

National Taxpayer Advocate **ANNUAL REPORT TO CONGRESS**

Executive Summary – Preface & Highlights
2024



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Preface: Introductory Remarks by the National Taxpayer Advocate

HONORABLE MEMBERS OF CONGRESS:

It is my privilege to submit for your consideration the National Taxpayer Advocate's 2024 Annual Report to Congress. As required by law, this report identifies and discusses what I believe to be the ten most serious problems taxpayers faced during the past year in their dealings with the IRS, summarizes the tax issues most frequently litigated in the U.S. Tax Court and other federal courts, and makes administrative and legislative recommendations to mitigate taxpayer problems and improve the taxpayer experience.¹ We present our legislative recommendations in a companion volume: National Taxpayer Advocate 2025 Purple Book, *Compilation of Legislative Recommendations to Strengthen Taxpayer Rights and Improve Tax Administration*.

For the first time since I became the National Taxpayer Advocate in 2020, I can begin this report with good news: The taxpayer experience has noticeably improved. The IRS has eliminated the mountain of paper returns and correspondence that piled up during the pandemic. In 2024, taxpayers and practitioners experienced better service, generally received timely refunds, and faced shorter wait times to reach customer service representatives (CSRs), with nine million more telephone calls answered by employees in fiscal year (FY) 2024 as compared with FY 2022. After receiving multiyear funding, the IRS has made major strides toward improving its taxpayer services and information technology (IT) systems. However, IRS service remains far from perfect, and as required by statute, I will detail taxpayer problems in this preface and throughout this report.

ADEQUATE FUNDING FOR TAXPAYER SERVICES AND TECHNOLOGY UPGRADES REMAINS CRITICAL

I begin this report by discussing the elephant in the room – IRS funding – because many of the improvements I highlight have been made possible by multiyear funding provided by Congress and require this funding to continue. The headline from the Inflation Reduction Act (IRA) was that the IRS received about \$79 billion in additional funding over a ten-year period. Much of that funding has generated controversy – namely, the funding allocated for enforcement. But some of the funding has received strong bipartisan support – namely, the funding allocated for taxpayer services and technology modernization. I want to highlight this distinction so that if Congress decides to cut IRA funding, it does not inadvertently throw the baby out with the bathwater.

Inflation Reduction Act Funding Was Primarily Allocated to Strengthen Tax Law Enforcement, But Taxpayer Services and Technology Should Be Priorities

The IRS receives its funding in four accounts: Taxpayer Services, Enforcement, Operations Support, and Business Systems Modernization (BSM), which is essentially technology modernization. Of the \$78.9 billion in ten-year funding originally provided for the IRS, 58 percent was allocated for Enforcement, and 32 percent was allocated for Operations Support.² Just four percent was allocated for Taxpayer Services, and just six percent was allocated for technology modernization.

¹ IRC § 7803(c)(2)(B)(ii).

² The Operations Support account covers costs such as rent, printing, postage, building security and repairs, research and statistics, equipment, and certain IT development. Historically, the development of new technology systems was funded through the BSM account, and the maintenance and enhancement of existing systems was funded through the Operations Support account, but there is overlap. Beginning in FY 2023, Congress zeroed out BSM funding in appropriations acts. Partly in response, the President's FY 2025 budget recommended merging the Operations Support and BSM accounts into a new Technology and Operations Support account. IRS, Pub. 5530, Fiscal Year 2025 Budget in Brief 3 (Feb. 2024), <https://home.treasury.gov/system/files/266/15.-IRS-FY-2025-BIB.pdf> (noting that technology is currently the largest component of the Operations Support account).

FIGURE 1.1, Inflation Reduction Act IRS Funding Allocations³

IRS Budget Account	Amount Allocated	Percentage of Total
Enforcement	\$45.6 bil	58%
Operations Support	\$25.3 bil	32%
Business Systems Modernization	\$4.8 bil	6%
Taxpayer Services	\$3.2 bil	4%
Total	\$78.9 bil	100%

I have previously criticized this extreme imbalance in funding priorities, and to improve the taxpayer experience, I have recommended that Congress either provide additional funding for the Taxpayer Services and BSM accounts or reallocate a portion of the Enforcement funding to those accounts.⁴ I reiterate that recommendation as the new Congress convenes.

The IRS projects it will run out of the multiyear funds for Taxpayer Services in FY 2026.⁵ Generally speaking, that suggests it has been spending about \$1 billion a year in IRA funding to improve taxpayer service levels and dig out of the hole resulting from the pandemic. The agency has also estimated it will need about \$3 billion in additional BSM funds over the ten-year window to achieve its IT modernization objectives. TAS does not have the expertise to assess these budget estimates, but they serve as a useful starting point to project the agency's Taxpayer Services and technology modernization needs. While I appreciate the importance of enforcing the tax laws so that everyone complies with their legal obligations, the priority should be to ensure the government meets the needs of the great majority of U.S. taxpayers who are struggling to comply, and service is key to that success. If we can do that, compliance will improve.

Taxpayer Services Mostly Funds Employee-Provided Services and Business Systems Modernization Mostly Funds Automation; Both Are Key to Improving the Taxpayer Experience

Although Taxpayer Services and BSM are funded through separate accounts, the two are inextricably intertwined because both drive the taxpayer experience. Funding for Taxpayer Services goes mostly to pay the salaries of employees who answer tens of millions of calls on the agency's toll-free telephone lines and meet with taxpayers in the agency's hundreds of Taxpayer Assistance Centers (TACs) and to process taxpayer returns and correspondence. BSM funding is used to automate tasks so that either a taxpayer can address their issues without the involvement of an IRS employee, or an employee can provide more timely and accurate assistance. My expectation is that if Congress provides adequate funding to upgrade technology systems, many more taxpayers will be able to transact business with the IRS without the need for employee involvement, which ultimately will produce cost savings and reduce taxpayer burden.

Taxpayer Services Improvements

Here are a few examples of the improvements enabled by hiring more employees with funding from the Taxpayer Services account.

³ An Act to Provide for Reconciliation Pursuant to Title II of S. Con. Res. 14 (commonly referred to as the "Inflation Reduction Act of 2022"), Pub. L. No. 117-169 § 10301, 136 Stat. 1818, 1831-1833 (2022). About \$21.6 billion of the IRA funding has since been rescinded. See Fiscal Responsibility Act, Pub. L. No. 118-5 § 251, 137 Stat. 10, 30 (2023) (rescinding about \$1.4 billion); Further Consolidated Appropriations Act, 2024, Pub. L. No. 118-47, 138 Stat. 460 (2024) (rescinding \$10.2 billion at 138 Stat. 572 and \$10.0 billion at 138 Stat. 708).

