with annual gross receipts between $400,000 and $10 million. For the great majority of exempt organizations, this user fee is way beyond what the exempt organization can afford, even if for requesting much needed guidance from the IRS.

In addition to the high cost for an exempt organization to obtain a PLR from the IRS, another important consideration is the elongated time frame for an exempt organization to go through the entire PLR process with the IRS. Oftentimes, it can take an exempt organization over a year to obtain the requested guidance from the IRS, starting with the preparation time to prepare and submit the ruling until the time the ruling is received.

The annual number of exempt organizations requesting PLRs from the IRS has decreased over the years as the user fee for obtaining such has increased.

Exempt organizations going through the PLR process are usually offered the opportunity to have a pre-submission conference whereby they can receive non-binding feedback from the IRS regarding their thoughts about the substance of the exempt organization's request.

Recommendations

1. Consider a different definition of "cost" when calculating the PLR submission user fee for exempt organizations other than their current methodology for calculating such.
2. Actively promote the availability of the pre-submission conference as an "alternative" for exempt organizations to consider so that they can perhaps receive valuable feedback from the IRS without having to incur the high cost and experience the significantly elongated and time consuming process of formally obtaining a PLR.

ISSUE THREE - Implementation of the Saver’s Match

Executive Summary

The Saver’s Match will be a governmental matching contribution for qualifying taxpayers who make retirement savings contributions to a retirement plan or an IRA. The success of the Saver’s Match program depends upon convincing retirement plan and IRA administrators to accept the contributions. Additionally, the success of the Saver’s Match program also depends upon taxpayers understanding the requirements for eligibility as well as the process for claiming the matching contribution.

Full achievement of the Saver’s Match goals depends upon (1) minimizing the burdens of retirement plan and IRA providers and incentivizing participation, and (2) educating taxpayers – particularly low and middle-income taxpayers, on how the Saver’s Match can be claimed as well as the benefits of the program. The IRSAC has several recommendations relating to both of these key imperatives.

Background

Effective for taxable years beginning after December 31, 2026, the SECURE 2.0 Act of 2022 (“SECURE 2.0”; Sec. 103) replaces the Saver’s Credit with the Saver’s Match. The Saver’s Match will be a governmental matching contribution for qualifying taxpayers who make retirement savings contributions to a retirement plan or an IRA. The Saver’s Match will be made as a pre-tax contribution (not a Roth contribution) directly to the retirement plan or the IRA.

The Saver’s Match is designed to benefit taxpayers who earn less than a certain level of taxable income and exclude higher income individuals. The amount of the contribution depends on several factors, including the taxpayer’s filing status, adjusted gross income and the amount contributed by the taxpayer. The maximum Saver’s Match equals $1,000. SECURE 2.0 section 103(c)(2) requires the amendment of forms relating to retirement plans to require reporting of aggregate amounts of Saver’s Match contributions received by the plan during the year. The IRSAC strongly supports the conversion of the Saver’s Credit into the Saver’s Match.

Since Congress passed the Saver’s Match in 2022, the IRS has been active in developing the program, and seeking assistance from the retirement plan community. In

2024, the IRS issued Notice 2024-65,[173] providing some background information on the Saver's Match, and requesting comments from the public. Additionally, the IRS has previously taken steps to educate the public about which taxpayers are eligible for the Saver's Credit (the precursor to the Saver's Match), and how to calculate the potential credit.[174]

The taxpayer has flexibility in choosing which IRA or retirement plan their Saver's Match will be contributed to. However, SECURE 2.0 does not require retirement plans or IRAs to accept the Saver's Match contributions. A taxpayer can elect to have the Saver's Match contributed to a given retirement plan or IRA only if that plan/IRA has elected to accept Saver's Match funds. Consequently, the success of the Saver's Match program depends upon convincing retirement plan and IRA administrators to accept the contributions.

Additionally, the success of the Saver's Match program also depends upon taxpayers understanding the requirements for eligibility as well as the process for claiming the matching contribution. Section 104 of SECURE 2.0 requires the Department of the Treasury to take steps to increase public awareness of the availability of Saver's Match contributions and to provide a report to Congress on anticipated promotional efforts.

As a result, the full achievement of the Saver's Match goals depends upon (1) minimizing the burdens of retirement plan and IRA providers to incentivize participation, and (2) educating taxpayers – particularly low and middle-income taxpayers – on how the Saver's Match can be claimed as well as the benefits of the program. The 2025 recommendations made by the IRSAC will revolve around these two areas.

<u>Recommendations</u>

The IRSAC has the following recommendations to maximize the efficiency of the Saver's Match and minimize resource strain:

1. Encourage retirement plans and IRA providers to accept Saver's Match contributions by limiting burdens and maximizing flexibility through considering the following items:

[173] https://www.irs.gov/pub/irs-drop/n-24-65.pdf.

[174] See https://www.irs.gov/retirement-plans/plan-participant-employee/retirement-savings-contributions-credit-savers-credit; https://www.irs.gov/help/ita/do-i-qualify-for-the-retirement-savings-contributions-credit.

- Do not require retirement plan and IRA providers to claim the Saver's Match on behalf of taxpayers. Claiming the Saver's Match requires information that the plan/IRA provider does not have, such as filing status and adjusted gross income. Requiring plan/IRA providers to claim the contribution on behalf of the taxpayer will serve as a deterrent to accepting Saver's Match funds. Plans should be required to provide participants with the plan information necessary to have the Saver's Match delivered to the correct place (if the plan accepts Saver's Match contributions).
- If retirement plan/IRA providers are permitted to claim the Saver's Match on behalf of taxpayers, it should be based on certifications provided by the participant regarding their eligibility. Guidance should clearly specify that the plan/IRA provider is entitled to rely on that certification.
- The possibility of receiving Saver's Match funds that cannot be assigned to a specific participant account would discourage retirement plan administrators from accepting those contributions. Provide a mechanism for plans and IRAs to reject or otherwise not accept contributions, and to return contributions that should not have been accepted. Offer maximum flexibility to any plans that must correct mistakes.
- Confirm that retirement plans do not need to track earnings on Saver's Match contributions for purposes of hardship and unforeseeable emergency expense distributions. Clarify that the restrictions against the use of Saver's Match contributions for hardship and unforeseeable emergency expense distributions apply only to the funds contributed—and not to earnings on these funds.
- Many plan sponsors will be hesitant to accept Saver's Match contributions if doing so is likely to lead to an increase in the plan's number of small accounts. Exclude Saver's Match contributions for purposes of the mandatory cashout and automatic rollover IRA rules under Section 411(a)(11)(D).
- Provide a model plan document amendment for retirement plans to adopt permitting the acceptance of Saver's Match contributions.

- With regard to Pooled Employer Plans, allow the pooled plan provider to give adopting employers flexibility to choose (on an employer-by-employer basis) the ability to accept or not accept Saver's Match funds.

2. Look for specific actions that would incentivize retirement plan administrators to accept Saver's Match funds. For example, guidance could be issued allowing retirement plans to permit Saver's Match contributions – which will generally be allocated to non-highly compensated employees – to be treated as elective deferrals for purposes of the actual deferral percentage test.
3. Educate taxpayers on the eligibility for the Saver's Match and the benefits of the program.
    - Provide all public communications addressing the Saver's Match in plain English. Make the educational materials available in multiple languages reflecting the diversity of the taxpayer group that may be eligible.
    - Focus on reaching underserved communities – including younger and lower-income taxpayers – who may not know about retirement savings options. Partnering with non-profits who assist underserved communities and tax preparers could help get the word out and make participation easier.
    - Use social media programs popular among younger taxpayers such as Instagram or Reddit to provide information and increase the necessary public understanding.
    - Create an interactive tax assistant tool to help taxpayers determine if they qualify for the Saver's Match (similar to the current tool for determining if you are eligible for the Saver's Credit).
    - Create one-page flyers covering the Saver's Match requirements for distribution at VITA sites. Make education around the program a focus for those who assist taxpayers through VITA sites.
    - Taxpayers should have multiple ways to claim the Saver's Match. Flexibility is key. The claim should be possible using all income tax filing forms – 1040 and 1040-NR. Claiming the contribution should also be possible using a stand-alone form for participants who do not file an income tax return. Requesting the contribution should also be permitted via a specific page on the IRS website.

- Retirement plan participants will ask service providers and human resource officers about the eligibility requirements for the Saver's Match. Provide a model notice that providers and human resource representatives can share with participants describing the applicable rules.

ISSUE FOUR – Defining Identical Terms Identically for Purposes of the Unrelated Business Income Tax (UBIT) and Real Estate Investment Trusts (REITs) to Avoid Confusion and Facilitate the Effective Administration of Tax Law

Executive Summary

Sections 512 (relating to UBIT) and 856 (relating to REITs) both use the identical phrase "rents from real property." As discussed in this report, both tax-exempt organizations subject to the UBIT and REITs are subject to certain tax treatment on their rents from real property. However, despite both Code Sections using the identical phrase, the interpretation of that phrase has evolved differently for UBIT and REIT purposes. This has led to confusion and hindered taxpayers' ability to structure investments where the two regimes overlap (particularly when tax-exempt investors hold material ownership in a REIT). In order to effectively administer tax law and avoid confusion, the IRSAC recommends that the interpretation of the two phrases be harmonized.

Background

In accordance with Section 501(a), tax-exempt organizations are generally exempt from federal income tax on their passive investment income. One of the categories of exempt passive investment income is "rents from real property" as set forth in Section 512(b)(3). Thus, tax-exempt organizations that earn rent from real property are not subject to the UBIT on that income.

Similarly, REITs are entitled to avoid corporate level income tax on their income provided that the REITs pay dividends (actual or deemed) to their shareholders. In order to keep this tax-preferred status, REITs are required to meet certain income tests (among other requirements). The two-part income test requires that a REIT must derive at least 95% of its gross income from certain specified sources, including "rents from real property." Section 856(c)(2). Additionally, Section 856(c)(3) requires that REITs derive at least 75% of their gross income from certain categories of income specified thereunder, which likewise includes "rents from real property" (the tests in Section 856(c)(2) and (3) are generally referred to as the "REIT Income Tests").

Thus, pursuant to the Code, both REITs and tax-exempt organizations are entitled to preferential tax status for their rent from real property.

However, despite the identical use of the term in the Code, the term has not been interpreted identically in the rules applicable to REITs and tax-exempt organizations. Each of Sections 512 and 856 have their distinct Treasury Regulations defining real property. For example, the Section 512 Regulations provide that “real property” means (i) all real property, (ii) any property described in Section 1245(a)(3)(C) (*relating to real property which is subject to certain depreciation and amortization*) and (iii) real property defined in Section 1250(c) and the regulations thereunder (*also relating to real property which is subject to depreciation*). Treas. Reg. §1.512(b)-1(c)(3)(i). From the REIT standpoint, real property is defined as land and “inherently permanent structures.” Treas. Reg. §1.856-10. The REIT regulations also provide that tax elections (specifically including depreciation elections) do not impact the character of an asset. Thus, an asset owned by a REIT will be treated as a real estate asset regardless of the manner in which the REIT elects to depreciate that asset. Conversely, that issue is an open question for UBIT purposes, which has led to a concern that certain accelerated depreciation elections that depreciate component parts of real property improvements as personal property, not real property, may correspondingly cause the *income* from those components to be treated as personal property rental income (and thus, subject to UBIT). In other words, if a tax-exempt organization is a partner of a real estate partnership and the partnership undertakes a cost segregation study to determine which of the partnership’s assets may be eligible for accelerated depreciation as personal property, a corresponding portion of the partnership’s income may not qualify as rent from real property.

The differing definitions have caused difficulties and potential confusion, particularly among pension held REITs. Pension trusts are subject to UBIT, but eligible for the UBIT exemption for rent from real property, and thus pension funds frequently invest in REITs.[175] When either a single pension fund holds more than 25% of a REIT's interests by value, or multiple pension funds, each holding more than 10% of a REIT, collectively own over 50% of the REIT's interests by value, then the REIT is a pension held REIT. For pension funds that hold more than 10% of a pension-held REIT's interests,

[175] Note that many pension trusts are eligible to also exclude debt-financed real property income from UBIT pursuant to Section 514, and thus pension trusts may also invest in REITs that use debt to acquire their real property.

a portion of the REIT dividends received by that pension fund may be subject to UBIT, determined by the ratio of the REIT's income that would have been subject to UBIT if the REIT itself were a pension fund investor *compared to* the REIT's total gross income.

This creates tension between pension fund investors in a REIT, who would want the REIT to conduct its operations to be UBIT compliant, versus the non-pension fund investors in the REIT, who would not wish to be constrained by the UBIT rules.

Additionally, as a general matter, when a taxpayer attempts to determine whether income would qualify as rents from real property for UBIT purposes, the first step is of course to research that question within the UBIT guidance. However, if that question cannot be answered in the UBIT guidance, it would be typical to see how that phrase is defined for purposes of other Code sections. Since the same phrase exists verbatim in the REIT Sections of the Code, a taxpayer would typically turn to REIT guidance for its answer. But because the REIT and UBIT guidance relating to the same exact phrase is not harmonized, the UBIT taxpayer could be relying on the REIT guidance to its own detriment. Thus, it would make sense for the identically used phrase in two Code sections to correspondingly be treated the same.

<u>Recommendations</u>

1. The IRSAC recommends that the IRS reconcile the guidance explaining the legislative terms “rent from real property” so that their definitions are harmonized for purposes of the REIT and UBIT provisions of the Code. One option would be to take the comprehensive provisions recently promulgated in Treasury Regulations 1.856-10 for both the UBIT and REIT provisions. The IRSAC recognizes that there is not complete overlap between the two regimes, but the “inherently permanent structure” test could be an efficient starting option for one comprehensive set of rules.
2. Alternatively, the IRSAC recommends that the IRS address discrepancies between the two defined terms as part of its Priority Guidance Plan, particularly with regard to depreciation and other tax elections that can be made with regard to real property.

INTERNAL REVENUE SERVICE ADVISORY COUNCIL

Taxpayer Services Subgroup Report

Elizabeth Boonin, Subgroup Chair

Grace Allison

Robert Barr

Pablo Blank

Omeed Firouzi

Sarah Narkiewicz

Brayan Rosa-Rodriguez

Hussein Tarraf

Lucinda Weigel

Rolanda Watson

INTRODUCTION

The IRSAC Taxpayer Services Subgroup is a collaborative body of professionals representing a broad cross-section of the tax ecosystem, including CPAs, enrolled agents, attorneys, technologists, educators, and community advocates. Their collective experience spans public accounting, legal representation, tax technology innovation, and direct taxpayer assistance through clinics and volunteer programs. Members bring expertise in tax compliance, policy development, education, and outreach—serving individuals, small businesses, and underserved populations alike. Collectively, they contribute perspectives from academia, private practice, nonprofit leadership, and government collaboration, reflecting the diverse realities of tax administration and taxpayer engagement across the nation.

The Taxpayer Services spectrum covers a large and diverse population of taxpayers with a wide range of income and tax return complexity. Taxpayer Services encompasses tax return processing, forms publication, electronic products and services, preventive and corrective identity theft programs, and the overall administration for delivering timely, accurate, and excellent service while reducing taxpayer burden.

During this past year, our subgroup worked closely with our IRS Taxpayer Services colleagues to provide feedback and recommendations to help improve taxpayer service, technology, compliance, and administration.

Our report addresses the following six topics:

1. CAF Authorization Process Improvements (Raised by the IRSAC)
2. Access to Entire Electronically Filed 1040 Tax Return Data (Raised by the IRSAC)
3. Amended Return Processing and Time (Raised by the IRSAC)
4. Leveraging Social Media to Improve Service and Compliance
5. Pre-Launch Testing and Post-Launch Support
6. Supporting Live Chat for Tax Professionals (Raised by the IRSAC)

We thank Taxpayer Services Commissioner Ken Corbin, and the many IRS personnel with whom we've worked closely this year for their cooperation and assistance in developing this report and for their recognition of the Subgroup as an integral resource.

We also express our sincere gratitude for Tekila Gray, and her commitment to sharing their knowledge with the IRSAC.

We especially thank our liaisons from the National Public Liaison Division, including Maria Salazar and Paul Ferrell, for their guidance and facilitation of our service, providing information, advice, and access to essential IRS personnel needed to develop our report.

ISSUE ONE: CAF Authorization Process Improvements

Executive Summary

The Internal Revenue Service (IRS) authorizes taxpayers to designate representatives through Form 2848, Power of Attorney and Declaration of Representative and Form 8821, Tax Information Authorization. These forms grant representatives differing levels of access to taxpayer information and the ability to interact with the IRS on the taxpayer's behalf. Both are administered by the Centralized Authorization File (CAF) Unit. This document presents recommendations aimed at improving processing efficiency, enhancing adoption of Tax Pro Accounts, and meeting the rising demand for taxpayer transcripts.

Due to tax legislation and increased fraud protection assurances required by private industry, the IRS has recently seen a significant uptick in Form 2848/8821 submissions. Although IRS policy establishes a five-day processing timeframe for these authorization forms, actual processing times between November 2024 and April 2025 averaged nearly 25 calendar days. This delay has resulted in several operational challenges, including:

- Repeated submissions due to limited visibility into processing status, increasing the risk of duplicate processing and further inefficiencies;
- Higher call volumes to practitioner hotlines, leading to extended wait times (4.8 minutes for IMF PPS / 5.4 minutes for BMF PPS during FS25) and restrictions on the number of taxpayers that can be discussed per call (5). Although the IRS launched Tax Pro Accounts ("TPA") in 2021 to facilitate online authorization processing, adoption has been limited. Barriers include no bulk authorization support, lack of status or timely error reporting, no taxpayer-initiated requests, and absence of technical support. Manual online submissions are impractical for firms managing a high volume of clients, especially when senior partners are required to complete individual authorizations.

The IRS launched the Tax Pro Account (TPA) platform in 2021 to streamline online authorization processing; however, adoption has remained limited. Key barriers include the inability to support bulk authorizations, lack of real-time status visibility and error notifications, absence of taxpayer-initiated requests, and no dedicated technical support. Manual, single-entry submissions are particularly impractical for firms managing large client volumes, especially when senior partners must complete each authorization individually. As noted, demand for taxpayer transcripts has also increased. In April 2025, the IRS received over 500,000 CAF authorization submissions, with daily volumes exceeding 40,000 forms. While return processing met timeliness targets in May 2025 due to temporary staffing increases, continued submitter reliance on non-digital channels drives manual processing which is labor-intensive, costly, and susceptible to errors.

The Internal Revenue Service Advisory Council (IRSAC) recommends targeted process improvements to make authorization handling more efficient, consistent, and cost-effective while reducing errors and administrative burden.

Background

Taxpayers can grant tax authorization to individuals (i.e., representatives) who are given authority to obtain information and/or represent a taxpayer before the IRS. These representatives can be credentialed (e.g. attorney or CPA) or uncredentialed; even immediate family members or officers of an organization may serve as representatives.

Two levels of authorizations are supported by different IRS forms.

1. Form 2848: Power of Attorney and Declaration of Representative. This authorization allows a representative to perform acts specified in 26 Code of Federal Regulations § 601.502(c)(1) and (2), including representation before the IRS (e.g. signing returns and making agreements). [176]
2. Form 8821: Tax Information Authorization. This authorization permits a third-party designee to receive returns and return information only; representation is not authorized under this form type.[177]

[176] Instructions for Form 2848: Power of Attorney and Declaration of Representative. U.S. Department of the Treasury. https://www.irs.gov/instructions/i2848; see also 26 C.F.R. § 601.502(c)(1)–(2) (2024) for the regulatory authority outlining the powers granted under this form.
[177] Instructions for Form 8821: Tax Information Authorization. U.S. Department of the Treasury. https://www.irs.gov/instructions/i8821

The powers granted by these forms can be revoked at any time by the taxpayer or withdrawn by the representative / designee (hereafter referred to as representative).

Processing Forms 2848 and 8821

The Centralized Authorization File (CAF) is a computerized system of records that houses authorization information from both powers of attorney and tax information authorizations. The CAF system contains several types of records, among them taxpayer and representative's records, tax modules and authorizations. Tax examiners in the IRS's CAF units located in Philadelphia, Pennsylvania; Memphis, Tennessee; and Ogden, Utah, process Forms 2848 and 8821. These authorizations may be submitted through via fax, online through the Taxpayer Digital Communications (TDC) Platform, by mail or through direct taxpayer contact directly with the IRS for oral authorizations. Note: there is a digital authorization available leveraging IRS online accounts that will be outlined in a separate section.