⁴ See, e.g., Erin M. Collins, National Taxpayer Advocate Urges Congress to Maintain IRS Appropriations But Re-Direct Some Funds Toward Taxpayer Service and Information Technology Modernization, NATIONAL TAXPAYER ADVOCATE BLOG (Mar. 16, 2023), <https://www.taxpayeradvocate.irs.gov/news/nta-blog/nta-blog-nta-urges-congress-to-maintain-irs-appropriations-but-re-direct-some-funds-toward-taxpayer-service-and-it-modernization/2023/03>.

⁵ See IRS, Pub. 5530, Fiscal Year 2025 Budget in Brief 2 (Feb. 2024), <https://www.irs.gov/pub/irs-pdf/p5530.pdf>.

- **Telephone service has improved dramatically.** During FY 2023, the IRS increased the number of CSRs from 17,395 to 19,460. This enabled IRS employees to answer nearly nine million additional telephone calls in FY 2024 as compared with FY 2022⁶ and provide callback options. Over the same period, the percentage of calls answered by IRS employees more than doubled, and the time taxpayers spent waiting for an IRS employee to answer their calls dropped by more than half.⁷
- **Correspondence processing times have improved dramatically.** In FY 2022, the IRS took about seven months, on average, to process individual taxpayer correspondence. In FY 2024, it took about 3½ months.⁸
- **In-person service has become much more accessible.** In FY 2022, the IRS served 1.3 million taxpayers in its TACs. In FY 2024, it served 1.9 million, an increase of nearly 50 percent.⁹ Many of the TACs added hours on Tuesday and Thursday evenings and on Saturdays to provide in-person service for taxpayers who work during regular business hours.

Technology Improvements

In contrast to Taxpayer Services funding, much less of the funding allocated to modernize technology systems is spent on employee salaries. It is largely allocated to determining system requirements and then building systems that meet those requirements. Today, the IRS still operates the two oldest technology systems in the federal government, and its technology challenges are well known. In a 2023 blog, I discussed the importance of funding technology upgrades:

Large U.S. banks spend between \$10 billion and \$14 billion a year on technology, often more than half on new technology systems.

Yet in fiscal year (FY) 2022, Congress appropriated just \$275 million for the IRS's Business Systems Modernization (BSM) account. That's less than five percent of what the largest banks are spending on new technology each year, and the IRS serves far more people and entities than any bank.

This comparison isn't exactly apples-to-apples because there are differences in the components of the banks' technology accounts and the IRS's BSM account. But overall, the comparison tells you everything you need to know to understand why the IRS is still using antiquated information technology (IT) systems, some dating to the 1960s, and why taxpayer service has been abysmal in recent years.¹⁰

Since then, the IRS has used funds provided by Congress to make improvements in its technology systems that, in turn, have driven improvements in taxpayer service. Here are a few examples of improvements that have been fully or partly implemented.

- **The IRS is increasingly scanning and processing paper-filed tax returns electronically.** Although most taxpayers submit their tax returns electronically, more than ten million taxpayers still submit paper returns, which are considerably more time-consuming and expensive for the IRS to process than e-filed returns. Until now, IRS employees have needed to transcribe each digit of a paper-filed return into IRS systems, creating delays and transcription errors. This year, the IRS has made progress in automating the processing of paper-filed returns, which will speed refunds, reduce transcription errors that often result in erroneous compliance notices going to taxpayers, and reduce employee costs.

⁶ IRS, Joint Operations Center, Snapshot Reports: Enterprise Snapshot, Enterprise Total (weeks ending Sept. 30, 2022; Sept. 30, 2024).

⁷ *Id.*

⁸ IRS, Research Analysis and Data, Accounts Management Reports: Correspondence Imaging System Closed Case Cycle Time (FYs 2023-2024).

⁹ IRS responses to TAS fact checks (Dec. 12, 2022; Dec. 4, 2023); IRS response to TAS information request (Oct. 28, 2024).

¹⁰ See, e.g., Erin M. Collins, National Taxpayer Advocate Urges Congress to Maintain IRS Appropriations But Re-Direct Some Funds Toward Taxpayer Service and Information Technology Modernization, NATIONAL TAXPAYER ADVOCATE BLOG (Mar. 16, 2023), <https://www.taxpayeradvocate.irs.gov/news/nta-blog/nta-blog-nta-urges-congress-to-maintain-irs-appropriations-but-re-direct-some-funds-toward-taxpayer-service-and-it-modernization/2023/03>.

- ***Most taxpayers can now submit correspondence electronically.*** The IRS now offers a Document Upload Tool that allows taxpayers with pending cases to submit virtually all correspondence without the need to visit a post office. That saves them time, generally enables them to be certain the IRS has received their correspondence, and reduces processing delays due to mail delivery. However, the IRS still needs to develop backend processing to electronically route the correspondence to the appropriate division for assignment.
- ***The IRS is integrating its roughly 60 separate case management systems.*** The IRS currently stores taxpayer data on dozens of case management systems that do not communicate with each other. That prevents CSRs and other IRS employees from having ready access to a considerable amount of taxpayer information. If a taxpayer receives a notice and calls the IRS to ask questions, for example, the CSR cannot see the notice the taxpayer received. Under an initiative called Taxpayer 360, the IRS is planning to centralize taxpayer data so it will be accessible on an integrated system. That means that when a taxpayer calls the IRS and speaks with a CSR, the CSR will have access to full information, including copies of taxpayer correspondence. This change will be extremely beneficial to taxpayers, practitioners, and employees.
- ***Secure messaging is now available for some taxpayers, and its use is expanding.*** If the IRS assigns a taxpayer to work with an employee in the Examination, Collection, or Appeals functions, the taxpayer may be able to communicate with the employee via secure messaging. Whereas IRS employees generally have limited ability to communicate with taxpayers by email because of data security concerns, the secure messaging platform is direct, and message content is not transmitted across the open internet. This functionality allows taxpayers to send messages to an assigned employee at a time of their convenience without waiting on hold or playing telephone tag with the employee.
- ***The IRS has expanded chatbot functionality on IRS.gov.*** During the 2024 filing season, more than 800,000 taxpayers used the IRS's virtual assistant chatbot to get answers to their questions.¹¹ Chatbots enable users to obtain information by typing queries into the IRS website.
- ***New voicebot technology helped about two million taxpayers who called the IRS's toll-free 1040 line get answers to their questions.*** Similar to chatbot technology, voicebots enable users to obtain information by speaking their queries on a telephone line. This technology helped taxpayers get quicker answers without the need to wait on hold and freed up IRS employees to assist taxpayers whose needs required a conversation.¹²
- ***The IRS has expanded the functionality of individual taxpayer online accounts, launched a new business online account for small business taxpayers, and added important enhancements to Tax Pro accounts.*** Together, these improvements mark an important step toward a digital tax administration. Increased functionality will be a game-changer for taxpayers and practitioners.
- ***Taxpayers now can submit more than 30 forms to the IRS directly from their mobile devices.***¹³ An estimated 15 percent of Americans rely solely on mobile phones for their internet access, so mobile functionality is a game-changer for them.¹⁴

These technology options – most of which have been standard for years in the private sector – represent a leap forward into the 21st century for the IRS and therefore for taxpayers. But most are still works in progress, and their full deployment remains dependent on the availability of funding.