Form authorization begins with a Tier 1 process where CAF units log the forms by receipt date and type and enter them into a database to track inventory. Forms are processed by the CAF units on a first-in, first-out basis, regardless of the method used to submit the authorization.

Inventory is then distributed within each CAF unit to tax examiners who perform Tier 2 processing which involves verifying five elements on the submitted forms:

1. Taxpayer signature and date
2. The representative's designation and licensing jurisdiction and number (if applicable)
3. The tax year, tax period, and type of tax (e.g., Form 1040) up to 3 years into the future
4. Identifying information for the taxpayer, including name, address, and Taxpayer Identification Number (TIN)
5. Identifying information for the representative, including name and address.

Once this information is confirmed, tax examiners determine the representative's status with the IRS to ensure they are in good standing[178]. All CAF unit employees processing authorizations are dedicated resources; they do not perform other job functions.

[178] IRM 21.3.7 Centralized Authorization File (CAF). Internal Revenue Manual (2023). U.S. Department of the Treasury. https://www.irs.gov/irm/part21/irm_21-003-007r

Volume and Turn Times

In 2024, the CAF unit processed 4.7 million authorization and 4.6 million the year prior. Due to tax legislation and increased fraud protection assurances required by private industry, the IRS has recently seen a significant uptick in the authorizations. During a meeting with the CAF unit on April 17, 2025, the IRSAC learned that the CAF unit indicated they have already received 3.3 million submissions year to date. There is no expectation in the marketplace that volumes will subside given multiple industries are increasing their requirement for third-party income verifications and alternatives, such as the Income Verification Express Service (IVES) are more problematic due to higher failure rates of around 30-40% according to industry claims[179].

The IRS guidelines require tax examiners to process Forms 2848 and 8821 within five business days from receipt. However, the turnaround times averaged 19 business days (close to 30 calendar days) from November 2024 to April of 2025. These delays create a compounding effect that negatively impacts stakeholders and taxpayers alike. First, representatives are often unaware of processing timelines and will submit forms multiple times duplicating efforts. There is no real-time status or query capability related to these request submissions. Second, practitioners often cannot wait for extended processing times and will call the IRS practitioner line or fax an authorization for immediate assistance once more than a week passes. There are often extended hold times for practitioner phone lines, especially in the off season and sometimes so many calls in the queue that the IRS will not even accept calls, which increases frustration. Lastly, if resolution is achieved via a phone call (or another method), the authorization remains in the queue for processing and often gets forwarded again from accounts management, creating another submission of an authorization that is no longer needed.

None of the manual workaround options work efficiently with a high volume; each phone call takes a minimum of 15 minutes to receive and process an authorization before addressing any request or issue, and representatives are limited to 5 taxpayers per call. Additionally, phone support is only available for forms with wet signatures, despite the

[179] **Tax Guard.** "*The Tale of IRS Form 4506-C vs. IRS Form 8821 for Tax Return Transcripts*." November 15, 2022. https://tax-guard.com/blog/the-tale-of-irs-form-4506-c-vs-irs-form-8821-for-tax-return-transcripts/.

fact that a wet signature provides no additional verification feature for the taxpayer compared to an electronic signature. An electronic signature could arguably provide more information about the origin of a signature via the digital fingerprint with regard to email address and IP address. This issue was highlighted in the 2024 IRSAC report (Taxpayer Services Subgroup Issue Three: Alternatives to Wet Ink Signatures for Forms 2848 and 8821).

Online Authorizations

The IRS launched the Tax Pro Account on July 20, 2021, introducing an online platform that enables tax professionals to digitally submit Power of Attorney (POA) and Tax Information Authorization (TIA) requests for individual taxpayers. This system was designed to streamline the authorization process by allowing electronic submissions directly to the IRS's CAF database, thereby reducing the need for manual processing.

As of September 2024, about 260,000 tax professionals have signed up for and used the TaxPro Account. The fully automated online process is strategically the best path but there are some usability issues that, if addressed, might increase usage.

The online process originates from the TaxPro account and there is no positive validation that an authorization was successfully pushed into the taxpayers online account leading to frustration when there's no visibility to what's causing an error. It creates unnecessary back-and-forth with the taxpayer trying to get authorization to be available for approval with limited information about why. It would be beneficial to support a taxpayer request to a tax professional because the population of professionals is smaller and easier to search by leveraging a CAF Number and/or name search.

Additionally, online authorizations are only processed as a single request. No bulk processing is available limiting its usefulness for bigger firms. If the IRS is looking to eliminate fax, a bulk upload and API should be supported for submitting many authorizations at once. Manually typing each request from an online account that has multi-factor authentication is an unrealistic option when often the individual being authorized is a senior partner at an accounting firm who will not undertake the manual exercise simply because it's not a good use of time.

Finally, the features do not have any product or technical support. This is an issue that was raised in the 2024 IRSAC report (General Issue Six: Online Accounts Technical Support).

Automation and Staffing

Unfortunately, while adoption of online accounts is gaining momentum, the majority of authorizations are still submitted using forms and manual processes. As of April 2025, the backlog of authorizations was about 500,000 with daily submissions exceeding 40,000 forms. The CAF unit significantly increased its number of employees to reduce the inventory which resulted in normal turnaround-times returning in May 2025.

Regardless of the availability of resources, leveraging human capital for CAF authorizations is expensive, highly variable, and prone to error. The Tier 1 and Tier 2 processes validate information with other internal databases against information on the form which does not require human intelligence. The IRS has rolled out a proof of concept for assisting with the manual processing, which is a start. However, the entire process could be automated, potentially resulting significant annual cost savings that could be reallocated to perform value-added services.

Recommendations

The IRSAC recommends that the IRS improves CAF processing as follows:

1. Fully automate the 2848/8821 form validation and registration on the CAF database using OCR (Optical Character Recognition) and RPA (Robotic Process Automation) to eliminate the variability, errors, and expense inherent in human capital.
2. Support bulk online authorization requests including robust error and status reporting, via an API.
3. Support authorization requests from a taxpayer's online account into a TaxPro Account with search capabilities based on CAF number and name.

ISSUE TWO: Access to Entire Electronically Filed 1040 Tax Return Data

Executive Summary

As of May 24, 2025, the IRS had received 140.33 million electronically filed 1040s, which represented 95.3% of total individual returns (147.269 million) received as of that date. These electronic returns generally originate from computer applications sold by tax software / internet providers to both (i) individuals preparing their returns themselves and (ii) professional tax preparers preparing returns for multiple clients. In addition, some of these returns were submitted through the IRS Direct File[180] program introduced two tax seasons past. All these returns were submitted in a specific computer processible format known as XML[181] (eXtensible Markup Language).

Although the IRS receives these 1040 returns in XML format, it only makes text copies of returns available upon request through its various public facing applications with processing times as long as 75 days.

The IRSAC recommends that the IRS allow both individual taxpayers and professional tax preparers to request a complete copy of a tax return be provided in XML format for any prior electronically filed return, regardless of the requesting source – whether through TDS (Transcript Delivery System[182]), individual online accounts, or through Form 4506-C. The latter is satisfied through a different electronic system known as IVES[183] (Income Verification Express Service). Doing so, should allow faster response for the variety of reasons taxpayers make such requests.

Background

Taxpayers have several uses for a copy of prior tax return data. This information might be needed to confirm income to prospective lenders, to pursue federal student aid or to facilitate a move to a newly hired tax preparer. In light of these needs, the IRS enabled the Transcript Delivery System[184] (TDS) which permits a taxpayer's authorized

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[180] See https://directfile.irs.gov/.
[181] See https://en.wikipedia.org/wiki/XML.
[182] See https://www.irs.gov/tax-professionals/transcript-delivery-system-tds.
[183] See https://www.irs.gov/individuals/income-verification-express-service.
[184] See https://www.irs.gov/tax-professionals/transcript-delivery-system-tds.

representative to request an abbreviated transcript of prior data. For example, the account transcript includes:

1. Last four digits of any SSN: XXX-XX-1234
2. Last four digits of any EIN: XX-XXX4321
3. Last four digits of any account or telephone number
4. First four characters of the first and last name for any individual (first three characters if the name has only four letters)
5. First four characters of any name on the business name line (first three characters if the name has only four letters)
6. First six characters of the street address, including spaces
7. All money amounts, including wage and income, balance due, interest and penalties.

If a taxpayer would like a complete copy of their tax return, they may complete Form 4506, Request for Copy of Tax Return, and mail it into the IRS requesting a copy for a $30 fee[185]. The IRS estimates it will fulfill this request within 75 days of receipt. This turnaround time does not satisfy most requesters.

Prospective lenders (e. e.g. a mortgage company) can find the data they need in the abbreviated transcript (the November 2024 IRSAC Public Report references this inadequacy[186]), although they would much prefer the data in a format which could be directly consumed by their respective computer systems. Further, if a taxpayer were to choose to change tax preparers, the new preparer would potentially need full copies of prior returns to re-establish detailed schedules typically submitted in more complex returns whether for long term capital gains, for depreciation of relevant assets, or tracking a tax loss carry forward. Transcripts delivered by the TDS or IVES do not provide this detailed data. Furthermore, transcript data is not provided in a format that is easily consumed by other computer applications or systems.

Given that electronically filed returns are submitted to the IRS in a computer-processible format (known as XML), it would seem possible to return the original return in the same format as received, if requested by a taxpayer or a taxpayer's duly authorized

[185] See https://www.irs.gov/pub/irs-pdf/f4506.pdf.
[186] Internal Revenue Service Advisory Council Public Report November 2024, Publication 5316 (Rev. 11-2024) Catalog Number 71824A Department of Treasury, Internal Revenue Service.

representative. It would then be possible for computerized tax preparation applications to receive this formatted return for use in preparing future returns. This would ease the transition from one preparer to another. In the instance of a change in tax preparers, the new preparer's tax preparation software cannot easily consume a complete prior return. As a result, the data must be manually entered from copies of those prior paper returns (presuming the taxpayer even retains a paper copy or their prior preparer would provide a paper copy for their now former client).

Providing an easier means to transfer from one tax preparer to another or from one tax software / application provider to another will be seen as a real value-added service from the IRS.

Recommendation

The IRSAC recommends that the IRS expand the Transcript Delivery System and/or Individual Online Account[187] to include an option (possibly for a modest fee) to provide a complete copy of a prior electronically filed Form 1040 in XML format.

[187] See https://www.irs.gov/payments/online-account-for-individuals.

ISSUE THREE: Amended Return Processing and Time

Executive Summary

The Internal Revenue Service (IRS) is currently grappling with a significant operational bottleneck in processing amended tax returns. While the agency has made progress in eliminating the backlog of paper-filed Forms 1040, considerable delays persist in processing amended individual income tax returns (Forms 1040-X) and business tax amendments. At the end of calendar year 2019, the backlog of unprocessed amended returns stood at 0.5 million, but increased almost fourfold to 1.9 million as of late October 2023.[188]

A major contributor to this challenge is the Treasury Department's directive to achieve an 85% "Level of Service" (LOS) on toll-free phone lines. This policy has resulted in substantial staff time being diverted to phone line availability—even during extended idle periods—at the expense of processing pending paper cases. In 2023 alone, IRS customer service representatives (CSRs) recorded over 1.27 million idle hours, equating to more than 650 full-time staff years that could have been deployed more productively.[189]

These inefficiencies have cascading effects, not only delaying taxpayer refunds but also placing a heavy administrative burden on tax professionals and representatives. In this report, we present a set of policy, operational, and technological recommendations aimed at modernizing the IRS's processing infrastructure and enhancing workforce flexibility to restore public trust and improve service outcomes.

Background

Since 2019, the IRS has experienced a sharp increase in unprocessed amended returns. Although the agency has succeeded in clearing the backlog of original Forms 1040 exacerbated by the COVID-19 pandemic, amended returns continue to face significant delays. As of late 2023, the volume of pending Forms 1040-X reached 1.9 million—up from just 0.5 million in 2019.

[188] National Taxpayer Advocate, "National Taxpayer Advocate delivers 2023 Annual Report to Congress; focuses on taxpayer impact of paper processing delays" (IR-2024-07), Jan. 10, 2024.
[189] National Taxpayer Advocate, "National Taxpayer Advocate delivers 2023 Annual Report to Congress; focuses on taxpayer impact of paper processing delays" (IR-2024-07), Jan. 10, 2024.

In an email received by IRSAC from IRS Taxpayer Services on June 27, 2025, Taxpayer Services indicated that 3,201,443 amended individual tax returns (Form 1040-X) were received in fiscal year 2024 and 1,185,122 in fiscal year 2025 as of June 14, 2025. The top reasons for filing amended returns were: (1) Federal tax withheld, (2) wage income, (3) Earned Income Tax Credit (EITC), (4) account information, and (5) unemployment compensation.

Efforts to achieve Treasury's mandated 85% LOS for phone service have unintentionally created a major bottleneck in paper processing operations. In 2023, CSRs were required to remain idle for approximately 34% of their total work time to ensure availability for incoming calls. This resulted in 1.27 million idle hours—resources that could otherwise have addressed the mounting backlog of amended returns.

Impacts on Taxpayers and Practitioners

The operational delays in processing amended returns have broad implications for both taxpayers and the professionals who represent them.

1. Tax Preparers
    - Increased Workload**:** Practitioners must spend additional time following up on delayed returns.
    - Client Dissatisfaction: Prolonged processing times and refund delays erode client confidence and affect reputational standing.
    - Uncertainty in Planning: Delays complicate year-end planning, amendments, and tax forecasting.
    - Administrative Burden**:** Repetitive inquiries and follow-ups increase overhead and reduce capacity to take on new clients.
2. Taxpayer Representatives and Advocates
    - Financial Strain on Taxpayers: Delayed refunds and case closures contribute to cash flow challenges and financial stress.
    - Erosion of Trust: Persistent delays diminish public confidence in both the tax system and the advocacy process.
3. Broader Compliance and Systemic Effects

- Higher Compliance Risks: Delays may lead to penalties, or interest accrual—particularly for taxpayers owe taxes with amended returns.
- Increased Call Volume: delayed processing amended returns pushes taxpayers to rely more on phone lines, exacerbating CSR workload.
- Reputational and Policy Risks: Continued service delays risk undermining public trust and the IRS's goal of fostering voluntary compliance.

Recommendations

To mitigate the current backlog and enhance IRS responsiveness, IRSAC proposes the following multi-faceted approach:

1. Leverage Automation and Technology

- E-File Expansion: Extend e-filing capabilities for amended returns to reduce manual intervention.
- AI and Workflow Automation: Use AI to triage cases and automate basic checks, reserving manual review for complex submissions.
- Real-Time Dashboards: Develop internal tools for tracking backlog status, staff productivity, and processing trends.

2. Improve Workforce Flexibility

- Cross-Training: Enable CSRs to alternate between phone and casework duties depending on real-time workload demands.

3. Optimize Resource Allocation

- Re-evaluate LOS Mandates: Adjust rigid LOS benchmarks to allow for reallocation of idle CSR time during low call volume periods.
- Predictive Staffing Models**:** Use real-time data and analytics to dynamically manage staffing levels and workflow distribution.

4. Expand Digital Services for Taxpayers

- Self-Service Tools: Introduce guided online systems for submitting amendments, uploading documentation, and correcting common errors.

The mounting backlog of amended tax returns presents a serious challenge to the IRS's mission of fair and timely tax administration. Left unaddressed, these delays risk weakening public confidence, increasing compliance burdens, and compromising the agency's long-term operational viability.

A strategic, technology-driven, and workforce-responsive plan can dramatically improve processing outcomes. By balancing service delivery across all channels—not just phones—the IRS can rebuild taxpayer trust, improve compliance, and alleviate pressures on practitioners.

IRSAC is committed to supporting the IRS in these efforts and look forward to engaging further on the implementation of these recommendations.

ISSUE FOUR: Leveraging Social Media to Improve Service and Compliance

Executive Summary

The IRS Strategies and Solutions Team has developed the ability to analyze vast amounts of unstructured data and leverage this analysis to assist IRS Taxpayer Service (TS) in the conduct of its various operations. This team can analyze millions of text-based interactions and categorize them into actionable insights. To date, this data has originated from direct contact with taxpayers through various IRS owned digital applications. The IRS Strategies and Solutions Team is seeking to apply these skills on relevant, timely, and comprehensive social media data sources to improve service and compliance and in particular identify in-market tax scams and schemes.

The IRS Strategies and Solutions Team asked for the IRSAC's perspective on using external, tax-related social media data (e.g. Reddit, Facebook, etc.) to assist in better understanding taxpayer service and expectations, combat misinformation circulating among the various social media platforms, and proactively identify tax in-market scams and schemes.

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Background

As of 2025, 253 million people in the United States use social media[190]. This represents almost 80% of the country's internet users. Americans average just over two hours per day on social media networks. Demographically this splits evenly between men and women. As the use of social media continues to grow, so does advertising spending, which is expected to reach $85 billion in the United States by 2027. As a channel, social media has developed into an easy and efficient means of reaching large audiences whether for legitimate or illegitimate reasons.

In light of the broad reach of these platforms, the IRS and its state counterparts have established accounts on a relevant set of these social media channels to facilitate outreach and communicate to taxpayers and professionals. Example platforms include

[190] Demandsage, How Many People Use Social Media (2025 Usage Stats), Aug. 1, 2025; https://www.demandsage.com/social-media-users/.

LinkedIn, Facebook, YouTube, Instagram and X (formerly Twitter). This communication has included news about jobs available at the IRS, updates on the current tax filing season; information on tax scams and schemes circulating in season; filing requirements; the availability of tax credits; the availability of digital tools; and other messaging.

Unfortunately, in recent years, the IRS and state revenue authorities have witnessed an alarming proliferation of first party, fraudulently filed tax returns, through which taxpayers attempt to claim lucrative tax credits and other benefits for which they are clearly not entitled. Strong evidence suggests that this trend is driven by unscrupulous preparers and promoters spreading misinformation through word-of-mouth and social media platforms, particularly among the most vulnerable populations (e.g., low-income and immigrant communities).

In response, the IRS established the Coalition Against Scam and Scheme Threats (CASST)[191] with the stated purpose of:

> "Better protect taxpayers from falling prey to unscrupulous actors by leveraging multilateral relationships across the tax ecosystem to minimize the filing of fraudulent tax returns."

This coalition represents the IRS, state tax agencies and a number of companies in the tax industry many of which are active participants in the IRS Security Summit[192]. To date this coalition has identified immediate successes as well as longer-term recommendations. Accomplishments to date were announced in an IRS Press Release on January 14, 2025.[193] One opportunity not identified in its plans is periodic analysis of social media data to help the IRS identify preparers and promoters who are actively recommending the claiming of tax credits that are most frequently abused.

Review of social media data is a common practice in the private sector where it is employed to drive targeted product and service marketing, proactively identify

191 IR-2024-215 (Aug. 16, 2024); https://www.irs.gov/newsroom/irs-states-tax-industry-announce-new-joint-effort-to-combat-growing-scams-and-schemes-ongoing-coordination-to-follow-in-footsteps-of-security-summits-identity-theft-efforts-to-help-taxpayers-and.

192 IR-2025-12 (Jan. 14, 2025); https://www.irs.gov/newsroom/security-summit.

193 See https://www.irs.gov/newsroom/irs-casst-announce-2025-filing-season-changes-aimed-at-preventing-spread-of-scams-schemes-new-fuel-tax-credit-statement-and-increased-review-of-other-withholding-claims-among-highlights.

shortcomings or issues with their products and services, job recruiting, and gathering insights into consumer behavior and trends (sentiment analysis). Data posted on social media is generally considered in the public domain and therefore subject to analysis within ethical constraints[194]. In the U.S., as one example, the Federal Emergency Management Agency (FEMA) monitor social media to identify and respond to disasters or public safety incidents[195]. Globally, social media is increasingly being used in public health surveillance[196]. Law enforcement agencies at the Federal, state and local levels analyze social media to detect and counteract activities that threaten public safety.[197] The IRS itself has not used widespread social media monitoring proactively. It has also communicated through social media on scams and schemes when uncovered in tax return reviews.[198] It has been proactively addressed in IRC 6103(k)(6) guidance on the use of social media information in the conduct of specific individual taxpayer compliance activities. Extending this guidance to more broadly identify unscrupulous behavior in advance of tax filing seems well within the scope of preventing tax scams and schemes.