11 IRS News Release, IR-2024-109, IRS Delivers Strong 2024 Tax Filing Season; Expands Services for Millions of People on Phones, In-Person and Online With Expanded Funding (Apr. 15, 2024), <https://www.irs.gov/newsroom/irs-delivers-strong-2024-tax-filing-season-expands-services-for-millions-of-people-on-phones-in-person-and-online-with-expanded-funding>.

12 As of August 17, 2024, the conversational 1040 voicebot had received over 1.8 million calls. IRS response to TAS information request (Sept. 26, 2024).

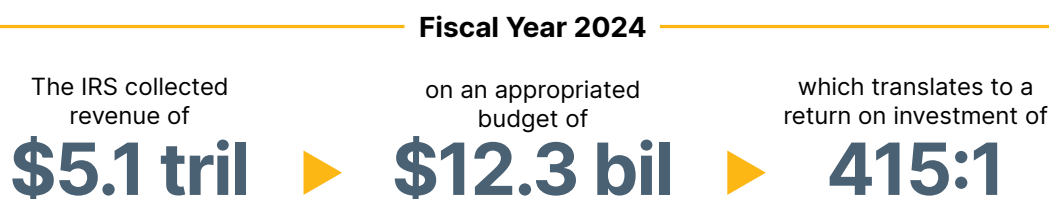
13 IRS News Release, IR-2024-233, U.S. Department of the Treasury, IRS Announce \$1.3 Billion Recovered From High-Income, High-Wealth Individuals Under Inflation Reduction Act Initiatives (Sept. 6, 2024), <https://www.irs.gov/newsroom/us-department-of-the-treasury-irs-announce-1-point-3-billion-recovered-from-high-income-high-wealth-individuals-under-inflation-reduction-act-initiatives>.

14 Pew Research Center, Mobile Fact Sheet (Nov. 13, 2024), <https://www.pewresearch.org/internet/fact-sheet/mobile>.

While Multiyear Inflation Reduction Act Funding Has Sucked Up the Oxygen in the Room, the Annual Appropriations Process Continues to Provide Most IRS Funding

Multiyear IRA funding has enabled the IRS to make these transformative changes, but the annual appropriations process continues to fund ongoing operations. Since FY 2022, the IRS's appropriations have been held flat, while prices have increased by 14 percent.¹⁵ This inflation-adjusted reduction in annual funding has required the IRS to use IRA funds intended for transformational change to maintain its operations. Over the longer term, appropriations that keep up with cost increases will be essential.

Funding the IRS not only enables the IRS to better serve our nation's taxpayers, but it is important to note that it also provides an excellent return on investment. The IRS generally collects about 96 percent of federal revenue,¹⁶ which is needed to fund all government operations – from national defense to food safety to Social Security and Medicare. The IRS is remarkably efficient at collecting this revenue. In FY 2024, the IRS collected revenue of \$5.1 trillion on an appropriated budget of \$12.3 billion.¹⁷ That translates to a remarkable return on investment of 415:1. Paradoxically, the tighter the rest of the federal budget becomes, the more important it is to fully fund the IRS so it can collect the taxes required to fund other government functions.



Paradoxically, the tighter the rest of the federal budget becomes, the more important it is to fully fund the IRS so it can collect the taxes required to fund other government functions.

Some would argue that Enforcement should be the priority because many taxpayers only pay their taxes if they are afraid of the consequences of failing to pay. While there is merit in that argument, there is another way to view agency priorities. In FY 2024, the IRS collected \$98.7 billion through enforcement activities.¹⁸ That is a significant sum, but it accounts for less than two percent of the \$5.1 trillion the agency collected overall. Put differently, 98 percent of federal taxes were self-assessed via annual tax filings and timely paid. If the IRS is sufficiently funded to improve taxpayer services and make it easier for taxpayers to interact with the agency through automation, taxpayer experiences will become fairer and more efficient, which likely will improve compliance and reduce the need for costly backend enforcement.

With sufficient funding for Taxpayer Services and BSM, I believe the IRS can exponentially build on the improvements of the last two years and produce a tax system that respects taxpayer rights, is world class, and makes compliance easier, which will likely also improve revenue collection.

15 The multiyear funding provided by the IRA, known as “mandatory” funding, was designed to supplement the annual “discretionary” funding the IRS receives through the appropriations process. In FYs 2023 and 2024, IRS appropriations were held flat at FY 2022 levels, except that the funding for BSM, which was \$275 million in FY 2022, was eliminated. Since the beginning of FY 2022, aggregate inflation has been about 14 percent. See Bureau of Labor Statistics, Inflation Calculator, <https://data.bls.gov/cgi-bin/cpicalc.pl> (computing inflation from October 2021 through October 2024). In practical terms, that means the IRS budget has been cut by roughly that amount. While the ten-year mandatory funding Congress provided is helping to transform taxpayer services and technology systems, the IRS also requires sufficient appropriations to maintain its current service levels.

16 See, e.g., IRS News Release, IR-2024-115, IRS Releases 2023 Data Book Describing Agency's Transformation Through Statistics (Apr. 18, 2024), <https://www.irs.gov/newsroom/irs-releases-2023-data-book-describing-agencys-transformation-through-statistics>.

17 IRS, Pub. 5456, 2024 Agency Financial Report 2, 66 (Nov. 2024), <https://www.irs.gov/pub/irs-pdf/p5456.pdf>; Further Consolidated Appropriations Act, 2024, Pub. L. No. 118-47, 138 Stat. 460, 526 (2024). Overall IRS spending was somewhat higher than appropriated amounts due to the use of IRA funding and user fees. But the return on investment by any reasonable measure is extraordinarily high.

18 IRS, Pub. 5456, 2024 Agency Financial Report 2 (Nov. 2024), <https://www.irs.gov/pub/irs-pdf/p5456.pdf>.

REFLECTIONS ON THE ROLE OF THE IRS IN THE U.S. TAX SYSTEM

When working on tax administration issues, I sometimes step back and remind myself of the fundamentals of our tax system, what Congress assigned the IRS to do, the financial significance of the annual filing season, the impact of the Taxpayer Bill of Rights, and the missions of the IRS and TAS. Broadly speaking, it is Congress's role to write the tax laws – to determine how much revenue to raise, how to allocate the tax burden, which activities should be tax-favored (*e.g.*, charitable contributions, home ownership, research and development), and the like. Once Congress makes those policy calls, it is the IRS's job to implement and administer the law. As the National Taxpayer Advocate, my role is to advocate for taxpayers, both individually and collectively, and make recommendations to protect taxpayer rights and improve tax administration.