In the case of tax scams and schemes, while it is easiest to identify and investigate registered preparers filing returns with inappropriate tax credits, fraud is often perpetuated by 'ghost preparers' – individuals who prepare tax returns but do not sign them as the preparer. So, while concurrently attempting to identify fraudulent filings, the IRS recognizes that it must persist in its efforts to reach taxpayers especially in those communities, where many are social media users. Indeed, the IRS should also try to identify social media influencers in these communities and solicit their help in reaching out to warn them of abusive claims. For example, a TikTok video (600,000+ views) urged small business owners to form a shell company and reclassify personal expenses like

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194 Casey Fiesler, Michael Zimmer, Nicholas Proferes, Sarah Gilbert, and Naiyan Jones. 2024. Remember the Human: A Systematic Review of Ethical Considerations in Reddit Research. Proc. ACM Hum.-Comput. Interact. 8, GROUP, Article 5 (January 2024), 33 pages. https://doi.org/10.1145/3633070

[195] Camila Young, Erica Kuligowski and Aashna Pradhan. 2020. A Review of Social Media Use During Disaster Response and Recovery Phases. NIST Technical Note 2086. https://doi.org/10.6028/NIST.TN.2086.

[196] Isaac Chun-Hai Fung, Zion Tsz Ho Tse and King-Wa Fu. 2015. The use of social media in public health surveillance. https://pmc.ncbi.nlm.nih.gov/articles/PMC4542478/.

[197] Kristin Finklea. 2022. Law Enforcement and Technology: Using Social Media. https://www.congress.gov/crs-product/R47008.

[198] See https://www.irs.gov/newsroom/irs-warns-taxpayers-they-may-be-scam-victims-if-they-filed-for-big-refunds-misleading-advice-leads-to-false-claims-for-fuel-tax-credit-sick-and-family-leave-credit-household-employment-taxes.

holidays and meals as business costs to write them off, effectively instructing viewers on how to commit tax fraud by disguising personal consumption as deductible expenses. Promoting aggressive tax schemes or outright evasion on social media has become so pronounced that the IRS published its "dirty dozen" – a warning to taxpayers about these social media tax schemes.

Given the vast scale of social media content, manual monitoring is insufficient – hence the turn to computational methods. This is where natural language processing (NLP), machine learning, and LLM-based AI models can play a transformative role. Below are two possible research methods that would be fruitful and that the IRS possesses the skills and tools to implement now:

- Automated Misinformation Detection: NLP classifiers can be trained to identify posts or messages that likely contain incorrect or fraudulent tax advice. For example, a model could learn to flag text/keywords/hashtags mentioning *"secret form for refund"* or *"lower your tax bill"*, phrases associated with known scams. The IRS and others could build a dataset of confirmed scam posts (e.g. those involving Form 8944 misuse or fake credits) versus legitimate tax discussions and use supervised learning to detect similar content in the wild. Topic modeling approaches could also cluster social media chatter to discover emerging scheme themes without pre-defined keywords. For instance, a topic model might have surfaced the term "self-employment tax credit" trending in conjunction with refund claims, alerting authorities to a new misinformation trend.

- Social Network Analysis of Fraud Rings: Tax scheme promotion often isn't an isolated post but part of a broader network or community (consider Reddit threads or Facebook groups devoted to tax avoidance tips). Researchers can use graph analysis on social media data to identify clusters of accounts frequently sharing tax scam content. Network analytics combined with NLP could map the web of influence – e.g. finding a small number of "guru" accounts whose content is reposted by many.

Recommendations

1. Proceed expeditiously with formalizing the Coalition Against Scam and Scheme Threats in a manner consistent with its investment in establishing and operating the IRS Security Summit.

2. Proceed with implementing a program to monitor various social media platforms for references to tax credits, those for which it sees the most abuse. The purpose of this monitoring is to identify unscrupulous promotion of various enacted credits for which a given taxpayer is actually ineligible.
3. Employ the same social media monitoring to identify opportunities to improve taxpayer service by noting complaints posted by both taxpayers and preparers.
4. Create arrangements with social media influencers within vulnerable communities to stop misinformation and scams.

ISSUE FIVE: Pre-launch Testing and Post-launch Support

Executive Summary

The IRS has been pursuing an aggressive program to digitalize self-service to improve its own efficiency and provide better and more expedient customer service to its various stakeholders. Applications include electronic filing and payment of taxes through IRS Direct File,[199] a Where's My Refund[200] application, portals to include Individual Online Account,[201] Business Online Account,[202] and a tax return Transcript Delivery System,[203] among others.

The IRS has a target to be sure that digital services are always available and easy to use. If these services are thoroughly tested and error free, the IRS believes that no post-launch technical support would be needed, and therefore it does not provide such support (the November 2024 IRSAC Public Report[204] addressed the need to provide post launch technical support due to issues encountered with these services). However, recent launches (in particular Online Accounts) have experienced issues post-launch suggesting that testing efforts have become inadequate.

The IRSAC hereby recommends the IRS amplify and augment its pre-launch testing and that it consider offering post-launch technical support for certain of these services.

Background

With the emergence and subsequent widespread availability of the internet and its functionality in processing digital data, the IRS undertook an ambitious agenda enabling a variety of digital self-service applications. The first of these applications were identified as early as 1999 as reported in the publication of the *Electronic Tax Administration: A*

[199] See https://directfile.irs.gov/.
[200] See https://www.irs.gov/wheres-my-refund.
[201] See https://www.irs.gov/payments/online-account-for-individuals.
[202] See https://www.irs.gov/businesses/business-tax-account.
[203] See https://www.irs.gov/tax-professionals/transcript-delivery-system-tds.
[204] Internal Revenue Service Advisory Council Public Report November 2024, Pub. 5316 (Rev. 11-2024) Catalog Number 71824A, p. 53; https://www.irs.gov/pub/irs-pdf/p5316.pdf.

Strategy for Growth.[205] More recently the IRS confirmed its commitments in its *Inflation Reduction Act Strategic Operating Plan,*[206] and its most recent update *2024 IRS Strategic Operating Plan Annual Update.*[207]

Usage of these various services has been growing. For example, in Fiscal 2024 as reported in the most recently published *IRS Data Book,*[208] the IRS reported the following transactions account in Table 10 of the report:

Electronic transactions, total	**2,096,688,138**
Direct Pay settlements [3]	15,951,370
Get Transcript Mail [4]	520,374
Get Transcript Online [5]	80,598,587
ID Verify Web tool [6]	1,141,808
Identity Protection Personal Identification Numbers issued [7]	2,695,015
Income Verification Express Service [8]	4,983,042
Interactive Tax Assistant [9]	2,419,501
IRS Data Retrieval tool [10]	18,138,977
IRS2GO active users [11]	9,575,727
Online Account sessions accessed [12]	81,153,713
Online Employer Identification Number applications	7,190,009
Online Installment Agreements [13]	2,236,771
Tax Withholding Estimator tool [14]	1,606,869
Transcript Delivery System requests fulfilled [15]	1,472,418,352
“Where's My Amended Return” inquiries	13,242,902
“Where’s My Refund” inquiries	382,815,121

With this growth and goals for digital tools, it is imperative that the IRS thoroughly test all digital applications prior to launch. The IRS teams understand this and have in fact leveraged multiple levels of testing. Furthermore, the IRS has a stated objective that applications are so thoroughly tested and so easy to use, that post-launch technical support would not be required. Building a technical support organization large enough to support the transaction levels above would be extremely expensive.

However, even with the efforts undertaken thus far by the IRS, errors still occur. For example, more recently, professional tax preparers have been noting system errors in

[205] United States. Internal Revenue Service. (1999). *Electronic tax administration: a strategy for growth.* Rev. 11-1999. [Washington, D.C.]: Dept. of the Treasury, Internal Revenue Service; https://babel.hathitrust.org/cgi/pt?id=mdp.39015050243594&seq=1.

[206] Unites States. Internal Revenue Service. (2023). Inflation Reduction Act Strategic Operating Plan FY2023-2031. Publication 3744 (Rev. 4-2023) Catalog Number 31685B; https://www.irs.gov/pub/irs-pdf/p3744.pdf.

[207] Unites States. Internal Revenue Service. (2024). *IRA Strategic Operating Plan Annual Update* Publication 3744-B (4-2024) Catalog Number 66831R; https://www.irs.gov/pub/irs-pdf/p3744b.pdf.

[208] Unites States. Internal Revenue Service. (2024). *Data Book October 1, 2023 to September 30, 2024*. Publication 55B (Rev.5-2025). Catalog Number 21567I; https://www.irs.gov/pub/irs-pdf/p55b.pdf.

their use of their Tax Pro[209] accounts, with no means to report those errors when they occur. Only because of several IRSAC members who are professional tax preparers experiencing issues have the flaws in its overall testing strategy surfaced for the IRSAC. There is serious risk of tool abandonment and negative word of mouth by taxpayers and tax preparers when there is no means to report issues and see them resolved.

Upon multiple conversations with IRS personnel, it became apparent that the IRS has mature practices in multi-level testing. However, these same employees acknowledged the following flaws in its testing approach:

1. Testing is conducted largely by the IT organization, often contracted to outside consulting firms and not the IRS business organization.
2. Testing is conducted with test data (to protect taxpayer and tax preparer privacy) which limits the various scenarios which can be tested.
3. Testing staff are not tax professionals themselves which again limits the scenarios prepared in various test scripts.
4. From a product perspective, different services are internally owned by different teams, even different Business Operating Divisions which challenges integration testing across these teams. It was specifically noted that even web presentation content is siloed in its ownership.
5. There is no formal mechanism (no technical support function) enabled to surface and collect issues being experienced by taxpayers or preparers for proactive resolution.
6. Recent budget cuts obviated plans for a more robust testing environment.

Recommendations

The IRSAC recommends that the IRS augment its testing approach to include:

4. Leveraging its advisory committees—both IRSAC and ETAAC, to participate in testing. Those members who are active practitioners can test applications using live data. These members are bound by Non-Disclosure Agreements which enhance their value as testers.

[209] See https://www.irs.gov/tax-professionals/tax-pro-account.

5. Explore establishing a more formal program soliciting participation through other professional accounting and tax associations.
6. Establish a limited release “beta” program with selected stakeholders.
7. Consider establishing a technical support function accessed through email and/or chat for tax preparers (who clearly represent multiple taxpayers each) to surface issues in the various digital applications employed by these professionals.
8. Consider a means to collect actual taxpayer feedback through email or a “report an issue” function in its various applications. And staff this sufficiently to categorize issues reported and work with IRS business partners and IT to rectify system and usability issues.
9. Leverage a centralized team such as Online Services to project manage testing as per the guidelines identified above across all digital applications and services.

ISSUE SIX: Supporting Live Chat for Tax Professionals

Executive Summary

Tax professionals consistently face prolonged wait times and service delays when contacting the IRS Practitioner Priority Service (PPS), particularly during peak filing seasons. This past summer, the Internal Revenue Service Advisory Council (IRSAC) conducted a survey titled 'Live Chat Option for Tax Professionals.' The subcommittee received feedback from over 115 tax professionals including tax attorneys, CPAs, EAs, and unenrolled preparers. Over **60% of respondents wait more than 30 minutes** to speak with an agent during tax season.[210] These delays not only reduce practitioner efficiency but also increase the likelihood of abandoned **or disconnected calls**, ultimately compromising client service, resolution timelines and producing frustration on behalf of the tax professional, and ultimately also their clients.

To address these issues, tax professionals overwhelmingly support the implementation of a **live chat feature** within the IRS Practitioner Priority Service (PPS). This recommendation is rooted in the need to modernize service delivery and reduce strain on call centers. Live chat allows for the **"one-to-many" communication approach. IRS tax assistors could eventually** handle multiple practitioner inquiries simultaneously if taxpayer data was systematically protected appropriately to mitigate inadvertent disclosures. This model increases capacity without proportionally increasing staff, which will offer a cost-effective solution, improve responsiveness and reducing abandoned or disconnected calls.

A live chat feature could significantly **lower average service times** and mitigate the frustration of extended phone queues. Moreover, it would help preserve call lines for more complex, sensitive matters while handling routine questions—such as transcript requests or compliance verifications—more efficiently through chat.

[210] IRSAC. (2025). *Live Chat Option for Tax Professionals survey* {Unpublished raw data}. Internal Revenue Service.

The adoption of an IRS live chat feature would enhance the practitioner's experience, improve service accessibility, be cost effective for the IRS and align the IRS with private sector digital service expectations. Tax professionals view this as a critical and timely step toward improving practitioner-agency engagement.

Background

PPS is essential for helping tax professionals resolve client issues quickly, but the current phone-based system is outdated and inefficient. It relies on a **one-to-one model**, meaning each assistor can only serve one practitioner at a time. During peak tax season, this model simply can't keep up—leading to **extended wait times**, dropped calls, and delayed resolutions.

Although the IRS has made significant improvements to its AM phone lines in recent years, the Practitioner Priority Service ("PPS") lines still face challenges - the level of service for practitioners in 2025 was only 61% according to CPA Trendlines[211] This isn't just a service issue—it's a workflow problem that directly impacts taxpayer outcomes because often the tax practitioners address taxpayer inquiries with the IRS more expeditiously because of their expertise. At the same time, **IRS customer service representatives are idle over one-third of their work time**, not due to lack of demand, but because of systems limitations that hinder efficient workflow and issue resolution.

The calls that do get through cost the IRS an average of **$5.62 each**. According to IRS Taxpayer Services Business Unit and Chief Financial Officer's office the average total cost for a CSR is $86,488.21.

Estimate Cost Per Call Under Current Model

- Average annual cost per CSR: $86,488.21
- Assume a CSR spends 100% of their time on calls (in reality, there is some idle time, but this is a simplifying assumption).

[211] CPA Trendlines. (July 2025). "*IRS Phone Stats Improve—Unless You're a Tax Pro"*

- Assume CSR handles 10 calls per hour, 7 hours per day, 220 days per year (standard for call centers):
- 10 calls/hour × 7 hours/day × 220 days/year = 15,400 calls/year per CSR.
- Cost per call: $86,488.21 / 15,400 ≈ $5.62 per call**.**

However, a more efficient model—such as a live chat system—could reduce that cost by at least **one-third.** By allowing agents to assist multiple professionals at once, a **"one-to-many" structure** would not only increase productivity and reduce idle time but also lower operational costs and improve service speed. [212]

A live chat system is not just about improving access for practitioners, it's a fiscally responsible shift that strengthens the IRS's ability to serve the public more effectively, especially during periods of high demand. If we had specific employees dedicated to only tax professions this would be a great implementation, we would have issue with availability.   Read white paper for SADI

Benefits to Tax Professionals

1. **Reduced Frustration –** Implementing the one-to- many communication approach would resolve issues more effectively and reduce the number of abandoned and disconnected calls.
2. **Increase Positive Public Perception of the IRS –** More efficient, responsive service builds trust and confidence in the IRS. This trust will improve the reputation of the IRS with both tax professionals and the taxpayers they represent.
3. **Document Interaction Log –** A live chat correspondence provides an instant clear verifiable record of the interaction and directive for the tax professionals**.** Case management and compliance for the case will be a direct response from the live chat system.
4. **Shorter Wait Time, Especially During Peak Seasons-** Tax professionals handle many tasks during the peak seasons so the live chat options will reduce

[212] (U.S. Department of the Treasury, 2024)

log time and increase their productivity. The live chat allows the professional to receive faster assistance with lower response delays.

Benefits to the IRS

1. **Increased Efficiency-** A one-to-many communications approach with live chat allows tax assistors to help multiple tax professionals simultaneously increasing productivity and reducing idle time.
2. **Case Management** – Currently tax assistors must place the tax professional on hold for 5-7 minutes to prepare notes. Chat transcripts are instant records of notes. The transcripts can also reduce miscommunication, repeat calls between tax professionals and tax assistors in the future.
3. **Increase Public Trust and Perception** – Providing the live chats and AI workflows in an ever – evolving society demonstrates the IRS's commitment to meeting the needs of today's taxpayers and professionals.

Adopting this approach is a strategic investment in efficiency, cost savings, and trust-building that will deliver measurable benefits to both the IRS and the tax professionals who rely on it every day.

Recommendations

1. Preserve and Strengthen the One-to-One Communication Approach
   a. Maintain personalized service with complex cases that need detailed review, time sensitive responses and critical outcome to the taxpayer.
   b. Cross training tax assistors on a broad range of issues to reduce call transfers and increase the first-contact resolution rate while also reducing downstream abandoned calls.
2. Implement a One-to-Many Communication Approach
   a. One tax assister chatting with 4-6 tax professionals will be able to take care of many common compliance issues, addressing balance due requests, new forms and law changes in a less time

b. Cross train tax assistors to provide an avenue to handle, collection matters, tax notices and provide upload assistance to many tax professionals at one time.

3. Leveraging AI and Workflow Automation
   a. Employ an AI and Workflow Routing System to review all incoming chat requests. Based on the information requested (simplicity, sensitivity) the tax professionals can route to the resource with the answer or the tax assister to provide the service requested.

Employ performance analysis to analyze the service interaction; time allocated per assist to identify bottleneck situation and recommend improvements without increasing labor or technology cost. This analysis would be completed daily during the peak season.

APPENDIX A: IRSAC Comment Letters Submitted to the IRS in 2025

In 2025, the IRSAC submitted six comment letters to the IRS. These letters are reproduced in this appendix. Comment letters responded to IRS regarding the Priority Guidance Plan (PGP) for issues requiring binding guidance and also requests for public comments on forms and issues.

Summary of IRSAC Comment Letters

1. February 4, 2025
   Title: Comments on Proposed Regulations Governing Practice Before the Internal Revenue Service (Circular 230)
   Focus: Recommendations to update Circular 230, including creating a voluntary Filing Season Agent credential, allowing practice management CE for Enrolled Agents, and moving toward a principles-based framework.
2. April 14, 2025
   Title: Comments on Proposed Regulations on Source of Income from Cloud Transactions (REG–107420–24)
   Focus: Addressed sourcing rules for cloud transactions; recommended guidance for payee responsibility in determining U.S.-sourced income for withholding and reporting.
3. May 28, 2025
   Title: Request for Extension of Transitional Relief under Notice 2024-56
   Focus: Requirement of backup withholding on digital asset sales
4. May 30, 2025
   Title: Recommendations for the 2025–2026 Priority Guidance Plan (Notice 2025-19)
   Focus: Suggested priority topics including Circular 230 revisions, digital asset reporting, Section 174 guidance, penalty relief, disaster assistance, and adoption credit equity for tribal determinations.
5. June 30, 2025
   Title: Comments on Request for Information Related to Executive Order 14247, “Modernizing Payments To and From America’s Bank Account”
   Focus: Discussed challenges in mandating electronic payments; recommended expanded EFT options, public education, fraud prevention, and exceptions for unbanked or rural taxpayers.
6. November 26, 2025
   Title: Comments on Draft Form W-9 (Rev January 2026)
   Focus: Raised concerns about new digital asset certifications and exempt payee codes; opposed requiring SSNs for sole proprietors instead of EINs due to identity theft risks.

Comments on Proposed Regulations Governing Practice Before the Internal Revenue Service (Circular 230) February 4, 2025

Internal Revenue Service
CC:PA:01:PR (REG– 116610–20)
Room 5203
P.O. Box 7604
Ben Franklin Station
Washington, D.C. 20044

Submitted to https://www.regulations.gov

Re: Comments on Proposed Regulations Governing Practice Before the Internal Revenue Service (REG–116610–20; 12/26/24)

To Whom It May Concern:

The Internal Revenue Service Advisory Council (IRSAC) is pleased to provide comments on proposed regulations on changes to Circular 230 published in the Federal Register on December 26, 2024 (REG-116610-20).

The IRSAC serves as an advisory body to the Commissioner of the Internal Revenue Service (IRS) and agency leadership. This group consists of 37 volunteer members appointed by the IRS and represents a broad cross-section of interests and areas of expertise in various aspects of tax compliance and administration. The IRSAC provides an organized forum for discussion of tax administration issues between IRS officials and representatives of the public. The IRSAC reviews existing tax policy and administrative issues and makes recommendations in an annual written report to achieve efficient and effective tax Administration.

The IRSAC members work within six broad subject matter groups. These subgroups are Fairness in Tax Administration, Information Reporting, Large Business & International, Small Business/Self-Employed, Tax-Exempt/Government Entities, and Taxpayer Services.

Our annual report for 2024 included two issues with a total of six recommendations for changes to Circular 230. We include these two reports and the recommendations in this comment letter to be sure they are considered in the revisions to Circular 230. The complete IRSAC report released in November 2024 is available at https://www.irs.gov/tax-professionals/internal-revenue-service-advisory-council-irsac.