“Taxes are what we pay for a civilized society,” famously attributed to Supreme Court Justice Oliver Wendell Holmes, reflects the idea that taxes are essential for funding the government, which creates and maintains public goods and services that benefit everyone. Each year, the IRS embarks on the enormous task of collecting over \$5 trillion through individual and business tax filings. The IRS receives and must process about 180 million income tax returns and over five billion information forms. While most tax is withheld or self-assessed, about 15 percent is not.¹⁹ The IRS estimates that the amount of tax owed but not paid (the tax gap) in 2022 was \$696 billion, which includes non-filers, income underreporting, and tax underpayments.

The IRS must be nimble and able to quickly implement changes in the law, provide clear and timely guidance, and be available to assist taxpayers so they can understand and comply with legislative changes. During the pandemic, for example, Congress provided extensive pandemic relief for both individuals and businesses through the tax code. The IRS was directed to deliver three rounds of Economic Impact Payments to individuals, which ultimately involved issuing more than 470 million payments totaling more than \$800 billion.²⁰ Congress also directed the IRS to provide tax relief to businesses, including the Employee Retention Credit (ERC), a program the IRS is still struggling to administer.

From the landmark Tax Cuts and Jobs Act (TCJA) enacted during the Trump Administration, to the landmark IRA enacted during the Biden Administration, to the numerous other bills enacted in recent years, the IRS is regularly required to implement changes in tax law and make them comprehensible to taxpayers and practitioners while still performing its core mission of administering the annual filing season, processing payments, issuing timely refunds and credits, and assisting taxpayers throughout the entire process. Most observers only see the finished product and use a tax return preparer or tax software package to prepare their returns, so they do not know how the sausage is made or realize how much work is required to implement tax law changes. But the task is huge and includes quickly updating tax forms, instructions, and published guidance; reprogramming processing systems; providing more digital tools; training employees to answer taxpayer questions and administer the new programs; and importantly, educating taxpayers about the benefits Congress enacted to reduce the chance their returns will be subject to math error adjustments, audits, and penalties due to inadvertent errors.

Multiyear supplemental funding remains essential to improving taxpayer service and modernizing the technology systems on which good taxpayer service depends. The Commissioner often uses a “train analogy” to distinguish between the role of annually appropriated funds and multiyear supplemental funds like those

19 IRS, Pub. 5869, Tax Gap Projections for Tax Year 2022, at 4 (Oct. 2024), <https://www.irs.gov/pub/irs-pdf/p5869.pdf>.

20 The IRS reports it issued more than 160 million payments worth over \$270 billion under the Coronavirus Aid, Relief, and Economic Security Act; more than 147 million payments worth over \$142 billion under the COVID-Related Tax Relief Act of 2020; and more than 169 million payments worth approximately \$395 billion under the American Rescue Plan Act. See IRS News Release, IR-2021-38, As Required by Law, All First and Second Economic Impact Payments Issued; Eligible People Can Claim Recovery Rebate Credit (Feb. 16, 2021), <https://www.irs.gov/newsroom/as-required-by-law-all-first-and-second-economic-impact-payments-issued-eligible-people-can-claim-recovery-rebate-credit>; IRS News Release, IR-2021-127, More Than 2.3 Million Additional Economic Impact Payments Disbursed Under the American Rescue Plan; Total Payments Top 169 million (June 9, 2021), <https://www.irs.gov/newsroom/more-than-2-point-3-million-additional-economic-impact-payments-disbursed-under-the-american-rescue-plan-total-payments-top-169-million>.

provided by the IRA. Annual appropriated funds enable the IRS to keep its fleet of old trains moving – to keep them on schedule and deliver (generally) timely service. By contrast, the multiyear supplemental funds give the IRS an opportunity to reimagine and redesign how trains operate, the types of trains it should run, the service enhancements it can provide, and to exponentially improve efficiency and quality of service in tax administration. Both because the IRS incurred additional costs to pull itself out of the pandemic and because the IRS’s appropriations have effectively been cut by about 14 percent on an inflation-adjusted basis over the last few years, the agency has had to dip into its multiyear funding to maintain current operations. As a result, its ability to make transformational changes in the way it serves taxpayers has been curtailed, and it will be further impaired without multiyear funding to finance the changes. Again, I am not talking about enforcement, which I understand is controversial. But I think there is broad agreement that taxpayers deserve better service, and supplemental multiyear funding for Taxpayer Services and BSM is required to get us there.

MOST SERIOUS PROBLEMS ENCOUNTERED BY TAXPAYERS

As the National Taxpayer Advocate, part of my charge is to highlight problems affecting taxpayers and taxpayer rights and to make administrative and legislative recommendations to improve the tax system. Given the size of the agency and the breadth of its responsibilities, I often see the agency’s challenges as similar to Sisyphus’s herculean task of pushing the boulder up the hill only to watch it roll back down every time it neared the top. As an agency, the IRS is not flawless, and there are many areas in which it needs to improve. But when looking at what it accomplishes each year, it should also be recognized for what it does right, and we should be thankful for the tens of thousands of IRS employees who have dedicated their careers to public service and sincerely try to make the system work.

Notwithstanding the improvements I have described, taxpayers continue to face challenges in their dealings with the IRS. In this report, I identify and discuss the ten most serious problems facing taxpayers and make recommendations to address them. A quick summary of the ten follows:

- ***The IRS’s lengthy processing times and uncertainty regarding ERC refunds are harming and frustrating business owners.*** During the summer of 2023, the IRS slowed the processing of ERC claims to a trickle. Although its aim was to minimize the payment of ineligible claims, there have been lengthy delays in the payment of eligible claims submitted by employers that, in some cases, are depending on ERC refunds to remain in business. Although the IRS has processed several hundred thousand claims in recent months, it was still sitting on a backlog of about 1.2 million claims as of October 26, 2024. Many claims have been pending for more than a year, and with the imminent start of the 2025 filing season, the IRS will shift its focus and resources to administering the filing season, resulting in even longer ERC processing delays. Among other challenges, taxpayers generally have no way to verify the status of their claims; IRS disallowance letters sent to some taxpayers have been confusing and have omitted critical information; the IRS has used an audit-like process to disallow claims but has not provided standard audit taxpayer protections; and businesses whose refund checks were stolen have had to wait months or longer to receive replacement checks. We make numerous recommendations, including that the IRS provide taxpayers with more specific information when it disallows a claim, provide more transparency regarding the timing of its claims processing, and allow taxpayers to submit documentation and seek an appeal before disallowing a claim that was not subject to an audit.
- ***Continuing delays in IRS return processing are frustrating taxpayers and causing refund delays.*** The IRS continues to receive more than ten million paper-filed Forms 1040 each year and more than 75 million paper-filed returns and forms overall. Until recently, IRS employees had to manually transcribe the data from these returns into IRS systems. The IRS has made significant strides toward automation, now scanning more than half of paper-filed returns and forms, but it still has a long way to go to digitize all paper. Taxpayers who e-file their returns also face challenges, as IRS systems rejected nearly 18 million (about 12 percent) e-filed Forms 1040 last year. The IRS generally rejects returns using business rules designed to prevent fraud, but most rejected returns are valid, requiring taxpayers to jump through