In addition, annual reports of the IRSAC in years prior to 2024 also included recommendations for changes to Circular 230. Some of these recommendations are included in the proposed revisions such as removing references to registered tax return preparers, adding information on the Annual Filing Season Program, and changing "tax advisor" to "practitioner" in Section 10.33. We also include a summary of recommendations from IRSAC annual reports of 2016, 2017, 2018 and 2020 as summarized in the IRSAC's annual report for 2021, available at https://www.irs.gov/pub/irs-prior/p5316--2021.pdf.

Oversight of Return Preparers (IRSAC 2024 Report General Issue 11)

Executive Summary

Our tax laws are complex. Over half of individual income tax returns are prepared by paid tax return preparers.[1] However, most return preparers are not subject to minimum competency standards and continuing education requirements.[2] In contrast, Enrolled Agents (EAs), certified public accountants (CPAs), and attorneys "Circular 230 practitioners" who practice before the IRS are subject to initial entry requirements and continuing requirements imposed by their regulating bodies as well as ethical duties under Circular 230[3] overseen by the IRS Office of Professional Responsibility (OPR). OPR also oversees Enrolled Retirement Plan Agents (ERPAs)[4] and Enrolled Actuaries.[5]

In the 2023 Annual Report to Congress, the National Taxpayer Advocate (NTA) lists lack of return preparer oversight as one of the most serious problems encountered by taxpayers (MSP #5). The NTA notes: "The absence of practice requirements and IRS oversight exposes taxpayers to a greater risk of incompetent or unethical actions by preparers."[6]

This issue was identified by the IRSAC with support of the IRS. The IRSAC last made a recommendation about oversight of return preparers in 2018. That recommendation, similar to those of others, was "Congress provide the IRS statutory authority to establish and enforce minimum standards of competence for all tax practitioners, including paid return preparers."[7] The IRSAC continues to support a statutory change, but in the meantime, for this year's report we offer recommendations for what the IRS might do to increase the number of preparers who demonstrate minimum competency, complete annual

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[1] Filing season statistics by year at https://www.irs.gov/newsroom/filing-season-statistics-by-year. Also see National Taxpayer Advocate, Important Considerations as Your Select Your Return Preparer This Filing Season, Mar. 8, 2024; https://www.taxpayeradvocate.irs.gov/news/nta-blog/important-considerations-as-you-select-your-return-preparer-this-filing-season/2024/03/ which notes that over 54% of all individual income tax returns were prepared by a paid preparer in 2023.

[2] IRS National Taxpayer Advocate, Annual Report to Congress 2023, Jan. 2024, p. 65; https://www.taxpayeradvocate.irs.gov/reports/2023-annual-report-to-congress/.

[3] 31 C.F.R. Part 10, published at https://www.irs.gov/pub/irs-pdf/pcir230.pdf.

[4] IRS, Enrolled Retirement Plan Agent frequently asked questions; https://www.irs.gov/tax-professionals/enrolled-retirement-plan-agent-frequently-asked-questions.

[5] IRS, Joint Board for the Enrollment of Actuaries; https://www.irs.gov/tax-professionals/enrolled-actuaries.

[6] NTA, Annual Report to Congress 2023, *supra*.

[7] IRSAC Public Report, Nov. 2018, Pub. 5316, pp. 19 to 21; https://www.irs.gov/pub/irs-prior/p5316--2018.pdf.

continuing education, and have limited practice rights accompanied by Circular 230 ethical duties.

Background

Under 31 U.S.C. § 330 the Department of Treasury is authorized to regulate the practice of tax practitioners before the IRS. The first regulations[8] provided rules for the enrollment and disbarment of attorneys and agents.

The IRS implemented the Registered Tax Return Preparer (RTRP) program in 2011 after a lengthy stakeholder listening and rulemaking process.[9] The IRS had to terminate the RTRP credential after the *Loving v. Internal Revenue Service* decision in 2013 which held that the IRS did not have statutory authority to regulate tax return preparation.[10] The IRS is still allowed to require tax return preparers to obtain a preparer tax identification number (PTIN) used in signing returns. The Return Preparer Office (RPO)[11] oversees the annual PTIN renewal process.

After the court loss, the IRS created the voluntary Annual Filing Season Program (AFSP)[12] with the goal to increase accuracy of individual income tax returns (Form 1040) prepared by uncredentialed preparers and to bring more preparers under Circular 230. Participants opt into 18 hours of continuing education (CE) annually, including a six-hour federal tax refresher with a test component administered directly by the CE provider. They also opt into governance under certain parts of Circular 230 (Part B and 10.51).

A participant in the AFSP has limited representation rights before limited offices of the IRS for clients if the participant prepared and signed the return and is also a participant for the year of representation. While these are limited rights in contrast to Enrolled Agents, CPAs and attorneys who can represent anyone before the IRS, PTIN holders who are not an Enrolled Agent, CPA, attorney or AFSP participant have no right to represent clients before the IRS even if they prepared and signed the return.[13]

The IRS provides several exemptions that allow preparers to participate in the AFSP program without the test component. These exemptions[14] include:

- Anyone who passed the Registered Tax Return Preparer (RTRP) test administered by the IRS between November 2011 and January 2013.
- Established state-based return preparer program participants currently with testing requirements: Return preparers who are active registrants of the Oregon

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[8] Circular 230, 1921-4 C.B. 408 (Feb. 15, 1921).
[9] T.D. 9501, T.D. 9503, T.D. 9523, and T.D. 9527.
[10] *Loving v. IRS*, 742 F.3d 1013 (DC Cir. 2014).
[11] RPO, https://www.irs.gov/about-irs/return-preparer-office-rpo-at-a-glance.
[12] AFSP program information is available at https://www.irs.gov/tax-professionals/annual-filing-season-program and https://www.irs.gov/tax-professionals/general-requirements-for-the-annual-filing-season-program-record-of-completion.
[13] Rev. Proc. 2014-42, and IRS, Frequently asked questions: Annual filing season program, FAQ 13; https://www.irs.gov/tax-professionals/frequently-asked-questions-annual-filing-season-program.
[14] FAQ 7 at https://www.irs.gov/tax-professionals/frequently-asked-questions-annual-filing-season-program.

Board of Tax Practitioners, California Tax Education Council, and/or Maryland State Board of Individual Tax Preparers.

- SEE Part I Test-Passers: Tax practitioners who have passed the Special Enrollment Exam (SEE) Part I within the past three years.
- VITA volunteers: Quality reviewers and instructors with active PTINs
- Other accredited tax-focused credential-holders: The Accreditation Council for Accountancy and Taxation's Accredited Business Accountant/Advisor (ABA) and Accredited Tax Preparer (ATP) programs.

AFSP record of completion holders exempt from the test must complete 18 hours of continuing education (CE), consent to Circular 230 practice requirements, and maintain a valid PTIN.[15]

While the IRS promotes the AFSP record of completion, the program has low participation among uncredentialed preparers and is not fully understood by taxpayers.[16]

In contrast, Enrolled Agents must pass a three-part Special Enrollment Examination (SEE). Part 1 covers individual taxation, Part 2 covers business taxation, and Part 3 covers representation, practice, and procedure. Enrolled Agents must also pass a suitability check, maintain a PTIN, and complete 72 hours of continuing education over their three-year renewal cycle.

The following chart summarizes the requirements for each type of credential.

Designation	Minimum competency	Renewal Cycle	CE Requirement	CE details
Enrolled agent[17]	Special Enrollment Examination, Parts 1, 2 and 3, proctored by Prometric	Three years	72 hours	Minimum of 16 per year, 2 of which must be ethics
Filing Season Agent (proposed)	Special Enrollment Examination Parts, Parts 1 and 3, proctored by Prometric	Three years	60 hours	Minimum of 15 per year, 2 of which must be ethics

[15] IRS, Frequently asked questions: Annual filing season program, FAQ 8; https://www.irs.gov/tax-professionals/frequently-asked-questions-annual-filing-season-program. This FAQ also notes that a preparer exempt from the requirement to take the AFSP course does not need to notify the IRS of their exemption because the IRS "obtains information about exemptions directly from the testing source (e.g. Oregon Board of Tax Practitioners)."

[16] Per IRS statistics on PTIN holders, on July 1, 2024, there were 796,620 PTIN holders, of which 292,444 (36.7%) are credentialed and 504, 176 were uncredentialed. Also on July 1, 2024, there were 78,378 preparers who had completed the AFSP. Recognizing that some AFSP participants hold multiple credentials, the maximum number of uncredentialed preparers holding an AFSP is 15.5%. See IRS data at https://www.irs.gov/tax-professionals/return-preparer-office-federal-tax-return-preparer-statistics.

[17] Circular 230, §§ 10.3 – 10.6 at https://www.irs.gov/pub/irs-pdf/pcir230.pdf.

AFSP record of completion[18] (voluntary)	Annual Federal Tax Refresher (AFTR) Test proctored by the participant's chosen CE provider	Annual	18 hours	6-hour AFTR, 10 hours of other fed law, 2 hours of ethics
RTRP[19] (enjoined)	RTRP exam proctored by Prometric	Annual	15 hours	3 federal law, 2 hours ethics, 10 hours of other federal tax topics

Absent federal oversight over uncredentialed return preparers, states started building out their own unique regulatory programs with differing requirements. These states include California, Connecticut, Iowa, Maryland, New York, and Oregon. Tax preparation businesses continue to train tax preparers they employ according to their own needs and standards, Tax preparers operating as sole proprietors have complete discretion as to their preparation and training. These circumstances result in a wide variance in training and oversight over uncredentialed preparers across rural and urban areas of the United States.

Over the years, there have been proposals to modify 31 U.S.C. § 330 to include return preparation to allow the IRS to regulate all return preparers.[20] In addition, the following groups published reports supporting expanded return preparer oversight:

- Taxpayer Advocate Service (TAS)[21]
- Treasury Inspector General for Tax Administration (TIGTA)[22]
- Electronic Tax Administration Advisory Council (ETAAC)[23]
- Internal Revenue Service Advisory Council (IRSAC)[24]

[18] Rev. Proc. 2014-42 at https://www.irs.gov/pub/irs-drop/rp-14-42.pdf.
[19] Circular 230, §§ 10.3 – 10.6 at https://www.irs.gov/pub/irs-pdf/pcir230.pdf.
[20] For example, see General Explanations of the Administration's Fiscal Year 2025 Revenue Proposals, Expand and increase penalties for noncompliant return preparation and e-filing and authorize IRS oversight of paid preparers, pg. 206 at https://home.treasury.gov/system/files/131/General-Explanations-FY2025.pdf; and H.R. 2702 (118th Congress) and H.R. 4184 (117th Congress).
[21] National Taxpayer Advocate, 2023 Purple Book, Legislative Recommendation #3 - Authorize the IRS to Establish Minimum Competency Standards for Federal Tax Return Preparers; https://www.taxpayeradvocate.irs.gov/wp-content/uploads/2023/01/ARC22_PurpleBook_02_ImproveFiling_3.pdf.
[22] TIGTA, *The Internal Revenue Service Lacks a Coordinated Strategy to Address Unregulated Return Preparer Misconduct*, July 25, 2018, 2018-30-042; https://www.tigta.gov/sites/default/files/reports/2022-02/201830042fr.pdf.
[23] Pub. 3415 (2024), page 10 at https://www.irs.gov/pub/irs-pdf/p3415.pdf.
[24] Pub. 5316 (2018), page 19 at https://www.irs.gov/pub/irs-prior/p5316--2018.pdf.

The Government Accountability Office (GAO)[25] also notes the IRS needs more authority over return preparers.

IRSAC continues to support expanded return preparer oversight and recommends the IRS take the following actions to strengthen voluntary programs while waiting for legislation.

Recommendations

1. Modify Circular 230 to include a voluntary Filing Season Agent credential modeled off the Enrolled Agent credential, including minimum competency, continuing education, and ethical standard components. Filing Season Agents would be required to:
    a. Demonstrate competence by passing Parts 1 and 3 of the Enrolled Agent examination.
    b. Pass suitability checks and maintain a PTIN.
    c. Complete 60 hours of continuing education under a three-year renewal cycle with a minimum of 15 hours per year with two hours being ethics education.
2. Phaseout the AFSP program and reallocate program resources to the voluntary Filing Season Agent program. Transition existing AFSP participants to the new program.
3. Increase participation by waiving the SEE Part 1 requirement for applicants who currently participate in the AFSP program with an exemption from completing the AFSP course.
4. Continue to promote the Enrolled Agent program and highlight that like CPAs and attorneys, Enrolled Agents have more practice rights before the IRS than do Filing Season Agents, including representing taxpayers regarding any type of tax return, even if they did not prepare their return.
5. Research and publish results regarding accuracy rates among AFSP record holders, uncredentialed preparers, and preparers otherwise exempt from AFSP test requirements (such as preparers subject to state requirements California, Maryland and Oregon) to determine the impact of minimum competency and continuing education requirements on tax administration.

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[25] GAO, *Paid Tax Return Preparers – IRS Efforts to Oversee Refundable Credits Help Protect Taxpayers but Additional Actions and Authority Are Needed*, GAO-23-105217; https://www.gao.gov/assets/820/813604.pdf.

Broadening Continuing Education for Enrolled Agents to Include Practice Management Topics (IRSAC 2024 Report General Issue 12)

Executive Summary

Currently Enrolled Agents are not permitted to include continuing education in practice management topics as reportable continuing education for certification renewal.

There is more to preparing tax returns than just knowing the tax law. Enrolled Agents are responsible for awareness regarding software, data security, due diligence, online tools, engagement letters, building client relationships, data analytics, artificial intelligence, and effective techniques for hiring and training of staff (including for remote employees) to best serve the tax needs of their clients.

NASBA (National Association of State Boards of Accountancy) and the AICPA recognize practice management topics for approved continuing education. In fact, their Statement on Standards for CPE Programs highlights the need for continuing education to include "programs contributing to the development and maintenance of professional skills."[26] The IRSAC believes that other Circular 230 preparers, namely Enrolled Agents, should also have the opportunity for broader continuing education opportunities to enhance their tax practice.

Background

Tax preparation has become much more complex with the continual advancement of technology. In addition to knowing tax law, tax professionals must understand how to operate a secure and compliant business. Tax preparers are responsible for data security, employees, ever-changing technology, and ongoing communications in a constantly changing world.

During 2023 and 2024 at the IRS Nationwide Forums, a practice management panel was presented to the Forum participants as an optional non-continuing education program. The response was overwhelmingly positive, and participants requested more sessions in this area. Tax preparers need information on running a tax office, hiring, communications, time management, artificial intelligence and more. While many participated in this event, if continuing education had been offered, this presentation and other practice management programs could have been presented during the 3-day Forum and not as an extra event held the day before the official opening day of the Forums.

NASBA approves a wide range of continuing education topics for CPAs who are also governed by Circular 230. These topics include but are not limited to, business organization, communications, marketing, computer software and applications, information technology, and personnel/human resources.[27]

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[26] NASBA and AICPA, The Statement on Standards for Continuing Professional Education (CPE) Programs, Jan. 2024, p. 4; https://www.nasbaregistry.org/the-standards.

[27] NASBA, Fields of Study That Qualify for Continuing Professional Education, Jan. 2024; https://cdn.asp.events/CLIENT_NASBA_287596D2_5056_B733_49DFF69B632BDF66/sites/LearningMarket/media/Documents/2024-standards-fos/2024-Fields-of-Study-Document.pdf.

A more broadly educated Enrolled Agent will be better prepared for crucial everyday activities including securing data, hiring staff, and serving clients, and be less likely to have compliance and due diligence issues.

Recommendation

1. Modify Sections 10.6(e)(2) and (f) of Circular 230 to allow up to four hours of practice management as an option within the 72 hours required to renew enrollment for Enrolled Agents. Practice management should be broadly defined as it is for CPAs to include business organization, communications, marketing, computer software and applications, information technology, elimination of bias, privacy laws, and personnel/human resources.

Circular 230 Revision (IRSAC 2021 Report General Issue 5)

The IRSAC's 2021 annual report included a summary of prior years' IRSAC recommendations to update Circular 230 (from IRSAC reports of 2016, 2027, 2018 and 2020). The recommendations that are not fully addressed in the proposed changes of REG-116610-20; 12/26/24), follow:

- In conjunction with the updating process, the IRS should investigate how to secure specific authority to update Circular 230 through Revenue Rulings or another administrative process. This would allow the IRS to more timely address changes and thereby preserve its credibility, reliability, and usefulness.
- Transition Circular 230 from a rules-based to a principles-based document. Expand OPR's long-running effort to reformulate Circular 230 towards a more principles-based rather than rules-based collection of practice standards, in line with other professional codes of conduct.
- Modify Section 10.22(b) to include a provision indicating that a practitioner will be presumed to have exercised due diligence if the practitioner relies on the work product of a supervisor under certain circumstances.
- Modify Section 10.79 to clarify that OPR retains jurisdiction over practitioners who have been suspended or disbarred.

We appreciate your consideration of these comments and IRSAC members are available to discuss any of them further. You can reach us via the IRS Office of National Public Liaison at publicliaison@irs.gov.

Sincerely,

Christine Z Freeland

Christine Z Freeland
2025 IRSAC Chair

Comments on Proposed Regulations on Source of Income from Cloud Transactions (REG–107420–24)
April 14, 2025

CC:PA:01:PR (REG– 107420-24)
Courier's Desk
Internal Revenue Service
1111 Constitution Ave NW
Washington, D.C. 20044

Submitted to https://www.regulations.gov

Re: **Comments on Proposed Regulations on Source of Income from Cloud Transactions (REG–107420-24; 01/14/2025)**

To Whom It May Concern:

Simultaneous with publishing TD 10022 (January 14, 2025) finalizing updates to Treas. Reg. §1. 861-18 and creating Treas. Reg. §1.861-19 regarding Classification of Digital Content Transactions and Cloud Transactions, the Department of Treasury also issued proposed regulations under IRC Section 861 regarding Source of Income from Cloud Transactions (REG-107420-24).

The Internal Revenue Service Advisory Council (IRSAC) is pleased to provide comments in response to the proposed regulations released as REG-107420-24, Source of Income from Cloud Transactions.

The IRSAC serves as an advisory body to the Commissioner of the Internal Revenue Service (IRS) and agency leadership. This group consists of 38 volunteer members appointed by the IRS and represents a broad cross-section of interests and areas of expertise in various aspects of tax compliance and administration. The IRSAC provides an organized forum for discussion of tax administration issues between IRS officials and representatives of the public. The IRSAC reviews existing tax policy and administrative issues and makes recommendations in an annual written report to achieve efficient and effective tax administration.

The IRSAC members work within six broad subject matter groups. These subgroups are Information Reporting, Large Business & International, Small Business/Self-Employed, Tax-Exempt/Government Entities, Taxpayer Services (formerly named Wage & Investment), and Fairness in Tax Administration.

Our comments regarding the proposed regulations consider the matters of information reporting on Form 1042-S and withholding as required by Treas. Reg. §§1.1461-1(b), 1.1441-2, and 1.441-3(d)(1).

Withholding on Payments and Reporting on Form 1042-S of Amounts Sourced to the United States

The 2025 instructions for Form 1042-S state that the payer "Use Form 1042-S to report income described under Amounts Subject to Reporting on Form 1042-S." The instructions also state that the payer issue Form 1042-S to report amounts withheld under IRC Chapter 3 or Chapter 4.

This implies that there should be a relationship between the amounts reported on Form 1042-S as income, and the income reporting by the payee. If there is no relationship between these amounts, it calls into question the purpose and value of issuing Forms 1042-S.

TD 10022 generally follows the proposed regulations released in 2019 (REG-130700-14 (August 14, 2019)) and provides new clarification for sourcing cloud transactions causing such transactions to be sourced primarily as services. Services are generally sourced based on where the services are performed.

The proposed regulations released in January 2025 reinforce that cloud transactions are sourced as services and suggest a formula for calculating income from cloud transactions. Section 1, paragraph C of the preamble summarizes the income sourcing requirement proposed in these regulations:

> "The proposed regulations state that gross income from a cloud transaction is sourced as services income under section 861(a)(3) or 862(a)(3), as appropriate, according to where the service is performed. Proposed § 1.861-19(d)(1). The place of performance of a cloud transaction is established through a formula composed of a fraction that relies on three factors: the intangible property factor, the personnel factor, and the tangible property factor (within the meaning of proposed § 1.861-19(d)(2), (d)(3), and (d)(4), respectively)."

The formula requires that the payee produce and sum fractions for each of the three factors where the denominator of each is a total for the year, and the numerator is the portion sourced by the payee to the U.S. for the year.

The challenge to issuers of Form 1042-S is that the result of these proposed calculations is not known until after the end of the year and is known to the payee but not to the payer. The payer on the other hand must determine what portion of each payment is sourced to the U.S. and withhold amounts of such payments when required before such payments are made to the payee. The amount sourced to the U.S. and any related withholding must be reported by the payer on Form 1042-S.

Recommendation

If these proposed regulations are finalized in this form, the IRSAC recommends that the regulations or other guidance provide clarity by specifying that it is the responsibility of the payee to indicate to the payer the portion of any request for payment that should be treated as a payment sourced to the U.S. The guidance should indicate that the payer may rely on such statement by the payee to avoid the requirement under Treas. Reg. § 1.1441-3(d)(1) whereby withholding is required based on the entire amount paid when "the determination of the source of the income or the calculation of the amount of income subject to tax depends upon facts that are not known at the time of payment."

We appreciate your consideration of these comments and IRSAC members are available to discuss any of them further. You can reach us via the IRS Office of National Public Liaison at publicliaison@irs.gov.

Sincerely,

Christine Z Freeland

Christine Z Freeland
2025 IRSAC Chair

May 28, 2025

Michael Faulkender
Acting Commissioner of Internal Revenue
Internal Revenue Service
1111 Constitution Avenue NW
Washington, DC 20224

Re: **Request for Extension of Transitional Relief under Notice 2024-56**

To Whom It May Concern:

The Internal Revenue Service Advisory Council (IRSAC) is pleased to provide comments in response to Notice 2024-56, Transitional Relief Under Sections 3403, 3406, 6721, 6722, 6651, and 6656 with Respect to the Reporting of Information and Backup Withholding on Digital Assets by Brokers under Section 6045.

The IRSAC serves as an advisory body to the Commissioner of the Internal Revenue Service (IRS) and agency leadership. This group consists of 37 volunteer members appointed by the IRS and represents a broad cross-section of interests and areas of expertise in various aspects of tax compliance and administration. The IRSAC provides an organized forum for discussion of tax administration issues between IRS officials and representatives of the public. The IRSAC reviews existing tax policy and administrative issues and makes recommendations in an annual written report to achieve efficient and effective tax Administration.

The IRSAC members work within five broad subject matter groups. These subgroups are Information Reporting, Large Business & International, Small Business/Self-Employed, Tax-Exempt/Government Entities, and Taxpayer Services.

We offer recommendations for additional transitional relief beyond what is provided in Notice 2024-56.

Summary of Recommendations

1. Postpone backup withholding for digital asset sales to those effected during 2027 to allow sufficient time for development, testing, and safe deployment of mechanisms to identify and perform backup withholding on those sales.
2. For sales in 2027, permit digital asset brokers to rely on Taxpayer Identification Numbers (TINs) in their account records—irrespective of the method by which they were obtained—if the TINs are not certified but have been validated via the IRS TIN Matching Program. Further, designate such accounts opened prior to 2028 as "preexisting accounts".
3. Allow brokers to treat preexisting accounts of customers classified as non-U.S. persons as exempt foreign persons for sales in 2027 without requiring additional documentation, provided the residence address on file is outside the United States.

The detailed recommendations are as follows:

1. Do not require backup withholding on digital asset sales effected 2026.

The IRSAC appreciates the issuance of transitional relief under Notice 2024-56. Brokers are diligently working to comply with the phased approach for reporting digital asset sales on Form 1099-DA. However, we strongly recommend postponing the effective date for requiring backup withholding on digital asset sales until 2027. This extension would better align with industry readiness and prevent disruptions as well as consistency in digital asset trading.

Meeting the current deadlines presents significant challenges, as brokers must develop and implement the following infrastructure within 18 months:

- Track and report gross proceeds on transactions effective 1/1/25, with Form 1099-DA filing starting February 2026.
- Implement cost basis tracking and reporting for transactions effective 1/1/26.
- Integrate W-9/W-8 collection into user onboarding workflows by 1/1/26.
- Remediate preexisting accounts lacking valid TINs or failing IRS TIN Match by 1/1/26.

- Modify trading systems to handle backup withholding for digital asset transactions effective 1/1/26, while simultaneously implementing reconciliation and remittance procedures for both the IRS and states that require backup withholding in addition to IRS withholding.

Due to the extraordinary complexity of these changes, an additional two years of relief is necessary. This is especially critical for digital asset transactions that do not involve fiat currency, where brokers must withhold in units of the digital asset, sell those units immediately and then remit the fiat currency to the IRS.

2. Allow brokers to rely on TINs in their account records for preexisting accounts.

Notice 2024-56 permits brokers to rely on uncertified TINs for preexisting accounts, provided those TINs were received from the payee and pass validation through the IRS TIN Matching Program. The IRSAC recommends extending this relief as follows:

- Shift the effective date for sales requiring backup withholding from 2026 to 2027.
- Redefine "preexisting accounts" as accounts opened prior to 2028 rather than 2026.

Additionally for preexisting accounts, brokers should be permitted to rely on TINs in their records, even if those TINs were obtained through partial-entry processes such as soliciting the last four digits of a TIN and subsequently matching it using third-party services. Without this relief, many digital asset platforms will face substantial burdens, including the remediation of tens of millions of accounts through the collection of signed Forms W-9 before the backup withholding transition period ends.

3. Allow brokers to treat preexisting accounts of non-U.S. persons as exempt foreign persons without additional documentation.

The IRSAC recommends that brokers be permitted to treat preexisting accounts of customers classified as non-U.S. persons as exempt foreign persons for sales in 2027 without the need for additional documentation, provided the residence address on file is outside the United States and the account was opened before 2028. Aligning this date with the recommended delay for backup withholding (2027) would provide consistency and reduce complexity during the transition period.

We appreciate your consideration of these recommendations and IRSAC members are available to discuss any of them further. You can reach us via the IRS Office of National Public Liaison at publicliaison@irs.gov.

Sincerely,

Christine Freeland
2025 IRSAC Chair

Recommendations for the 2025–2026 Priority Guidance Plan (Notice 2025-19)

May 30, 2025

Internal Revenue Service
Attn: CC:PA:01:PR (Notice 2025-19) Room 5203
P.O. Box 7604
Ben Franklin Station
Washington, D.C. 20044

Submitted to www.regulations.gov (IRS-2025-19)

Re: Recommendations for the 2025-2026 Priority Guidance Plan Per Request in Notice 2025-19

To Whom It May Concern:

The Internal Revenue Service Advisory Council (IRSAC) is pleased to provide recommendations for the 2025-2026 Priority Guidance Plan as requested by Notice 2025-19. These recommendations tie to our work going back to 2021.

The IRSAC serves as an advisory body to the Commissioner of the Internal Revenue Service (IRS) and agency leadership. This group consists of 37 volunteer members appointed by the IRS and represents a broad cross-section of interests and areas of expertise in various aspects of tax compliance and administration. The IRSAC provides an organized forum for discussion of tax administration issues between IRS officials and representatives of the public. The IRSAC reviews existing tax policy and administrative issues and makes recommendations in an annual written report to achieve efficient and effective tax administration.

The IRSAC members work within five broad subject matter groups. These subgroups are Information Reporting, Large Business & International, Small Business/Self-Employed, Tax-Exempt/Government Entities, and Taxpayer Services (formerly named Wage & Investment).

The majority of the recommendations below were included in the 2021, 2022, 2023 and 2024 annual reports that the IRSAC provided to the IRS. Thus, most of these recommendations were previously made to the IRS but are submitted here formally to the PGP to ensure they are also part of the formal process established by the Department of the Treasury and the IRS to identify topics for possible guidance.

The annual reports of the IRSAC also include non-guidance recommendations such as for tax forms, technology, and IRS practices and procedures. Links to the annual reports are included in the description of each of our recommendations as these reports include further details to support the

Pablo Blank
Sam Cohen
Omeed Firouzi
Charles Markham
Sarah Narkiewicz
Hussein Tarraf
Rolanda Watson
Lucinda Weigel

recommendations. The report links are:

- 2024 - https://www.irs.gov/pub/irs-pdf/p5316.pdf/
- 2023 - https://www.irs.gov/pub/irs-prior/p5316--2023.pdf
- 2022 - https://www.irs.gov/pub/irs-prior/p5316--2022.pdf
- 2021 - https://www.irs.gov/pub/irs-prior/p5316--2021.pdf

We appreciate your consideration of these comments and IRSAC members are available to discuss any of them further. You can reach us via the IRS Office of National Public Liaison at publicliaison@irs.gov.

General

A. Circular 230 Revision

Recommendation from the 2021 IRSAC Report, pages 40 to 42:

Update Circular 230 for currency, relevancy, and readability.

Recommendations from the 2024 IRSAC Report, pages 83 to 89:

1. Modify Circular 230 to include a voluntary Filing Season Agent credential modeled off the Enrolled Agent credential, including minimum competency, continuing education, and ethical standard components. Filing Season Agents would be required to:

   a. Demonstrate competence by passing Parts 1 and 3 of the Enrolled Agent examination.

   b. Pass suitability checks and maintain a PTIN.

   c. Complete 60 hours of continuing education under a three-year renewal cycle with a minimum of 15 hours per year with two hours being ethics education.

Recommendations from the 2024 IRSAC Report, pages 90 to 91:

Modify Sections 10.6(e)(2) and (f) of Circular 230 to allow up to four hours of practice management as an option within the 72 hours required to renew enrollment for Enrolled Agents. Practice management should be broadly defined as it is for CPAs to include business organization, communications, marketing, computer software and applications, information technology, elimination of bias, privacy laws, and personnel/human resources.

B. State Payments Taxability and Information Reporting

We recommend that guidance be issued to address comments received and to be received on Notice 2023-56. Guidance is needed to enable taxpayers, tax practitioners, state tax agencies and state lawmakers to have confidence in understanding the federal tax treatment of various types of payments made by state and local governments to taxpayers as well as the details concerning any required information reporting. See our comment letter on Notice 2023-56 dated

September 3, 2024 available at pages 274 to 277 of the 2024 IRSAC Report.

Information Reporting

A. **Section 6050W Guidance Needed for Filers of Form 1099-K**

Recommendations 1 to 6 from the 2023 IRSAC Report, pages 25 to 31:

1. Clarify the definition of 'account' for purposes of section 6050W(d)(3)(A) and Treas. Reg. §1.6050W-1(a)(2).
2. Clarify the discrepancy between section 6050W(d)(3)(A) and Treas. Reg. §1.6050W-1(c)(3) with respect to the use of the term 'providers' versus 'persons'.
3. Define the term 'substantial' by providing a baseline number for purposes of Treas. Reg. §1.6050W-1(c)(3).
4. Define the meaning of 'guarantee' for purposes of section 6050W(d)(3)(c).
5. Add examples in the Treasury regulations to include scenarios of an arrangement that constitutes a guarantee for purposes of section 6050W.
6. Update the Treasury regulations with practical examples illustrating who is required to report when there are multiple PSEs obligated to report the same transaction.

B. **Section 302 Escrow and Certification Procedure**

Recommendations 1 to 8 from the 2023 IRSAC Report, pages 38 to 41:

1. The IRS should provide that withholding agents can *presume* that a public markets Section 302 transaction is an exchange (not subject to withholding tax) for U.S. tax purposes unless the withholding agent has actual knowledge otherwise.
2. If such a presumption is not provided, the IRS should address practical, operational, and interpretational issues with the 2007 Proposed Regulations.
3. Withholding should not be required on presumed foreign persons (that have not provided a Form W-8) that have provided a Section 302 certification certifying exchange treatment.
4. Reporting on Form 1042-S [Foreign Person's U.S. Source Income Subject to Withholding] should not be required if the non-US person provides a Section 302 certification certifying exchange treatment.
5. Qualified intermediaries should be permitted to act as

withholding agents with respect to Section 302 transactions.

6. Guidance should be provided regarding whether a withholding agent may obtain a Section 302 certification from a non-withholding foreign partnership with respect to the non-withholding foreign partnership's holdings, or whether it is required to obtain individual certifications from the partners of the foreign partnership.
7. It should be made explicitly clear that a Section 302 certification signature under penalties of perjury may be provided electronically.
8. The IRS should consider developing a standard form or IRS approved certification and instructions document.

Guidance should be provided to withholding agents with respect to distributions paid in connection with stock that is not traded on an established financial market.

C. Guidance to Allow Issuers of Form 1099-DA to Furnish Forms Electronically

The IRSAC started working on this digital asset topic in 2024 and also plans to issue comments on the draft Form 1099-DA, Digital Asset Proceeds from Broker Transactions. We recommend that final regulations under Section 6045 allow brokers who facilitate trades of digital assets through a smartphone, tablet, computer, or similar technology be allowed to furnish written statements to a recipient electronically without requiring the recipient to first consent to receive the statement electronically.

D. Payors of Income Related to Digital Assets Need Information Reporting & Withholding Guidance

Recommendations 2 to 3 from the 2021 IRSAC Report, pages 48 to 56 (slightly modified in light of the issuance of final regulations in July 2024 (TD 10000)):

2. Develop a strategic plan for analyzing and providing the industry with applicable withholding and information reporting guidance for other digital asset related transactions including income from staking, lending activities and NFT marketplaces.
3. Update existing publications and Form 1099 Instructions with examples of digital asset transactions subject to the requirements. Leverage traditional communications like Internal Revenue Bulletins to articulate guidance for more specific application of details.

E. Comments on Notice 2024-55, Certain Exceptions to the 10 Percent Additional Tax Under Code Section 72(t)

Recommendations from the 2024 IRSAC Report, from a comment letter submitted on October 10, 2024, reproduced at pages 283 to 286.

- Confirm that the practical maximum that can be repaid for Emergency Personal Expense distributions is $4,000.
- Recommend that for repayments of Emergency Personal Expense Distributions, Domestic Abuse Victim Distributions, and other distributions under Section 72(t) permitted within 3-years of distribution, a plan administrator may rely on a statement by the taxpayer that the repayment is permitted.
- Provide model language for a statement upon which a plan administrator may rely to accept repayment of a distribution made under Section 72(t).
- Confirm that exemption from the 10% additional tax described by Section 72(t)(1) is not a prerequisite for a taxpayer to make a repayment of a distribution described by Section 72(t).
- Confirm that there is no annual limit to the amount that a taxpayer may take as a Domestic Abuse Victim Distribution or Repayment under Section 72(t)(2)(K).

F. **Negative Rates**

Recommendations 1 and 2 from the 2021 IRSAC Report, pages 72 to 75:

1. Publish guidance with respect to the source of a negative rate payment. Such guidance should be broad enough to cover payments on routine financial transactions such as deposits, collateral on derivatives, margin loans and repos.
2. If there are scenarios in which published guidance treats a negative rate payment as U.S. source fixed or determinable annual or periodical (FDAP) income, (i) such guidance should be effective only after an adequate transition period for withholding agents to modify systems to account for such guidance, and (ii) the IRS should not challenge taxpayers who have taken a reasonable position with respect to the tax characterization and source of a negative rate payment prior to the effective date of such guidance.

G. **Transition Relief under Notice 2024-56**

IRSAC has separately submitted a comment letter requesting extended transitional relief with regard to information reporting and backup withholding by brokers of Digital Assets under Section 6045. Recommendations are briefly summarized as follows:

4. Postpone backup withholding for digital asset sales to those effected during 2027 to allow sufficient time for development, testing, and safe deployment of mechanisms to identify and perform backup withholding on those sales. As brokers must develop and implement significant infrastructure to effectuate reporting, the present deadlines present significant challenges that industry may not be able to meet.
5. For sales in 2027, permit digital asset brokers to rely on Taxpayer Identification Numbers (TINs) in their account records—irrespective of the method by which they were obtained—if the TINs are not certified but have been validated via the IRS TIN Matching Program. Further, designate such accounts opened prior to 2028 as "preexisting accounts."
6. Allow brokers to treat preexisting accounts of customers classified as non-U.S. persons as exempt foreign persons for sales in 2027 without requiring additional documentation, provided the residence address on file is outside the United States.

H. Guidance on Distribution Codes for Qualified Charitable Distributions (QCD)

The 2025 instructions for Forms 1099-R and 5498 contain a new distribution code to indicate a Qualified Charitable Distribution (QCD). IRS Notice 2007-7 allows an IRA trustee or custodian to forego withholding on a distribution indicated by the accountholder to be a QCD. The IRSAC seeks guidance

- to confirm whether the same check-the-box designation made by an accountholder and allowed by IRS Notice 2007-7 can now also be relied upon by the IRA trustee or custodian to apply the new distribution code Y to a distribution reported on Form 1099-R,
- whether there are situations where the IRA trustee or custodian should ignore the QCD designation by the accountholder and not treat the distribution as a QCD for information reporting on Form 1099-R, and
- confirming that use of the new code Y is optional, including that an IRA trustee or custodian is not obligated to apply the QCD designation to a distribution if the accountholder did not inform the IRA trustee or custodian prior to the distribution that it is a QCD.

Large Business & International

A. **Accelerate Issuance of Section 174 Guidance**
Recommendations 1 to 3 from the 2023 IRSAC Report, pages 49 to 52:

1. Prioritize Section 174 guidance, in the form of binding guidance such as a relevant Notice, Revenue Ruling or Treasury Department issued regulation. In the interim, publicly available Questions & Answers (FAQs, ideally

issued as a news release (IR)) would also provide clarity for taxpayers.

2. Include the following topics in the binding guidance:

    a. Does Section 174 amortization apply to funded research and development in the context of software and non-software if (i) the taxpayer does not own or have rights to the intellectual property or (ii) if the taxpayer does not own the intellectual property but does have rights to the intellectual property?

    b. Do general and administrative, and operations costs have to be allocated to the capitalized and amortized R&E costs? If so, what allocation methodology should be utilized or what is a reasonable allocation approach? Are these approaches considered methods of accounting?

    c. What documentation and/ or workpapers are taxpayers required to keep as part of Section 174 cost identification and analysis process?

    d. In IRS issued guidance provide examples on "in carrying on" versus "in connection with" as used in Sections 162 and 174 such that taxpayers may appropriately utilize other IRC Sections when considering R&E in the ordinary course of carrying on their trade or business.

3. Consider the following Safe Harbors in guidance under the TCJA change to Section 174:

    a. Exclude funded research and funded software development from IRC Section 174 amortization.

    b. Include that taxpayers will not be subject to underpayment penalties on quarterly estimated payments if the add back is equal to prior year Qualified Research Expenses (QREs) (or 125%).

    c. Provide a safe harbor if estimated payments are based on the same as Accounting Standard Codification (ASC) 730 book research and development amounts.

B. Procedures For Partners that Receive Late Schedule K-1 Filings

Recommendation from the 2022 IRSAC Report, pages 52 to 55:

To eliminate the administrative burden to the IRS from processing amended returns and to large corporate taxpayers arising from receiving late Schedules K-1, a procedure should be adopted by which large corporate taxpayers are permitted to:

i. Use good faith estimates with respect to late received Schedules K-1 to timely file their Form 1120.

ii. Correct any such estimated amounts (to the extent necessary) on the subsequent tax year's Form 1120 (including the payment of any interest attributable to an increase in tax for the original reporting year resulting from such true-up and consent to extend the statute of limitations solely with respect to these corrected amounts).

iii. Include an attestation signed under penalty of perjury that the estimated amounts are good faith estimates to the best knowledge of the corporate taxpayer and the Schedules K-1 were not received on or prior to September 15 and similar timing for fiscal year large corporate taxpayers.

Small Business / Self-Employed Taxpayers

A. Penalties, Defenses to Penalties, and Tools to Resolve Penalties

Recommendations from the 2024 IRSAC Report, pages 171 to 183 include:

- Issue proposed, interpretive regulations under Section 6651 and solicit comments from the public as to (among other things) the factors that should be evaluated in determining whether a taxpayer has reasonable cause to excuse a penalty on the ground of failure to timely file, pay, or deposit.

- Recognize a new reasonable cause exception in which reliance on a professional to perform the ministerial act of electronically filing a tax return that the taxpayer signed and authorized to be electronically filed, but which the taxpayer cannot electronically file, constitutes a reasonable cause to excuse the failure to timely file, pay, or deposit.