additional hoops to resubmit their returns electronically or submit the returns on paper. Most taxpayers receive refunds, and delays in processing both paper-filed and e-filed returns translate into refund delays. Particularly for lower-income taxpayers who qualify for refundable Earned Income Tax Credit (EITC) benefits, refund delays often create or exacerbate financial hardships. We recommend the IRS continue to prioritize automating its tax processing systems, including by scanning virtually all paper-filed tax returns in time for the 2026 filing season and processing amended tax returns electronically.

- ***Processing and refund delays are harming victims of tax-related identity theft.*** In my 2023 Annual Report to Congress, I highlighted that the IRS was taking nearly 19 months to resolve self-reported identity theft cases in its Identity Theft Victim Assistance (IDTVA) unit and issue refunds to the affected taxpayers. I called this delay “unconscionable,” and the IRS agreed to prioritize reducing these delays. During FY 2024, however, the delays grew to more than 22 months and affected nearly half a million taxpayers. The IRS has advised us that it has begun to prioritize resolution of cases involving refunds over balance-due returns rather than following its traditional “first in, first out” approach. That is somewhat good news, but I strongly encourage the IRS to fix this problem once and for all during the coming year. Among other things, we recommend the IRS keep all IDTVA employees working on identity theft cases – and not reassign them to answer telephone calls or perform other work – until it reduces the average time for resolving IDTVA cases to 90 days or fewer.
- ***Taxpayer service is often not timely or adequate.*** The IRS generally provides taxpayer service through three vehicles – telephone lines, TACs (in person), and online. Overall, service improved in FY 2024 in all areas, but significant weaknesses remain, particularly on the toll-free telephone lines. While the IRS achieved an 88 percent “Level of Service” (LOS) on its Accounts Management lines during the filing season, the LOS measure is limited. It does not include calls to telephone lines that fall outside the “Accounts Management” umbrella (which accounted for about 30 percent of all calls in FY 2024) or calls where a taxpayer hangs up before the IRS places them in a calling queue. The filing season measure also does not include calls made during the rest of the year. For the full fiscal year, the LOS for all toll-free lines was 56 percent, and only 31 percent of taxpayers reached an assistor. Of the 6.2 million calls the IRS received from taxpayers whose returns the IRS’s identity theft filters had stopped and who were calling to authenticate their identities, the IRS answered only about 20 percent. We recommend the IRS adopt new telephone measures that more accurately gauge the taxpayer experience, such as the number of taxpayer issues resolved during the first call, and prioritize answering non-Accounts Management telephone lines that serve largely vulnerable taxpayer populations, including the Installment Agreement/Balance Due, Taxpayer Protection Program, and Automated Collection System telephone lines.
- ***More taxpayers are falling victim to tax-related scams.*** Two types of scams victimize taxpayers. The first is direct tax-related scams, where taxpayers are misled into claiming tax benefits for which they are not eligible. These often include the ERC, the Fuel Tax Credit, the Sick and Family Leave credit, and credits relating to fictional household employees, among others. The second is indirect tax-related scams, where third parties convince taxpayers to withdraw funds from their retirement accounts and the taxpayers incur tax liabilities on the withdrawal. We recommend the IRS provide greater transparency to taxpayers whose returns it has suspended during processing, and we recommend Congress reinstate the theft loss deduction so that scam victims are not required to pay tax on amounts stolen from them.
- ***Continuing challenges in employee recruitment, hiring, training, and retention are hindering the IRS’s ability to achieve transformational change in taxpayer service and tax administration.*** The IRS faces numerous challenges in hiring, training, and maintaining its workforce. Job postings are not consistently well targeted to reach the desired candidates. It takes about three months to hire a new employee, so some candidates find other jobs while they are waiting for approval. Given the complexity of tax laws and procedures, new employees often require significant training before they become productive employees, and the IRS must often pull experienced employees from their regular workloads to serve as trainers. Lastly, the pay disparity between federal workers and private sector

workers varies by job category, but overall, a Congressional Budget Office (CBO) study published in 2024 found that federal employees with professional degrees earn almost 29 percent less than their non-federal counterparts, a widening gap hampering competitiveness.²¹ The tight job market adds to the challenge of hiring and retaining employees. We recommend the IRS explore alternative recruitment platforms to better target job listings, study other pay systems used in the federal government to determine whether to ask the Office of Personnel Management or Congress to provide more competitive salaries for specialized positions, conduct exit and stay interviews to learn why employees are leaving or staying, and use that information to improve retention strategies.

- ***The IRS's dependence on paper forms and manual document review in processing Individual Taxpayer Identification Numbers (ITINs) is causing delays, mistakes, and potential security risks.*** Taxpayers who are not eligible for Social Security numbers generally must apply for ITINs to file their tax returns, with more than one million individuals generally applying each year. The IRS requires taxpayers to submit most ITIN applications on paper in conjunction with the filing of a federal income tax return. In many cases, an ITIN application must include original identity documents, such as passports, birth certificates, driver's licenses, and visas. Many applicants are uncomfortable mailing their identity documents to the IRS, not having the documents while the IRS reviews them, and taking the risk that the IRS will lose or misplace the documents. We recommend the IRS develop a reliable electronic method to verify government-issued identification documents, take steps toward allowing e-filing of both ITIN applications and accompanying tax returns, and process ITIN applications year-round when an applicant can demonstrate a federal tax need.
- ***Limited tax and financial literacy is causing serious consequences for taxpayers.*** Low tax literacy can cause taxpayers to fail to claim the EITC, the Child Tax Credit, and other tax benefits for which they are eligible. Low tax literacy may result in parents not realizing they have a filing obligation, which subjects them to penalties and interest charges and, in some cases, even prevents their children from receiving college financial aid. Lack of tax and financial literacy may also contribute to noncompliance if taxpayers do not understand the relationship between the taxes they pay and the government benefits they receive. We recommend steps to improve tax and financial literacy.
- ***The IRS's administration of civil tax penalties is often unfair, inconsistently deters improper behavior, fails to promote efficient administration, and thus discourages tax compliance.*** Civil tax penalties historically have had a single purpose – to enhance tax compliance. Over time, however, the IRS has been more aggressive about imposing penalties under what we refer to as an “assess first, ask questions later” approach. Penalty notices do not always follow the law that requires the IRS to explain how it has computed a penalty, and the IRS sometimes imposes penalties without first obtaining written supervisory approval. After the Tax Court imposed sanctions against the IRS in a 2023 case for filing a declaration with a backdated supervisory approval document, the Treasury Department responded by proposing to virtually eliminate the supervisory approval requirement. We recommend administrative and legislative changes to improve the fairness of the penalty imposition process.
- ***Changes to the IRS's criminal voluntary disclosure practice (VDP) requirements may be reducing voluntary compliance and negatively impacting the tax gap.*** Noncompliant individuals who have either filed false or fraudulent tax returns or have not filed required returns at all may be subject to criminal penalties, but the IRS may not pursue them due to resource or information constraints. The VDP aims to encourage these taxpayers to come into compliance in exchange for the IRS's agreement not to recommend criminal prosecution. If properly structured, the VDP has the potential to attract a significant number of taxpayers. However, recent changes to the program, including imposition of a mandatory 75 percent civil fraud penalty and extensive disclosure requirements, have made it less

21 CBO, *Comparing the Compensation of Federal and Private-Sector Employees in 2022*, at 1 (Apr. 2024), <https://www.cbo.gov/system/files/2024-04/59970-Compensation.pdf>.

attractive, and practitioners report they are less likely to recommend it to their clients. Since the start of the current VDP in the beginning of FY 2019, only 161 taxpayers have completed the program. We recommend steps to make the program more attractive that still ensure fairness and appropriate penalties for noncompliance.

LEGISLATIVE RECOMMENDATIONS

The National Taxpayer Advocate Purple Book this year makes 69 recommendations to strengthen taxpayer rights and improve tax administration. Most recommendations in this volume are non-controversial, common-sense reforms. I highlight the following ten legislative recommendations for particular attention.

- ***Authorize the IRS to establish minimum competency standards for federal tax return preparers and revoke the identification numbers of sanctioned preparers (Recommendation #4).*** The IRS receives over 160 million individual income tax returns each year, and most are prepared by paid tax return preparers. While some tax return preparers must meet licensing requirements (*e.g.*, certified public accountants, attorneys, and enrolled agents), most tax return preparers are not credentialed. Numerous studies have found that non-credentialed preparers disproportionately prepare inaccurate returns, causing some taxpayers to overpay their taxes and other taxpayers to underpay their taxes, which subject them to penalties and interest charges. Non-credentialed preparers also drive much of the high improper payments rate attributable to wrongful EITC claims. In FY 2023, 33.5 percent of EITC payments, amounting to \$21.9 billion, were estimated to be improper, and among tax returns claiming the EITC prepared by paid tax return preparers, 96 percent of the total dollar amount of EITC audit adjustments was attributable to returns prepared by non-credentialed preparers.

Federal and state laws generally require lawyers, doctors, securities dealers, financial planners, actuaries, appraisers, contractors, motor vehicle operators, and barbers and beauticians to obtain licenses or certifications and, in most cases, to pass competency tests. The Obama, first Trump, and Biden administrations have each recommended that Congress authorize the Treasury Department to establish minimum competency standards for federal tax return preparers. To protect taxpayers and the public fisc, we likewise recommend that Congress provide this authorization as well as authorization for the Treasury Department to revoke the Preparer Tax Identification Numbers (PTINs) of preparers who have been sanctioned for improper conduct.²²

- ***Expand the U.S. Tax Court's jurisdiction to hear refund cases (Recommendation #43).*** Under current law, taxpayers seeking to challenge an IRS tax-due adjustment can file a petition in the U.S. Tax Court, while taxpayers who have paid their tax and are seeking a refund must file suit in a U.S. district court or the U.S. Court of Federal Claims. Litigating in a U.S. district court or the Court of Federal Claims is generally more challenging – filing fees are relatively high, rules of civil procedure are complex, the judges generally do not have tax expertise, and proceeding without a lawyer is difficult. By contrast, taxpayers litigating their cases in the Tax Court face a low \$60 filing fee, may follow less formal procedural rules, are generally assured their positions will be fairly considered even if they don't present them well because of the tax expertise of the Tax Court's judges, and can more easily represent themselves. For these reasons, the requirement that refund claims be litigated in a U.S. district court or the Court of Federal Claims effectively deprives many taxpayers of the right to judicial review of an IRS refund disallowance. In FY 2023, about 97 percent of all tax-related litigation was adjudicated in the Tax Court. We recommend Congress expand the jurisdiction of the Tax Court to give taxpayers the option to litigate all tax disputes, including refund claims, in that forum.

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

- ***Enable the Low Income Taxpayer Clinic program to assist more taxpayers in controversies with the IRS (Recommendation #65).*** The Low Income Taxpayer Clinic (LITC) program assists low-income taxpayers and taxpayers who speak English as a second language. When the LITC program was established as part of the IRS Restructuring and Reform Act of 1998, the law limited annual grants to no more than \$100,000 per clinic. The law also imposed a 100 percent “match” requirement so a clinic cannot receive more in grant funds than it raises from other sources. The nature and scope of the LITC program have evolved considerably since 1998, and those requirements are preventing the program from expanding assistance to a larger universe of eligible taxpayers. We recommend Congress remove the per-clinic cap and allow the IRS to reduce the match requirement to 25 percent, where doing so would expand coverage to additional taxpayers.
- ***Require the IRS to timely process claims for refund or credit (Recommendation #2).*** Millions of taxpayers file refund claims with the IRS each year. Under current law, there is no requirement that the IRS pay or deny them. It may simply ignore them. The taxpayers’ remedy is to file suit in a U.S. district court or the U.S. Court of Federal Claims. For many taxpayers, that is not a realistic or affordable option. The absence of a processing requirement is a poster child for non-responsive government. While the IRS generally does process refund claims, the claims can and sometimes do spend months and even years in administrative limbo within the IRS. We recommend Congress require the IRS to act on claims for credit or refund within one year and impose certain consequences on the IRS for failing to do so.
- ***Allow the limitation on theft loss deductions in the Tax Cuts and Jobs Act to expire so scam victims are not taxed on amounts stolen from them (Recommendation #54).*** Many financial scams involve the theft of retirement assets. In a typical scam, a con artist may pose as a law enforcement officer, convince a victim that their retirement savings are at risk, and persuade the victim to transfer their retirement savings to an account that the scammer controls. Then, the scammer absconds with the funds. Under the tax code, the victim’s withdrawal of funds from a retirement account is treated as a distribution subject to income tax and, if the victim is under age 59½, to a ten percent additional tax as well. Thus, the victim may not only lose their life savings but also owe significant tax on the stolen funds. Prior to 2018, scam victims generally could claim a theft loss deduction to offset the stolen amounts included in gross income, but the TCJA eliminated this deduction. We recommend Congress allow this TCJA limitation to expire so the theft deduction is again available in these circumstances.
- ***Extend the reasonable cause defense for the failure-to-file penalty to taxpayers who rely on return preparers to e-file their returns (Recommendation #31).*** The tax law imposes a penalty of up to 25 percent of the tax due for failing to file a timely tax return, but the penalty is waived where a taxpayer can show the failure was due to “reasonable cause.” Most taxpayers pay tax return preparers to prepare and file their returns for them. In 1985, when all returns were filed on paper, the Supreme Court held that a taxpayer’s reliance on a preparer to file a tax return did not constitute “reasonable cause” to excuse the failure-to-file penalty if the return was not timely filed. In 2023, a U.S. Court of Appeals held that “reasonable cause” is also not a defense when a taxpayer relies on a preparer to file a tax return electronically.