B. Disaster Assistance to Improve the Taxpayer Experience

Recommendations from the 2024 IRSAC Report, pages 194 to 201:

- While Rev. Proc. 2018-58 is helpful in listing all the postponed time-sensitive acts under Section 7508A, taxpayers and practitioners would greatly benefit in having a list of the acts that are not covered by the postponement.

- Issue a notice or regulations on the tax treatment of employers' leave-based donation programs that apply to all

Federally declared disasters. The date for such donations to be made can be specified as the last day of the year following the disaster declaration.

Tax-Exempt / Government Entities

A. Self-Correction Guidance for Employee Plans

Recommendations 1 to 10 from the [2023 IRSAC Report], pages 115 to 121:

1. Expand the Employee Plans Compliance Resolution System (EPCRS) (currently set out in Rev. Proc. 2021-30) to permit direct transfers between different types of plans maintained by the same employer when contributions have erroneously been made to one plan when they should have been made to another plan.
2. Expand EPCRS to allow plan sponsors to use the Department of Labor lost earnings calculator as a reasonable alternative method for calculating lost earnings when correcting failures.
3. Expand EPCRS to allow a retroactive amendment to correct an ADP/ACP testing error by changing testing methods if the amendment would have been permitted under the Internal Revenue Code if timely adopted and it does not favor HCEs over non-HCEs.
4. Expand EPCRS to allow plan sponsors to self-correct failures to timely amend the plan for tax law changes.
5. Expand EPCRS to provide guidance on how to correct failures regarding both underpayments and excess mandatory employee contributions with respect to governmental plans.
6. Expand EPCRS to address corrections of missed RMDs due to vendor failures when a deselected vendor fails or refuses to make RMDs, and the plan sponsor has no control over the assets.
7. Update EPCRS to address statutory changes in Section 301 of the SECURE 2.0 Act with respect to correcting overpayment errors.
8. Reorganize the EPCRS to group together all correction methods related to a single type of failure to facilitate compliance.
9. Review the types of errors being filed under the VCP [Voluntary Correction Program] to determine additional guidance that may be needed under the EPCRS for plan

sponsors to adequately self-correct for the same errors.

10. Continue to request comments from plan sponsors on the EPCRS updates to gather information on how employers are using the self-correction program (SCP).

B. Increase the Tax Reporting Threshold for Slot Machine Jackpot Winnings

Recommendations 1 and 2 from the 2023 IRSAC Report, pages 135 to 138:

1. Increase the tax reporting threshold for slot machine jackpot winnings to $5,000 (modification to Treas. Reg. 1.6041-10).
2. For calendar years beginning after the first year of a $5,000 threshold, consider periodic increases to increase the threshold to a dollar amount multiplied by the cost-of-living adjustment.

Taxpayer Services Subgroup

A. Review the Tribal Court Determinations of a "Child with Special Needs" Satisfies "State" Determinations Under Section 23 Adoption Tax Credit to provide Equity in the Adoption Credit

1. Section 23 Adoption Tax Credit. Adopting parents of a "child with special needs" are automatically entitled to the full tax credit under Internal Revenue Code ("IRC") Section 23(a) (up to $16,810 for 2024) regardless of actual expenses incurred with respect to the adoption. Congress defined a "child with special needs" to include any child that meets three criteria: (1) "a State has determined that the child cannot or should not be returned to the home of his parents", (2) "such State has determined that there exists with respect to the child a specific factor or condition (such as his ethnic background, age, or membership in a minority or sibling group, or the presence of factors such as medical conditions or physical, mental, or emotional handicaps) because of which it is reasonable to conclude that such child cannot be placed with adoptive parents without providing adoption assistance," and (3) the child is "a citizen or resident of the United States." IRC § 23(d)(3). As reflected in statutory language, determinations as to whether a child has "special needs" for purposes of Section 23 are heavily dependent on "State" determinations.

2. Barriers to Tribal Citizen Access. The requirement to receive a "State" determination under Section 23 infringes on tribal sovereignty and is

inequitable towards a similarly situated segment of the population – tribal adoptive parents who seek resolution through a duly authorized court. As recognized by the Indian Child Welfare Act (ICWA), tribal courts have exclusive jurisdiction over decisions involving child custody and adoptions of Indian children. Strictly interpreting Section 23 to be limited to State determinations undermines federal law and tribal court authority under ICWA. Further, it effectively penalizes a segment of the population – tribal adoptive parents – who are following the process laid out by Congress. A strict interpretation leads to an inequity in providing a tax credit to adoptive parents adopting a "child with special needs."

1) IRS Authority to Take Action.

   a. The Secretary of the Treasury and IRS Commissioner have broad authority to "prescribe all needful rules and regulations for the enforcement of [the IRC], including all rules and regulations as may be necessary by reason of any alteration of law in relation to internal revenue" under Section 7805 and Treasury Regulations Section 301.7805-1 respectively. In the past, Treasury and the IRS have used this authority to ease administrative burden by broadening unduly restrictive language. *See* 80 Fed. Reg. 11600 (Mar. 4, 2015) (addressing increased information reporting threshold requirements for slot machine winnings). Treasury and IRS should exercise their regulatory authority again to establish parity by recognizing that determinations by an Indian tribal government's courts are "State" determinations for purposes of Section 23 adoption tax credits.

   b. Further, there is no case law or guidance on what qualifies as a State determination and only one case that considers the more general question of what constitutes a determination. In *Lahmeyer v. U.S.*, 2014 WL 3973152 (S.D. Fla. 2014), the court considered the novel issue of defining "determination" under Section 23 and concluded that it must be an individualized determination – not just a general statutory pronouncement – by a body, court, or administrative agency. The lack of case law and guidance provides the Department of the Treasury ("Treasury"), and Internal Revenue Service ("IRS") have an opening to use their authority to issue guidance ensuring Section 23 applies to all similarly situated taxpayers. In *Helvering v. Hammel*, the United States Supreme Court noted the allowance of a broader reading of a statute when a literal or usual meaning of its words where acceptance of that meaning would leave to absurd results or would thwart the obvious purpose of the statute. 311 U.S. 504, 511 61 S.Ct. 368, 371 (1941) (citing *United States v. Katz*, 271 U.S. 354, 362, 46 S.Ct. 513, 516 (1926) and *Haggar Co. v. Helvering*, 308 U.S. 389, 60 S.Ct. 337 (1940)). Issuing the requested guidance would ensure against inequity of the purpose of the statute.

Respectfully submitted,

Christine Z Freeland
2025 IRSAC Chair

Comments on Request for Information Related to Executive Order 14247, "Modernizing Payments To and From America's Bank Account"

Christine Freeland, Chair

Information Reporting Subgroup:
Susan Nakano, Chair
Beatriz Castaneda
Jared Goldberger
Manuela Markarian
Adam Robbins
Peter Smith
Nicholas Yannaci

Large Business & International Subgroup:
Andrew Bloom, Chair
Selvan Boominathan
David Heywood
Anthony Massoud
Thomas Wheadon

Small Business/Self-Employed Subgroup:
Annette Nellen, Chair
Caroline Bruckner
Christine Freeland
David Gannaway
Lawrence Sannicandro
Kris Thiessen

Tax Exempt/Government Entities Subgroup:

June 30, 2025

Internal Revenue Service
Office of Consumer Affairs
Attn: www.regulations.gov/docket/TREAS-DO-2025-0004

Submitted to www.regulations.gov

Re: Request for Information Related to Executive Order 14247, "Modernizing Payments To and From America's Bank Account" (TREAS-DO-2025-0004)

To Whom It May Concern:

The Internal Revenue Service Advisory Council (IRSAC) is pleased to provide comments in response to the Request for Information Related to Executive Order 14247, "Modernizing Payments To and From America's Bank Account" published in the Federal Register on May 30, 2025.

The IRSAC serves as an advisory body to the Commissioner of the Internal Revenue Service (IRS) and agency leadership. This group consists of 37 volunteer members appointed by the IRS and represents a broad cross-section of interests and areas of expertise in various aspects of tax compliance and administration. The IRSAC provides an organized forum for discussion of tax administration issues between IRS officials and representatives of the public. The IRSAC reviews existing tax policy and administrative issues and makes recommendations in an annual written report to achieve efficient and effective tax administration.

The IRSAC members work within five broad subject matter groups. These subgroups are Information Reporting, Large Business & International, Small Business/Self-Employed, Tax-Exempt/Government Entities, and Taxpayer Services (formerly named Wage & Investment).

Paper Check Usage for Government Collections and Disbursements

There is a fundamental difference between receiving payment from the IRS and making a payment to the IRS.

Anyone with a bank account can fill in a routing and account number on an IRS form to receive a payment. In contrast, to make payments,

- older individuals,
- individuals with limited computer proficiency, and
- those with limited technology or internet access

use paper checks or money orders to make payments to the Federal Government and likely will need to continue to use paper-based approaches. Significantly, in rural communities and in tribal communities such as the Navajo and Lakota Nations, internet or broadband access is generally not available. There is also a population of Amish and others that will not use internet or electricity in some cases.

Many taxpayers are not technology literate or confident or trusting and prefer to use checks and receive a copy of a cancelled check for their records. They do not trust the security of the internet or do not have knowledge to make payments online.

Some taxpayers do not want to give the IRS their banking information, fearing it will be used to withdraw funds not authorized by the taxpayer or the information will become available to fraudsters and hackers.

In addition to various situations and reasons that some taxpayers will not want to or be able to make electronic payments to the government, there is also the issue that current practices do not allow all payments to be made electronically. For example, the IRS will need to expand the transactions that can be paid electronically with Direct Pay. Currently an estimated payment for Form 1041 cannot be made online with Direct Pay. There is also no ability to set up an online account for estates and trusts, as there is for individuals and businesses. All payment types should be able to be paid on Direct Pay without having to set up an online account.

Programs Needed to Help All Taxpayers Engage in E-Payments

To achieve greater use of e-payments to and from the federal government, new initiatives are needed particularly to help the unbanked, those who cannot afford to use e-payment options, and those without appropriate access to technology. The City of Albuquerque has a BankOn Burque initiative (https://www.oneabqvolunteers.com/agency/detail/?agency_id=155616), that leverages local credit unions to provide accounts to the unbanked, including ITIN holders. This is a type of partnership that could be used as a model.

Public Awareness Campaign and Stakeholder Outreach

To promote broader use of e-payments to and from the government, consider launching a multi-channel public education campaign explaining the benefits of EFT options (e.g., Direct Deposit, EFTPS, Treasury Direct), modeled after successful private-sector initiatives. It is also important to explain the security features available with these programs.

Provide step-by-step tutorials and customer support, especially targeting unbanked, underbanked, and vulnerable populations, with translations and alternative sign-up options.

Integrate agency outreach—posting clear instructions at Social Security, VA, and IRS VITA and TCE centers, as well as all government websites.

Work with state and local governments who might have the same e-payment goals or already have implemented e-payment initiatives.

Address Security, Fraud, and Access

Highlight that paper checks are 16 times more likely to be lost, stolen, or altered compared to EFTs, and that the government spent over $657 million in FY 2024 on check processing costs.

Ensure policies implemented have appropriate fraud prevention methodologies in place to prevent any inadvertent increased opportunity for theft. Be sure this information is available to all taxpayers.

Implement common-sense fraud prevention, including:

- Payer authentication notifications
- Alerts for out-of-pattern transactions

Provide easy dispute and recovery protocols for improper payments.

The requirement for electronic payments opens a new avenue for bad actors to take advantage of our most vulnerable populations. Bad actors will take the opportunity to provide the "service" of making payments for taxpayers and charge high fees for the service or not make the payments at all and disappear before the taxpayer becomes aware that the IRS or other government agency has not received payment.

Preferred EFT Methods, Costs and Risks

Expand accepted payment methods to include real-time payments, digital wallets, and prepaid accounts, especially for those without traditional bank relationships.

- According to the FDIC, 4.2% of U.S. households—about 5.6 million—were unbanked in 2023.[1]
- The unbanked disproportionately include Black, Hispanic, disabled, and minority populations**.** Among low-income adults (income under $25,000), that rate jumps to 23%.[2]
- 66% of unbanked households rely solely on cash, while others use prepaid cards or nonbank apps like Venmo or Cash App.[3]

Enable same-day payments for urgent federal obligations (e.g., estimated tax, grant disbursements). EFTPS currently requires advance scheduling—creating risk for missed deadlines. Simplify signup by offering real-time identity verification, reducing reliance on mailed PINs (which now take 7–10 days).

Partner with trusted fintechs and fintech-focused nonprofits to create low-cost, no-fee digital debit accounts for receiving federal payments.

Where EFT is infeasible, consider reloadable prepaid cards as an alternative to paper checks, with upfront seeding and ongoing loading by Treasury vendors.

The IRS should remove the surcharge for paying by credit card. Credit cards are the most secure choice for payments. Debit cards and providing banking account information do not have the same consumer protections as using a credit card.

Consumer risk: Debit cards are a less secure way to pay as they do not have the identity theft / dispute protections that are part of the law for credit cards. That is, the dispute mechanism for debit cards is based on a cash/check paradigm. Disputes for credit cards are based on an electronic payment paradigm having stronger consumer safeguards. If a taxpayer account is drained because a fraudster stole a debit card / account number, the taxpayer is less likely to recover funds than if a credit card is stolen.

Industry costs: There are industry costs associated with e-payments. Debit cards have acceptance costs, which are generally lower than for credit cards. Credit card acceptance has costs associated both with network costs and reduced risk to the payee because the payee is paid even if the card owner never pays their bill.

Maintain Limited Exceptions and Support

Define clear exception from e-payments eligibility and application process, making sure that those without internet access may be exempted from e-payment. Also make sure that the exception process is easy for taxpayers to understand.

Offer transitional support, such as extended mailing timelines and bilingual customer assistance, for individuals unable to adopt EFT methods.

Support a transitional period and method to opt out of an electronic payment mandate within defined exceptions.

Consider after an appropriate transition period, adding a "processing fee" for traditional

[1] Federal Reserve Bank of Cleveland, "Unbanked in America: A Review of the Literature," 2022; https://www.clevelandfed.org/publications/economic-commentary/2022/ec-202207-unbanked-in-america-a-review-of-the-literature.

[2] Board of Governors of the Federal Reserve System, "Report on the Economic Well-Being of U.S. Households in 2023 – May 2024," 2023; https://www.federalreserve.gov/publications/2024-economic-well-being-of-us-households-in-2023-banking-credit.htm.

[3] FDIC, "A Closer Look At The Unbanked: Cash-Only Households Versus Those That Use Prepaid Cards or Nonbank Payment Apps," July 2024; https://www.fdic.gov/consumer-research/closer-look-unbanked-cash-only-households-versus-those-use-prepaid-cards-or.

paper methods to subsidize costs while attempting to drive behavior and incentivize change. This fee would be similar to the requirement to pay payroll taxes electronically above a specified dollar amount. Such a charge should exempt individuals below specified income levels such as 250% the federal poverty level or the local median income.

Timing

The current time frame of September 2025 is not realistic particularly given that the 2025 filing season lasts beyond that date. Also, estimated payments for individuals conclude in January 2026 for 2025. There is not enough time to educate taxpayers regarding the requirement to pay electronically for their 2024 returns still in process (many taxpayers have a November 3 due date for their return and payment due to disaster relief) and 2025 estimated payments already scheduled. For example, many taxpayers already have paper vouchers for their 2025 estimated tax payments and will want to send checks as they have done for the prior three quarters.

In our advisory role, the IRSAC would be pleased to meet with IRS or Treasury personnel to further discuss these comments as well as offer comments on plans for implementing the payment modernization executive order.

Respectfully submitted,

Christine Z Freeland
2025 IRSAC Chair

cc: Commissioner Billy Long

Comments on Draft Form W-9 (Rev January 2026)

November 26, 2025

Internal Revenue Service
Office of Consumer Affairs
Attn: NTF W-9

Submitted to IRS.gov/FormsComments

Re: Comments on Draft Form W-9 (Rev January 2026)

To Whom It May Concern:

The Internal Revenue Service Advisory Council (IRSAC) is pleased to provide the following comments and suggestions to the Draft Form W-9 (Rev January 2026).

The IRSAC serves as an advisory body to the Commissioner of the Internal Revenue Service (IRS) and agency leadership. This group consists of 37 volunteer members appointed by the IRS and represents a broad cross-section of interests and areas of expertise in various aspects of tax compliance and administration. The IRSAC provides an organized forum for discussion of tax administration issues between IRS officials and representatives of the public. The IRSAC reviews existing tax policy and administrative issues and makes recommendations in an annual written report to achieve efficient and effective tax administration.

The IRSAC members work within five broad subject matter groups. These subgroups are Information Reporting, Large Business & International, Small Business/Self-Employed, Tax-Exempt/Government Entities, and Taxpayer Services (formerly named Wage & Investment).

<u>Background</u>

In September 2025, the IRS released a draft revision of Form W-9, *Request for Taxpayer Identification Number and Certification*, that includes significant proposed changes related to digital asset reporting and taxpayer identification number (TIN) requirements for sole proprietors and disregarded entities.[4]

We are concerned that these proposed revisions may increase errors, taxpayer burden, and elevate the risk of identity theft.

Form W-9 has long served as a foundational document in the administration of information reporting and backup withholding under Internal Revenue Code Sections 6041, 6045, and 3406. The form's principal purpose – to accurately furnish and certify a taxpayer's identifying number and U.S. status – should remain central to any update. Changes that obscure that purpose or make it harder for taxpayers to comply should be avoided.

<u>Summary</u>

The IRSAC supports the IRS' objective of modernizing Form W-9. However, several proposed revisions, particularly those affecting the TIN requirements for sole proprietors and disregarded entities, may unintentionally increase taxpayer burden, create confusion for requesters, and elevate identity-theft risks. To assist the IRS in refining the draft form and instructions, the IRSAC highlights the following key points:

- The function of a new fifth certification jurat could instead be implemented through

[4] This draft is currently viewable at https://www.irs.gov/pub/irs-dft/fw9--dft.pdf and shows a revision date of January 2026.

Christine Freeland
David Gannaway
Lawrence Sannicandro
Kris Thiessen

Tax Exempt/Government Entities Subgroup:
Brian Yacker, Chair
Joseph Bender
Kendra Cooks
Steven Grieb
Mark Matkovich
Tralynna Scott
Cory Steinmetz

Taxpayer Services Subgroup:
Elizabeth Boonin, Chair
Brayan Rosa-Rodriguez, Vice Chair
Grace Allison
Robert Barr
Pablo Blank
Sam Cohen
Omeed Firouzi
Charles Markham
Sarah Narkiewicz
Hussein Tarraf
Rolanda Watson
Lucinda Weigel

line 4 exemption coding or instructions rather than introducing a separate jurat that may be misunderstood by and does not apply to most payees.

- The proposed new exempt payee code 14 (digital asset transactions) appears redundant with existing transition relief provided under IRS Notices 2024-56 and 2025-33. If retained, it should be clearly time-limited, narrowly scoped, and accompanied by explanatory instructions to prevent misapplication.
- Current, long-standing practice permits a sole proprietorship to use an employer identification number (EIN). The Form W-9 change to instructions requiring that a sole proprietorship provide a Social Security number (SSN) is causing confusion and will likely lead to increases in identity theft. The IRSAC recommends retaining the option for a sole proprietor (or the owner of a disregarded entity) to provide an EIN (and requiring requesters to accept it) to reduce unnecessary SSN disclosure, enhance data-matching accuracy, and protect taxpayer privacy.

Specific Comments

New Jurat

Part II Certifications of Form W-9 has been static for many years. This draft version of the Form W-9 includes not only a new, fifth jurat, but requires the person providing the form to a requester to determine whether to check the provided box in that jurat. This is problematic for many reasons:

- Introducing a new jurat will cause confusion. The language of the jurat is technical, referring to specific sections of Treasury Regulations that do not apply to the substantial majority of persons completing the Form W-9. The reference to Treasury Regulation Section 1.6045-1(g)(4)(i)(A) is particularly obscure to typical payees and may invite errors in completion.
- Presence of a checkbox in the fifth jurat will result in Forms W-9 with that box checked where the jurat is irrelevant or incorrect for the person completing the form. This will challenge the requester to understand whether they can accept the certifications. For example, if the recipient of the Form W-9 has actual knowledge that this fifth jurat does not apply to a person providing the form, but the checkbox is marked, does the recipient of the form now have reason to know that the certifications are incorrect? If one certification is known to be incorrect, must all certifications contemporaneously signed and certified under penalty of perjury also be disregarded? In the case of payments when signed certification is required, such as payments of interest or dividends, must the recipient apply backup withholding if the provider of Form W-9 checked the box and signed the Form W-9 if the recipient of the form has actual knowledge that the jurat does not apply? The IRSAC recommends that the IRS clarify that an erroneously checked fifth jurat does not invalidate the remaining certifications where the requester has no reason to know of an error or if the fifth jurat does not apply.
- IRS Notice 2024-56 describes in Section 3.07 a certification under penalty of perjury referencing the definition of U.S. Digital Asset Broker in Treasury Regulation Section 1.6045-1(g)(4)(i)(A). Internal Revenue Code

Section 6045 and the Treasury Regulation do not require such certification under penalty of perjury. Any information reporting treatment under that regulation could instead be implemented through an exemption code on Line 4 for the limited number of payees to whom it applies.