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

and direct the Secretary to issue regulations detailing what constitutes ordinary business care and prudence for purposes of evaluating reasonable cause requests.

- ***Promote consistency with the Supreme Court’s Boechler decision by making the time limits for bringing all tax litigation subject to equitable judicial doctrines (Recommendation #45).*** Taxpayers who seek judicial review of adverse IRS determinations generally must file petitions in court by statutorily imposed deadlines. The courts have split over whether filing deadlines can be waived under extraordinary circumstances. Most tax litigation takes place in the U.S. Tax Court, where taxpayers are required to file petitions for review within 90 days of the date on a notice of deficiency (150 days if addressed to a person outside the United States). The Tax Court has held it lacks the authority to waive the 90-day (or 150-day) filing deadline even, to provide a stark example, if the taxpayer had a heart attack on Day 75 and remained in a coma until after the filing deadline. In *Boechler, P.C. vs. Commissioner*, the Supreme Court held that filing deadlines are subject to “equitable tolling” in Collection Due Process hearings. We recommend Congress harmonize the conflicting court rulings by providing that all filing deadlines to challenge the IRS in court are subject to equitable tolling where timely filing was impossible or impractical.
- ***Remove the requirement that written receipts acknowledging charitable contributions must be “contemporaneous” (Recommendation #60).*** To claim a charitable contribution, a taxpayer must receive a written acknowledgment from the donee organization before filing a tax return. For example, if a taxpayer contributes \$5,000 to a church, synagogue, or mosque, files a tax return claiming the deduction on February 1, and receives a written acknowledgment on February 2, the deduction is not allowable – even if the taxpayer has credit card receipts and other documentation that unambiguously substantiate the deduction. This requirement can harm civic-minded taxpayers who do not realize how strict the timing requirements are and undermines congressional policy to encourage charitable giving. We recommend Congress modify the substantiation rules to require a reliable – but not necessarily advance – written acknowledgment from the donee organization.
- ***Require that math error notices describe the reason(s) for the adjustment with specificity, inform taxpayers they may request abatement within 60 days, and be mailed by certified or registered mail (Recommendation #9).*** When the IRS proposes to assess additional tax, it ordinarily must issue a notice of deficiency to the taxpayer, which gives the taxpayer an opportunity to seek judicial review in the U.S. Tax Court if the taxpayer disagrees with the IRS’s position. In cases where a taxpayer commits a “mathematical or clerical error,” however, the IRS may bypass deficiency procedures and issue a “math error” notice that summarily assesses additional tax. If a taxpayer does not respond to a math error notice within 60 days, the assessment becomes final, and the taxpayer will have forfeited the right to challenge the IRS’s position in the Tax Court. Math error notices often do not clearly explain the reason for the adjustment and do not prominently explain the consequences of failing to respond within 60 days. We recommend Congress require the IRS to describe the error giving rise to the adjustment with specificity and inform taxpayers they have 60 days (or 120 days if the notice is addressed to a person outside the United States) to request that a summary assessment be abated or they will forfeit their right to judicial review.²³
- ***Provide that assessable penalties are subject to deficiency procedures (Recommendation #14).*** The IRS ordinarily must issue a notice of deficiency giving taxpayers the right to appeal an adverse

23 A taxpayer is given 60 additional days to respond to a notice of deficiency when the notice “is addressed to a person outside the United States.” IRC § 6213(a). By contrast, a taxpayer abroad is given no additional time to respond to a math error notice. To protect taxpayer rights and promote consistency, we recommend providing 60 additional days for taxpayers located outside the United States to respond to a math error notice. See National Taxpayer Advocate 2025 Purple Book, *Compilation of Legislative Recommendations to Strengthen Taxpayer Rights and Improve Tax Administration (Give Taxpayers Abroad Additional Time to Request Abatement of a Math Error Assessment)*.

IRS determination in the U.S. Tax Court before it may assess tax.²⁴ In limited situations, however, the IRS may assess penalties without first issuing a notice of deficiency. These penalties are generally subject to judicial review only if a taxpayer first pays the penalties and then sues for a refund. Assessable penalties can be substantial, sometimes running into the millions of dollars. Under IRS interpretation, these penalties include but are not limited to international information reporting penalties under IRC §§ 6038, 6038A, 6038B, 6038C, and 6038D. The inability of taxpayers to obtain judicial review on a preassessment basis and the requirement that taxpayers pay the penalties in full to obtain judicial review on a post-assessment basis can effectively deprive taxpayers of the right to judicial review. To ensure taxpayers have an opportunity to obtain judicial review before they are required to pay often substantial penalties they do not believe they owe, we recommend Congress require the IRS to issue a notice of deficiency before imposing assessable penalties.

TAS IS TURNING 25

Congress created the Taxpayer Advocate Service as part of the IRS Restructuring and Reform Act of 1998. After developing an organizational structure, TAS launched in March 2000. This March, we will mark a quarter century of TAS's taxpayer advocacy.

By statute, our functions are (i) to assist taxpayers in resolving problems with the IRS; (ii) to identify areas in which taxpayers have problems in their dealings with IRS; (iii) to the extent possible, to propose and advocate for changes in the administrative practices of the IRS to mitigate problems identified under clause (ii); and (iv) to identify and propose potential legislative changes which may be appropriate to mitigate such problems.

On average, TAS has helped between 225,000 and 250,000 taxpayers each year resolve their IRS problems. Since inception, we have helped more than five million taxpayers. These include cases brought to us by taxpayers themselves, cases brought by tax professionals, and cases referred by congressional offices. While TAS performs an ombuds function and the final decision about whether to grant relief in particular cases rests with the IRS Business Operating Divisions, about 75 percent of taxpayers whose cases we handle generally receive relief.²⁵

FOR 25 YEARS

TAS has served as the "safety net" for taxpayers experiencing problems with the IRS and as Congress's eyes and ears within the agency on issues of taxpayer rights and taxpayer burden.