- Entities that must obtain Forms W-9, especially financial institutions, are permitted to embed the Form W-9 into onboarding documents as substitute Forms W-9. This is described in the *Instructions for the Requester of form W-9 (Rev. March 2024)*.[5] The current version of Form W-9 instructions state that a substitute Form W-9 must include the enumerated jurats 1-4 of the current certification. If this fifth jurat must be included on every substitute Forms W-9, the industry will incur significant cost to incorporate this change. A financial institution, for example, has dozens of versions of onboarding documents, all of which will need to be updated, even where there is no chance of digital asset impact. This will be a significant cost and effort to industry for no value added to most payers and taxpayers. The IRSAC recommends that substitute Forms W-9 used outside the digital-asset context be allowed to omit the fifth jurat.
- Content that is confusing to the person completing a Form W-9 causes mistakes and phone calls, both to the IRS and the requester of the form. This is a further cost to industry and the IRS. The IRSAC therefore recommends limiting any new certifications to situations clearly required by statute and including plain-language examples to support accurate completion.

Exempt Payee Code

Page 4 of the draft instructions adds a new exempt payee code value 14 related to backup withholding on digital asset sale or exchange transactions. The exempt payee code provides an exemption from backup withholding through calendar year 2026. IRS Notice 2025-33,[6] published on June 12, 2025, already extends through 2026 this relief provided earlier by Notice 2024-56.[7] The notices specifically provide transition relief from backup withholding and penalties to brokers that do not withhold and remit backup withholding tax for digital asset sale or exchange transactions. In this way, the notices provide relief to the recipient of Form W-9, and the Form provides a redundant statement that the payee is entitled to the relief already provided by the notices. Accordingly, the IRSAC recommends that the IRS clarify that this transition relief applies automatically and does not require a payee to claim exempt-payee code 14 on Form W-9.

The exemption description then says, “For later years, see Regulations section 31.3406(b)(3)-2” which describes transactions subject to withholding but does not provide exemptions. This appears to mean that while this code 14 is entered as a Line 4 exempt payee code, after 2026 there is no exemption and the exempt payee code value 14 provides no exemption. As described here, the exemption code provides only confusion and no value in digital asset transactions before or after 2026. The IRSAC therefore recommends either removing exempt-payee code 14 entirely or explicitly sunsetting it on December 31, 2026, with a cross-reference to the applicable transitional relief, to avoid misinterpretation in

[5] *See* Instructions for the Requester of Form W-9, https://www.irs.gov/pub/irs-pdf/iw9.pdf.
[6] *See* Notice 2025-33, 2025-27 I.R.B. 4 https://www.irs.gov/pub/irs-drop/n-25-33.pdf.
[7] *See* Notice 2024-56, 2024-29 I.R.B. 64 https://www.irs.gov/pub/irs-drop/n-24-56.pdf.

subsequent years.

The instructions provide that a "payee in a transaction involving digital assets exempt from backup withholding under Notice 2025-33 through 2026" is also an exempt payee for payments of interest or dividends. Does this mean that a person to whom this exempt payee code would apply if transacting in digital assets is also exempt from backup withholding on bank deposit interest or dividends even though during that interest or dividend transaction, the person is not a "payee in a transaction involving digital assets?" Does the exemption applied to interest and dividends also expire in 2026? The scope of this exempt payee code 14 is unclear. The IRSAC recommends clarifying that any extension of this exemption to interest or dividends applies only where the payment is effected by a digital-asset broker in connection with a covered transaction and that the relief expires concurrently with the applicable IRS Notice.

Finally, only one exempt payee code is allowed on a Form W-9. The narrow scope of this exemption code will cause some payees to need to provide more than one exemption code through more than one Form W-9. Systems that manage exempt payee codes may have been designed to capture only one exempt payee code. How is the Form W-9 recipient to treat this exemption claim in 2027 and beyond? Further, it is common practice for a payer to honor the designations on the most recently provided Form W-9. Where a relationship must now be managed through more than one Form W-9 it will become confusing to recipients of Forms W-9 to know which W-9 content is to be used. For example, if Forms show different mailing addresses or inconsistently cross out the second jurat (compounded by the confusion described in the paragraph above), the expectations for treatment by the payer become more unclear. The IRSAC recommends that the IRS should avoid a design that causes a Form W-9 provider and recipient to manage multiple Forms W-9. Alternatively the IRS should clarify how requesters should resolve multiple exemption claims.

Tax Identification Number for Sole Proprietors

The draft Form W-9 states in Part I that a sole proprietorship may not provide an Employer Identification Number (EIN) and must instead provide a SSN. This is a new and different instruction from the March 2024 revision of Form W-9 which states that "If you are a sole proprietor and you have an EIN, you may enter either your SSN or EIN." In fact, sole proprietors have been allowed to use their EIN on Form W-9 since at least 1984.[8] This change represents a significant departure from long-standing IRS practice and would eliminate a low-cost, effective safeguard against unnecessary exposure of SSNs.

Use of an EIN by a sole proprietor reduces the risk of personal identity theft to the passthrough owner of the sole proprietorship by reducing exposure of the individual's SSN. Both the EIN and SSN link to the same taxpayer in the case of a sole proprietorship. As discussed below, sole proprietors use Schedule C (Form 1040) to report their Profit or Loss from Business, and they enter their proprietorship's EIN on Line D of that schedule. Accordingly, prohibiting the use of the EIN on Form W-9 creates an inconsistency between the form and Schedule C that may impair IRS matching processes.

The IRS website on identity protection tips includes "ONLY share your SSN when absolutely necessary."[9] Given that the IRS can identify a sole proprietor through their EIN and the risk of identity theft is reduced with an EIN, continued use of an EIN on Form W-9 will reduce the risk of identity theft. When a sole proprietor submits a Form W-9 to a payer, they have no control over what that payer will do with the information, and it is possible that it will not be maintained in a secure manner. The IRSAC therefore recommends that the IRS retain the existing instruction allowing a sole proprietor to use either an SSN or an EIN and

[8] *See* July 1984 version of Form W-9, *available at* https://www.irs.gov/pub/irs-prior/fw9--1984.pdf.

[9] IRS, Identity protection tips; https://www.irs.gov/identity-theft-fraud-scams/identity-protection-tips (last updated Feb. 6, 2025).

clarify that requesters must accept a valid EIN.

IRS Publication 334, *Tax Guide for Small Business*, summarizes reasons that a sole proprietorship might need to obtain an EIN.[10] Further, an individual may operate multiple sole proprietorships. The Schedule C for each sole proprietorship can more easily be kept separate for purposes such as 1099 income matching where each business is separately identified by an EIN that corresponds to the EIN on a 1099. Instructions for the 1040 Schedule C tell the taxpayer "do not enter your SSN." This further supports allowing the use of an EIN on Form W-9 to maintain consistency across IRS forms and guidance.

There is no change to the requirement to obtain an EIN if paying wages to employees, or to place the EIN on the 1040 Return Schedule C. The Internal Revenue Manual also lists as a legitimate reason for a sole proprietor to have an EIN as if there is concern about identity theft or the taxpayer wishes to use an EIN rather than their SSN for business purposes.[11] The draft instruction directly conflicts with current IRS guidance and would remove an existing identity-protection option.

The proposed change to Form W-9 to mandate a sole proprietor's use of an SSN rather than an EIN appears disconnected from the realities of income tax filing and both wage and information return reporting. It exposes the taxpayer to an elevated risk of identity theft by exposing individual SSNs to payers. It introduces new confusion regarding whether, when, and how a taxpayer should use an EIN as opposed to an SSN. It is contrary to the long-standing practice of allowing a business owner the discretion to manage their tax identity while reducing the ability of the IRS to match income on Form 1099 to Schedule C. The IRSAC recommends retaining the longstanding instruction, explicitly affirming that a sole proprietor (or the owner of a disregarded entity) may provide an EIN in lieu of an SSN, and providing a short example in the instructions illustrating appropriate EIN usage.

Recommendations

Certifications

1. The IRS should remove the fifth jurat and address any related reporting requirement through an appropriate Exemption Code in Line 4 of Form W-9 or other existing mechanism.
2. If there is a statutory requirement to require a fifth jurat, the IRSAC requests an update to the instructions that if the certification by that fifth jurat is not relevant to the relationship:
    a. The fifth jurat can be eliminated from substitute Forms W-9.
    b. The fifth jurat can be disregarded by the recipient of the Form W-9 to prevent improper entry in that certification from invalidating the other certifications on a Form W-9 (i.e. when the box is checked but it is irrelevant and so should not be checked).
3. If there is a statutory requirement to require a fifth jurat, the IRSAC suggests an approach combining recommendations 1 & 2 here and incorporating language into the existing fourth jurat or modifying the instructions so that either or both the fourth and fifth jurats may be removed from a substitute Form W-9 if not relevant to the payee relationship. The IRS should also confirm that an erroneously checked fifth jurat does not invalidate the remaining certifications where the requester has no reason to know of an error.

[10] *See* IRS Pub. 334, Tax Guide for Small Business (Dec. 23, 2024), https://www.irs.gov/pub/irs-pdf/p334.pdf.
[11] IRM 21.7.13.5.1.4(1) (Oct. 1, 2024).

Exempt Payee Code

4. The new Line 4 exempt payee code value 14 indicating an exemption from withholding for digital asset sales or exchanges is redundant with IRS Notices 2024-56 and 2025-33. The IRS should consider removing this Line 4 exempt payee code value 14 as being redundant, irrelevant, and confusing. If retained the IRS should provide clear guidance on its limited duration and interaction with other exemption codes.
5. If retained, the IRS should clarify that the exemption from withholding is available to the digital asset broker regardless of whether the exemption is claimed by the customer on Form W-9.
6. If exempt payee code 14 is retained, because transition relief provided by the two Notices 2024-56 and 2025-33 is not contingent on the digital asset broker receiving an exemption claim on Form W-9 from the payee, the IRSAC seeks confirmation from the IRS:
    a. That this transition relief may be applied based on the books and records of the digital asset broker, and that this exemption need not be claimed by the person executing a digital asset sale or exchange.
    b. That a digital asset broker can take advantage of the relief provided by the above-mentioned Notices even if the customer executing a digital asset sale or exchange provides a Form W-9 to the broker and does not claim the exemption from withholding on Form W-9.
    c. Of the impact to backup withholding on payments of interest and dividends.
7. The IRSAC recommends that the IRS provide examples clarifying whether interest or dividend payments are ever affected by exempt payee code 14 and confirming that such relief, if applicable, expires with the Notice period.

Tax Identification Number for Sole Proprietors

8. The IRS should remove the instruction to Part I of the draft Form W-9 that requires a sole proprietorship to provide an SSN rather than an EIN as inconsistent with long-standing practice (including as specified in IRS publications and the IRM), likely to cause confusion, and likely to increase incidents of identity theft. The IRSAC further recommends explicitly reaffirming that a sole proprietor or the owner of a disregarded entity may furnish a valid EIN in lieu of an SSN and that requesters must accept a properly issued EIN for Form W-9 purposes.

Respectfully submitted,

Christine Z Freeland
2025 IRSAC Chair

APPENDIX B: 2025 IRSAC Member Biographies

*Denotes new member in 2025

*Grace Allison** – Ms. Allison is Staff Attorney and former Director at New Mexico Legal Aid LITC in Albuquerque, New Mexico; she previously served as Director of the LITC at the University of New Mexico School of Law. Through these LITCs, Ms. Allison has represented a diverse population: rural, urban, indigenous and immigrant. Her clients include members of underserved and remote pueblos and reservations, as well as members of the Hispanic community---from far Northern New Mexico to Las Cruces. In 2022, the City of Albuquerque asked her to help draft what became its Tax Preparers Ordinance, a first step in combatting uncredentialed tax preparation. She is a member of the American Bar Association and is former Chair of its Real Property, Trust and Estate Law Section Charitable Group. She currently serves as Treasurer of the Tax Section Board of the State Bar of New Mexico and as a Board member for two New Mexico nonprofits. Prior to her work with LITCs, Ms. Allison was, for 19 years, Tax Counsel for Northern Trust, the Fortune 500 wealth manager. (Taxpayer Services Subgroup)

Robert Barr – Mr. Barr has led digital transformations for both public and private sector organizations, including the South Carolina Department of Revenue, Intuit, Dell, Blockbuster and USAA. At the S.C. Department of Revenue, he enabled the Fed-State electronic filing program and pioneered the electronic payment of business taxes. At Intuit, he built the private sector platform to electronically file tax returns for TurboTax. He also served as the Internal Revenue Service Assistant Commissioner for Electronic Tax Administration where he branded IRS e-file and EFTPS, established the National Accounts Program, enabled credit card payment of taxes and digital signing, brokered the first free file programs by the private sector and introduced the IRS e-file provider program. Mr. Barr formerly served on the Commissioner's Advisory Group, the Information Reporting Program Advisory Committee, and the Electronic Tax Administration Advisory Committee. (Taxpayer Services Subgroup)

Joseph Bender – Mr. Bender is Partner with Difede Ramsdell Bender PLLC in Washington, DC. Bender has practiced federal tax law for nearly 30 years. Over the last 15 years, his practice has focused on investments by tax-exempt organizations, particularly leveraged and unleveraged investments, unrelated business income tax, unrelated debt-financed income, and real estate investment trusts (REIT). (Tax Exempt & Government Entities Subgroup)

*Pablo Blank** – Mr. Blank is Director of Immigration Integration at CASA, Inc., in Rockville, Maryland. Mr. Blank oversees CASA's VITA sites in Maryland, Virginia, and Pennsylvania. He works with Prince George’s CASH Coalition, the CASH Campaign for Maryland and the Direct File coalition. He leads a team of four managers and 50 members in three states. The VITA sites he runs are designed to be inclusive, primarily serving immigrant taxpayers. The sites offer a multicultural approach, educating taxpayers also on US tax policy and helping them better prepare for future tax return filings. He is co-chair of the National Taxpayer Experience Coalition. Mr. Blank serves as the Chair of

Montgomery County, Maryland's, Committee Against Hate/Violence, as a member of the Maryland's Comptroller New Americans Advisory Council, and Co-chair of the America's Service Commission's BIPOC Program Staff Affinity Group. He holds a BA in Management, a Master degree in Corporate Social Responsibility and Sustainability, and an Executive Master degree from Georgetown University in Leadership. A native of Argentina, he is bilingual in English and Spanish. Mr. Blank has been selected to represent VITA and non-English-speaking taxpayers. (Taxpayer Services Subgroup)

Andrew Bloom – Mr. Bloom is the Head of Tax Strategy at Golub Capital, a SEC-registered investment advisor and international asset manager. He advises on tax issues for investors, general partners, large partnerships, foreign corporations, and business development companies. He also manages substantive tax issues, including investment fund structuring, financial product planning, international tax planning, FDAP and FATCA withholding and tax treaty planning and compliance. Previously, he was a partner at Dechert LLP in New York. (Chair, Large Business and International Subgroup)

*__Selvan Boominathan__ – Mr. Boominathan is VP Global Head of Tax at Hackman Capital Partners, LLP, in Washington, DC. Mr. Boominathan is a former IRS Office of Chief Counsel attorney, where he provided technical expertise in timing of income and deductions, accounting methods, and employment taxes. He now manages the tax compliance team for a global real estate private equity group and portfolio company, including managing the federal, state, local, and foreign tax filings for approx. 300 entities. His current position focuses on international M&A planning, large fund structuring, tax financial modeling, partnership tax, and transfer pricing. He is a member of the American Bar Association and the National Asian Pacific Islander Bar Association. Mr. Boominathan has been selected to represent large, international businesses. (Large Business and International Subgroup)

Elizabeth Boonin – Ms. Boonin is a CPA and Managing Member at Sound Accounting in Hauppauge, New York, and co-founder of Halcyon Still Water LLC in Red Bank, New Jersey. In 2013, Ms. Boonin started a full-service public accounting firm offering individual and business tax services, representation in IRS matters, and business valuations for mergers and acquisitions. In 2020, she co-founded a technology-based company providing automated tax preparation and third-party income verification aimed at leveraging technology in such a way that safeguards client information and reduces manual data entry for tax professionals and lending institutions. Prior to these ventures, she served as a VP of Global Markets Financing & Services with Bank of America/Merrill Lynch specializing in equity derivatives. (Chair, Taxpayer Services Subgroup)

***Caroline Bruckner** – Ms. Bruckner is a Senior Professional Lecturer & the Managing Director of the Kogod Tax Policy Center at American University Kogod School of Business (KSB) in Washington, DC. Ms. Bruckner teaches undergraduate and graduate courses on fundamentals of federal income tax, business law, business ownership and business basics, and conducts research on tax literacy and compliance issues. She is also on the board of Community Tax Aid D.C. (CTA), the largest provider of volunteer income tax assistance (VITA) sites in the DC metropolitan area. Since 2019, she has served as a

VITA volunteer and the coordinator for the KSB VITA program. During tax season, she has helped prepare tax returns for low-income taxpayers and has gained insight into their tax challenges. She serves as faculty advisor to the Kogod VITA Volunteer Corps. She previously served as Chief Counsel to the U.S. Senate Committee on Small Business and Entrepreneurship, as well as Senior Counsel to the Committee on Energy and Natural Resources, where she advised the committee on tax, labor, and budget matters. Before public service, she was a tax attorney with Paul Hastings LLP and PwC in their national tax office. She is a member of the American Bar Association Tax Section and the National Academy of Social Insurance and is an American College of Tax Counsel fellow. Ms. Bruckner has been selected to represent academia and VITA. (Small Business/Self-Employed Subgroup)

Beatriz Castaneda – Ms. Castaneda previously served as the Director of Tax Information Reporting at Coinbase, with over 25 years of experience in U.S. and international information reporting and tax transparency. Her career encompasses both traditional financial services and the rapidly evolving digital assets sector. In her previous role, she provided strategic guidance on tax regulation compliance, assessed regulatory risks, and lead the development of comprehensive reporting policies and governance frameworks. She also oversaw the creation of internal protocols and client communications to ensure alignment with dynamic reporting requirements. From 2014 to 2016, Ms. Castaneda served on the IRS Information Reporting Program Advisory Committee (IRPAC) as a member of the Information Reporting Subgroup. She continues to play an active role in policy development, shaping emerging regulatory guidance, and fostering collaboration between tax authorities and industry stakeholders to advance global information reporting and tax transparency. (Information Reporting Subgroup)

***Samuel Cohen –** Mr. Cohen is Chief Legal Officer at Santa Ynez Band of Chumash Indians in Santa Ynez, California. Mr. Cohen has devoted his legal practice solely to Native American law and policy since 1997. He currently is the general counsel for a casino with 2,400 devices, two hotels and four restaurants. As a commercial lawyer and tax practitioner, he assists in working on tax parity issues (adoption and employment tax credits, tax exempt bonds and pension reform) at the Tribal level and at the individual Tribal member level. Mr. Cohen has been selected to represent underserved taxpayer communities, specifically Indian Tribal Governments. (Tax Exempt & Government Entities Subgroup)

***Kendra Cooks** – Ms. Cooks serves as the Chief Financial Officer and Treasurer of Wabash College in Crawfordsville, Indiana. Dr. Cooks has over 32 years of experience in financial and administration in higher education, including previous roles as Comptroller of Purdue University (West Lafayette, IN) and Controller at the University of North Carolina at Charlotte (Charlotte, NC). Dr. Cooks is originally from Crawfordsville, IN, and is blessed to serve at Wabash College, combining her love for higher education with love of her hometown. Dr. Cooks' educational background includes a Bachelor of Science degree in Financial Planning and Counseling, a Master of Science degree in Management, and a PhD in Higher Education Administration from Purdue University. Dr. Cooks holds a CPA license in Indiana and North Carolina and serves on the Tax Council of the National Association of College and University Business Officers and was past president and board member of the Indiana Association of College and University Business Officers. Ms. Cooks has been selected to represent college and university business officers. (Tax Exempt & Government Entities Subgroup)

***Omeed Firouzi** – Mr. Firouzi is Professor of Practice and Director at Temple University Beasley School of Law LITC in Philadelphia, Pennsylvania. Mr. Firouzi has practiced in a low-income taxpayer clinic, representing hundreds of taxpayers in various IRS controversies at Philadelphia Legal Assistance and at Temple Law School LITC. He has represented multiple individuals in EITC and CTC audits and has worked to raise awareness about the disparities low-income taxpayers face in the tax system and IRS processes. He previously volunteered with VITA. He is a member of the American Bar Association Tax Section, where he serves as vice chair of the Pro Bono & Tax Clinics Committee. Mr. Firouzi has been selected to represent LITC and underserved taxpayer communities. (Taxpayer Services Subgroup)

Christine Freeland – Ms. Freeland is President of Christine Z. Freeland, CPA PC, in Chandler, Arizona. Freeland has volunteered tax services at both the local and state levels. At the national level, she has served as president of the National Society of Accountants (NSA). Freeland was also the NSA presenter for the IRS Nationwide Tax Forum in 2020 and 2021. She also works with the Arizona Association of Accounting and Tax Professionals and has developed continuing education events for IRS Tax Security Awareness Week. Freeland also teaches Circular 230 Ethics annually and participates in roundtables. (IRSAC Chair and Small Business/Self-Employed Subgroup)

***David Gannaway** – Mr. Gannaway is a Principal at Bederson LLP, Accountants & Advisors, in Fairfield, New Jersey. Mr. Gannaway is an Enrolled Agent (EA) and a former IRS employee who spent four years as a revenue agent followed by 16 years in Criminal Investigation as a special agent in the southeast and as Assistant Special Agent in Charge in the NY Field Office. In 2007, he went to work in the private sector where he represents individuals and small/midsize businesses in audit and collection matters before the IRS and state income tax agencies. He specializes in forensic accounting, valuation, litigation support and tax controversy. He is an adjunct professor at Fordham University's Gabelli School of Business and Seton Hall University’s Law School. He is a frequent speaker for the National Association of Enrolled Agents (NAEA), National Society of Accountants (NSA), and the Association of Business Trial Lawyers. He has also spoken about the field audit and appeals rights on "Tax Talk Today." He is a member of NAEA where he serves on the Board of Directors and the Government Relations Committee. Mr. Gannaway has been selected to represent small and midsize businesses and individual taxpayers. (Small Business/Self-Employed Subgroup)

***Jared Goldberger** – Mr. Goldberger is Partner at Mayer Brown LLP in New York, New York. Mr. Goldberger is an attorney who represents U.S. and non-U.S. financial institutions with respect to tax transparency and information reporting, such as FATCA, chapter 3 requirements and the QI regime, and chapter 61 information reporting requirements. He primarily provides tax advice to financial institutions, including banks, custodians, investment funds, and other financial intermediaries. He is the main contact at his global law firm for any information reporting issue that arises internally with respect to any corporate or finance transaction or litigation matter. Mr. Goldberger has been selected to represent information reporting. (Information Reporting Subgroup)

Steven Grieb - Mr. Grieb is the Senior Compliance Counsel at Arthur J. Gallagher & Co. in Rolling Meadows, Illinois. Mr. Grieb has 25-plus years of experience working directly with companies that sponsor qualified and non-qualified retirement plans. His work deals significantly with ERISA and fiduciary duties, as well as with helping plan sponsors and service providers understand and comply with the IRC requirements. He assists retirement plan clients with corrections under Rev. Proc. 2021-30 and elective deferral errors. More recently, he has daily helped clients navigate the rule changes from SECURE and SECURE 2.0, like the many optional provisions that require plan sponsors to think through the best plan design for their specific work force. (Tax Exempt & Government Entities Subgroup)

***David Heywood**- Mr. Heywood is a lawyer in solo practice in Gettysburg, Pennsylvania. Mr. Heywood is the former head of tax at Lockheed Martin and previously General Tax Counsel at Union Pacific. He has 38 years of corporate and law firm experience in structuring mergers and acquisitions, spin-offs, domestic and international tax planning, strategic transactions, IRS rulings and audits, tax litigation, compensation, and tax legislation. At Lockheed Martin he led a team of 85 tax lawyers and accountants with responsibility for structuring, analysis, reporting, and public disclosure of the tax implications related to business operations, corporate transactions, reorganizations, partnerships, financings, and like-kind exchanges. He also handled multiple large-case audits and CAP audits. Since retiring from Lockheed Martin, he has been in solo practice where he focuses on tax-exempt 501(c)(3) entities. Mr. Heywood earned a bachelor's degree in Classics from Dartmouth College and a J.D. from the University of Chicago Law School and clerked for the Tenth Circuit Court of Appeals. He is admitted to the bar in Maryland, Pennsylvania, the U.S. Tax Court, and the U.S. Supreme Court. Mr. Heywood has been selected to represent large corporate taxpayers and tax-exempt entities. (Large Business and International Subgroup)

***Manuela Markarian** – Ms. Markarian is Senior Tax Advisor at Bank of America in Charlotte, North Carolina. A CPA and EA, Ms. Markarian is senior advisor for corporate tax information reporting and withholding. She manages the consumer line of business and institutional retirement function, serving as the subject matter expert. She monitors legislative, regulatory and industry developments related to tax information reporting. She also reviews regulatory updates and communicates tax technical practical recommendations to business lines and tax reporting departments. She has served as both a VITA volunteer and supervisor. Ms. Markarian has been selected to represent the banking industry. (Information Reporting Subgroup)

***Charles Markham** – Mr. Markham is an EA, CPA, and Principal of Markham & Company LLC in Gainesville, Virginia. Markham & Company is a 'client-centric' tax preparation and representation firm, preparing over 400 returns annually. He is admitted to practice before the United States Tax Court. He specializes in audits and collections issues and also has extensive experience dealing with stock options and related equity issues and R&D tax credits. Since 2009, Markham has worked with the IRS's Office of Professional Responsibility, and its test contractor, ProMetric, as a Subject Matter Expert developing scope and content for the IRS Enrolled Agent (EA) exam. Markham is a "non-public" arbitrator for FINRA, serving as a panel member that adjudicates securities disputes. Markham is an elected member of the National Board of Directors of NATP. He is a member of NAEA, where he previously served on the Bylaws and Government Relations Committees. He is a member of the American Society of Tax Problem Solvers. He is a consulting member of the Tax Defense Institute where he received the "Paul R. Tom Award" for outstanding contributions. Mr. Markham has been selected to represent individual taxpayers. (Small Business/Self-Employed Subgroup)

Anthony Massoud - Mr. Massoud is Vice President of Corporate Finance and Tax at Van Metre Companies in Fairfax, Virginia. He began his career at Van Metre as Tax Manager, where he was responsible for the tax compliance and planning for over 200 partnerships, as well as numerous trusts, foundations, and high-net-worth individuals. Over time, his role expanded to include oversight of the company's broader financial operations, strategic planning, and corporate finance initiatives. Mr. Massoud began his professional career in public accounting, working with high-net-worth individuals and international businesses on complex tax matters. He earned his Bachelor's degree from the University of Connecticut and a Master's degree from Boston University. In addition to his professional work, Mr. Massoud has served on the Board of the Parkinson's Foundation of the National Capital Area for six years, including as Chair in his final year, and on the Board of the Van Metre Companies Foundation for four years, an employee-managed charitable foundation that supports community-focused initiatives. Having lived in the Democratic Republic of Congo, France, Saudi Arabia, and Bahrain, Mr. Massoud brings a global perspective to his work in taxation and finance (Large Business and International Subgroup)

***Mark Matkovich** – Mr. Matkovich is an attorney in Charleston, West Virginia, specializing as bond, underwriter's, lender's, and borrower's counsel in public and government financing. His practice focuses on tax-exempt bonds and economic development financings, with particular emphasis on projects in water, wastewater, public facilities, economic development, and affordable housing. He regularly advises on IRC Section 103 and Sections 141-150 to resolve tax issues for various entities, including municipal governments and tax-exempt organizations. He served as Commissioner of the West Virginia State Tax Department (2013-2017); as general counsel to the West Virginia Department of Revenue (2011-2013); and as staff attorney and general counsel for the West Virginia State Senate. Mr. Matkovich has been selected to represent tax-exempt bonds. (Tax Exempt & Government Entities Subgroup)

Susan Nakano – Ms. Nakano is Senior Manager of Corporate Tax with Discover Financial Services in Riverwoods, Illinois. Nakano is experienced in operations, audit, risk, and information technology. She helps internal business partners develop tax-compliant processes and is an expert in federal and state tax codes, as well as regulations and guidance requirements. Nakano works in information reporting, focused on reporting for a bank depository and lending institution as well as for credit card settlements. (Chair, Information Reporting Subgroup)

***Sarah Narkiewicz** – Ms. Narkiewicz is LITC Director at Washington University School of Law in St. Louis, Missouri. Ms. Narkiewicz co-founded the Washington University School of Law LITC in 2014 and has directed it independently since 2019. She supervises the staff attorney and students and manages all clinic work from intake to case execution. She is also the Associate Dean of the Clinical Education Program, Assistant Professor of Practice, and Director of the Tax LL. M. Program at Washington University School of Law. Prior to teaching, she practiced corporate law for seven years. She is a member of the American Bar Association Tax Section. Ms. Narkiewicz has been selected to represent LITC and underserved taxpayer communities. (Taxpayer Services Subgroup)

Annette Nellen – Ms. Nellen is Professor of Accounting and Taxation and MST Program Director at San Jose State University. Nellen is a CPA and attorney and is active in the tax sections of the AICPA (including former chair of the Tax Executive Committee), ABA (chair of the Tax Policy & Simplification Committee), and California Lawyers Association. She is the recipient of the 2013 Arthur J. Dixon Memorial Award given by the Tax Division of the AICPA, the highest award given by the accounting profession in the area of taxation. Nellen has written numerous tax articles and is a co-author/co-editor of four tax textbooks. She is a frequent speaker at conferences and education programs for tax professionals focusing on tax developments, property transactions, digital assets, tax research, ethics, tax reform, and tax policy and has testified several times before various legislative committees and tax reform commissions on tax policy and reform. Prior to joining SJSU in 1990, she worked at the IRS (revenue agent and lead instructor) and a Big 4 CPA firm. Ms. Nellen served as chair of IRSAC in 2024. (Chair, Small Business/Self-Employed Subgroup)

*__Adam Robbins__ - Mr. Robbins is an attorney and CPA with over a decade of experience establishing and leading tax organizations for large multinational companies. During his nearly 7 years at FanDuel, Mr. Robbins and his team pioneered a customer-centric, data and automation driven approach to integrating decades-old information reporting and withholding laws into the technologically complex and rapidly growing US online gaming industry. Their efforts ensured the market leader appropriately applied product-line specific Forms 1099, 1042, and W-2G rules to billions of dollars of transactions per year. Prior to FanDuel, Mr. Robbins oversaw all information reporting and withholding obligations for a music technology company that tracked and paid music royalties to millions of domestic and foreign recipients annually. Mr. Robbins began his career at KPMG and PwC where his work focused on the taxation of REITs and other real estate investment funds. Mr. Robbins has been selected to represent information reporting. (Information Reporting Subgroup)

Brayan Rosa-Rodriguez – Mr. Rosa-Rodriguez is Executive Director of the Instituto del Desarrollo de la Juventud (Youth Development Institute) based in San Juan, Puerto Rico. Rosa-Rodriguez successfully executed a tax credit campaign focused on Latino taxpayers in key states such as California, Arizona, Texas, Florida, and Puerto Rico. This campaign leveraged the American Rescue Plan improvements to the Child Tax Credit and Earned Income Tax Credits. He has also supported the production and dissemination of research related to economic policy, poverty, tax credits, and program implementation, as well as public policy briefs and educational materials regarding tax policy and the job market. Rosa-Rodriguez coordinates these advocacy efforts with local, state, and national partners. (Vice Chair, Taxpayer Services Subgroup)

Lawrence A. Sannicandro – Mr. Sannicandro is a Partner at Pillsbury Winthrop Shaw Pittman LLP in New York, New York. Mr. Sannicandro has significant experience representing small businesses and self-employed taxpayers in audits, administrative appeals, investigations, collection matters, and litigation in federal trial and appellate courts. He was co-counsel to the taxpayers in a case concerning the procedural requirements of section 6751(b)(1) that affected the IRS's approach to assessing penalties. He is a principal draftsperson of written comments from the ABA Tax Section to the IRS on issues, including changes to Schedule UTP, the closure of the IRS's voluntary disclosure program, and the proposed elimination of attorney positions from OPR. He has been nationally recognized for co-founding the Exonerees' Tax Assistance Network, which provides tax-related assistance that he and others provided to wrongfully incarcerated individuals. (Small Business/Self-Employed Subgroup)

***Tralynna Scott** – Ms. Scott is the Chief Economist at Cherokee Nation Businesses, LLC, in Catoosa, Oklahoma. Ms. Scott conducts research on economic policy and economic events to assess and project the impact on Cherokee Nation Businesses. She leads bi-annual studies of the economic impact of the Cherokee Nation. Since 2021, she has served as Special Envoy and Cherokee Nation's representative to the U.S. Department of the Treasury. She previously served as Treasurer of the Cherokee Nation; she was responsible for the investment, deposit and cash flow management of all Cherokee Nation funds as well as the acceptance and oversight of all sources of available monies including $2 billion in COVID-19 federal relief funding. Ms. Scott has been selected to represent Indian Tribal Governments. (Tax Exempt & Government Entities Subgroup)

Peter Smith – Mr. Smith is a Senior Manager at Artisan Partners Limited Partnership in Milwaukee, Wisconsin. Mr. Smith is a tax specialist with over 17 years of financial services industry experience in both public accounting and in-house tax practices focusing on tax compliance and the application of U.S. and international tax law for portfolio managers, investment funds, and investors. He has a broad range of expertise on tax issues that impact the investment fund community and has worked extensively in both the research and compliance of tax law for U.S. and non-U.S. regulated and non-regulated funds, securities, and investors. Mr. Smith’s firm provides multiple investment strategies across a wide variety of investment vehicle types. (Information Reporting Subgroup)

Cory Steinmetz – Mr. Steinmetz is an IRS Compliance Officer and Principal Assistant Attorney General in the Office of the Ohio Attorney General in Columbus, Ohio. Mr. Steinmetz has worked in government taxation for the last nine years and is the Office of the Ohio Attorney General's main contact with the IRS. Prior to 2020 he was an attorney with the Ohio Department of Taxation. He manages IRS compliance for the Office and litigates tax issues in state and bankruptcy courts across the country, representing governmental creditors in consumer and corporate bankruptcy cases. Mr. Steinmetz also serves as subject matter expert for individual and business tax issues. He is often consulted on state legislation where federal law intersects and ensures current policies and procedures are in alignment with legal requirements related to federal tax or bankruptcy code. (Tax Exempt & Government Entities Subgroup)

Hussein Tarraf – Mr. Tarraf is President of Tarraf & Associates, PC, in Dearborn, Michigan. Mr. Tarraf has been in public accounting for over 20 years providing tax advisory and assurance services primarily to small-medium size businesses and high net-worth individuals, and has worked in the areas of accounting, audit, consultation, business planning, and taxation within several firms. Mr. Tarraf, a Certified Public Accountant (CPA) and a Certified Fraud Examiner (CFE) is an active member of the American Institute of Certified Public Accountants (AICPA), the Michigan Association of Certified Public Accountants (MICPA), the Association of Certified Fraud Examiners (ACFE) and the National Association of Tax Professionals (NATP). Mr. Tarraf has worked extensively in the area of U.S. international tax reporting and compliance with the preparation of the U.S. Federal Forms 5471, 5472, 8865, 8992, 1116, 1040NR, 2555, 8938, and FinCen 114 among other Forms, and has guided hundreds of clients in connection with offshore assets, FBAR and FATCA reporting obligations. In addition to practicing public accounting, Mr. Tarraf is an Associate Professor of Accounting and the Director of Accounting and Finance Program at Madonna University. Mr. Tarraf holds a Doctorate of Business Administration degree from Lawrence Technological University, an MBA from Wayne State University, and a B.A. in Accounting from The Lebanese University. (Taxpayer Services Subgroup)

***Kristofer Thiessen** is the Senior Small Business Partner at Block Advisors in New York, New York. Mr. Thiessen is an EA who works with families and business owners to offer solutions for their complex tax matters, including tax compliance, controversy, and planning. His small business and self-employed specialties include capital assets, digital assets, passthrough entities, trusts and estates, international information return, and FATCA compliance, and working with resident and nonresident aliens. He has taught continuing education courses on fiduciary tax, passthrough entities, capital assets, and tax planning. He is a member of NAEA, the NY State Society of EAs, the NY State Society of CPAs, and the Association of International Certified Professional Accountants. He holds a Bachelor of Arts in economics from Harvard College and a Master’s of Science in Taxation from Baruch College Zicklin School of Business. Mr. Thiessen has been selected to represent small businesses and individual and self-employed taxpayers. (Small Business/Self-Employed Subgroup)

***Rolanda Watson** – Ms. Watson is Owner of Empower 2 Impact (DBA Rolanda's Tax & Professional Service) in Houston, Texas. Ms. Watson is an EA who operates her own practice providing tax advocacy and compliance services to a diverse range of clients. She has over 25 years of experience preparing tax returns and offering planning and resolution services to businesses and nonprofits. Her practice frequently conducts tax literacy workshops tailored to a variety of professional groups, including realtors, truck drivers, and small business owners. She also volunteers her time mentoring new tax professionals, emphasizing the importance of ethical practice and continuing education. She is a member of NAEA and NATP. Ms. Watson has been selected to represent individual taxpayers and small business owners. (Taxpayer Services Subgroup)

Lucinda Weigel – Ms. Weigel is a CPA, EA, and Owner of Weigel Tax & Accounting Services LLC in Vienna, Virginia. Ms. Weigel recently served on the Taxpayer Advocacy Panel where she was a subgroup chair on its Tax Forms and Publications Committee. She owns and manages a small tax accounting firm specializing in helping elderly and disabled clients manage their tax matters and financial affairs. She primarily focuses on individual and fiduciary (estate and trust) returns, though has some business clients and clients with information reporting requirements. She also represents clients for the IRS and state tax authorities to help resolve issues. (IRSAC Vice Chair and Taxpayer Services Subgroup)

Thomas Wheadon – Mr. Wheadon is currently the Head of International Tax and Transfer Pricing at MAHLE, a German-owned manufacturing company, in Farmington Hills, Michigan. In this role, he is responsible for international tax calculations, modeling, and reporting related to BEAT and GILTI, as well as managing transfer pricing in accordance with OECD guidelines. Previously, he worked in a large public accounting firm as an International Tax Manager. He has extensive experience with a diverse range of clients, from individuals involved with PFICs to multinational corporations with numerous foreign subsidiaries. His expertise includes managing international compliance projects, calculating GILTI, foreign tax credits, and FDII, and providing strategic advice on cross-border transactions and structuring. Mr. Wheadon is an attorney admitted in Michigan, and a member of the Tax Executives Institute. (Large Business and International Subgroup)

Brian Yacker – Mr. Yacker is Partner, Nonprofit Services, at Baker Tilly in Irvine, California. Yacker's career has focused on working with tax-exempt organizations and he currently serves over 1,000 different nonprofits, including public charities, private foundations, hospitals, higher education institutions, religious organizations, social clubs, business organizations, and labor organizations. He is currently a member of the AICPA Exempt Organization (EO) Tax Technical Resource Panel, a Board member for the TE/GE EO Council, and is on the National Association of State Charity Officials (NASCO) Public Day Planning Committee. (Chair, Tax Exempt & Government Entities Subgroup)

Nicholas Yannaci – Mr. Yannaci is Executive Director in Group Tax at UBS in Stamford, Connecticut. Mr. Yannaci is responsible for IRS correspondence (IRS audits, abatement requests, liens, and notices of default). He reviews prospectuses to ensure accurate disclosures and works closely with Operations to ensure accurate reporting. He is a member of the QI periodic review team as the liaison between the external reviewer and UBS. He advises on all manners of U.S. reporting and withholding along with OECD's Common Reporting Standards. He reviews Forms 945, 1042, 1099, 1042-S, W-8, and W-9. (Information Reporting Subgroup)