On the systemic side, we have worked hundreds of advocacy projects with the IRS, and we have proposed more than a thousand changes to the agency's administrative practices. In most years, the IRS has agreed to implement the majority of the recommendations we have made. In addition, as part of our Annual Report to Congress, we have made hundreds of recommendations for legislative change. These recommendations are currently presented in a separate volume known as the Purple Book. Overall, Congress has enacted about 50 provisions into law that incorporate our recommendations. As discussed earlier, the 2025 Purple Book published as part of this report contains 69 recommendations for your consideration.

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

25 In other cases, taxpayers generally do not follow through by providing requested documents or the IRS ultimately determines they are not entitled to relief.

Since 2003, TAS has proudly administered the Low Income Taxpayer Clinic federal grant program, which funds clinics across the country to help taxpayers tackle IRS audits, resolve disputes, and understand their rights and responsibilities as taxpayers. TAS also oversees the Taxpayer Advocacy Panel, a Federal Advisory Committee that helps identify issues of importance to taxpayers and provides a taxpayer perspective to the IRS on key programs, products, and services.

For 25 years, TAS has served as the “safety net” for taxpayers experiencing problems with the IRS and as Congress’s eyes and ears within the agency on issues of taxpayer rights and taxpayer burden. The year 2025 will be one of continued growth and transition, as we launch a new case management system for our Case Advocates and begin to implement our first multiyear strategic plan. We are hopeful these changes and others will help TAS build on its success and become an even more effective taxpayer advocacy organization over the next quarter century.

I want to extend my deepest gratitude to the members of our “TAS team” – both current and former employees. Their dedication and hard work have transformed countless lives by helping taxpayers facing financial or other hardships resolve their problems with the IRS. That is what TAS does. We make a difference one taxpayer at a time. Together, our employees can ensure that our vital mission continues to thrive.

CONCLUSION

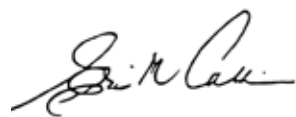
The IRS has made considerable progress over the last two years in improving the taxpayer experience. Although IRA funding was heavily tilted toward enforcement and allocated only four percent of IRS funding to the Taxpayer Services account and only six percent of IRS funding to the BSM technology account, the IRS has developed ambitious but achievable taxpayer service and technology goals that it has been working diligently to accomplish.

But continued funding is critical to enable the IRS to successfully deliver on its mission and transform how it works with taxpayers going forward. Over the past two decades, IRS funding has yo-yoed up and down, preventing the agency from developing realistic long-term plans because it could not be certain funding would remain available for implementation. That is why the multiyear funding provided by the IRA has been a game-changer for taxpayers. As much as the Enforcement funding in the IRA has been controversial, I have heard no complaints about the Taxpayer Services funding or the technology funding. Those accounts have received bipartisan support, as they should, and they require continued support to provide taxpayers with better service and a better overall experience.

With a prudent strategic plan and adequate funding, the IRS has been taking and is continuing to take major steps to improve the experience of all Americans – our taxpayers and your constituents. I strongly recommend that Congress ensure the IRS receives the funding it needs to finish the job. If it does, taxpayers who want to efficiently interact with the IRS solely online should be able to do so within the next two to three years, and taxpayers who prefer to continue to file paper returns or call the IRS will receive better service. As the IRS moves forward, it is critical that it provide financial accountability and operational transparency. Congress should insist on it.

I look forward to working with Congress and the IRS as the agency refines and implements its plans. My TAS team stands ready to help improve taxpayer service and tax administration for the benefit of all taxpayers and to continue to serve as their safety net when the system fails, all while working to protect taxpayer rights and minimize taxpayer burden.

Respectfully submitted,



Erin M. Collins

National Taxpayer Advocate

December 31, 2024

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

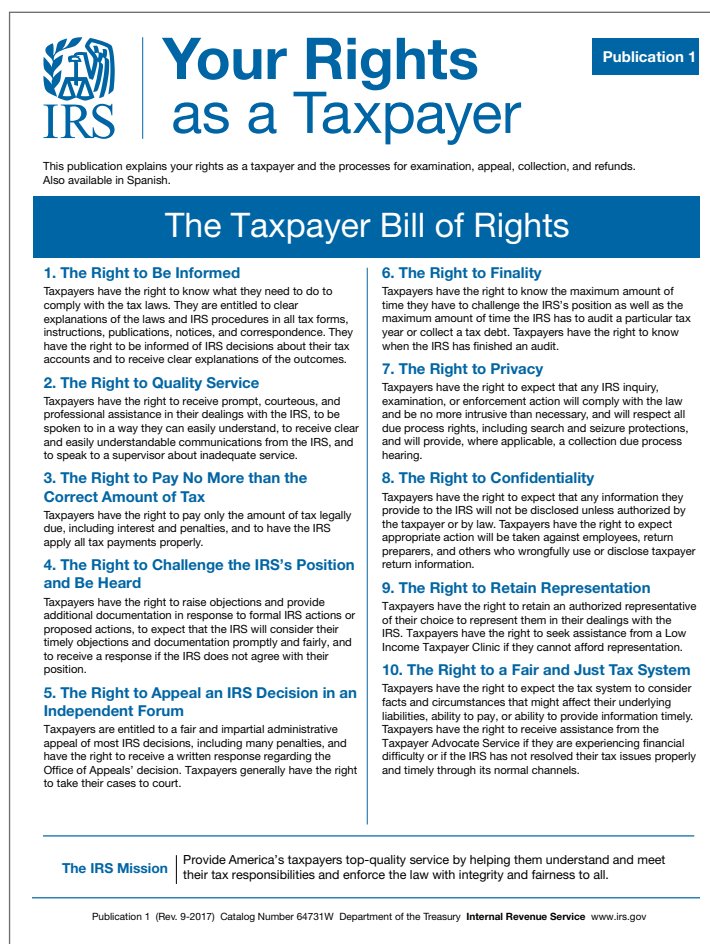
INTRODUCTION

The Taxpayer Rights and Service Assessment provides the IRS, Congress, and other stakeholders with a “report card” to measure how the agency protects and advances taxpayer rights and service while driving tax compliance. This report card frames the discussion within the context of the Taxpayer Bill of Rights (TBOR) and may indicate where shifting resources impact the IRS’s ability to robustly adhere to the TBOR in practice and provide a high level of taxpayer service.¹

The Taxpayer Bill of Rights Celebrates Ten Years Since IRS Adoption – But There’s More Work to Do

On June 10, 2014, in response to concerns raised by the National Taxpayer Advocate, the IRS formally adopted the TBOR as “a cornerstone document to provide the nation’s taxpayers with a better understanding of their rights.”² The IRS updated its Publication 1, Your Rights as a Taxpayer, a document routinely included in IRS correspondence and issued to millions of taxpayers each year, to prominently showcase the TBOR.³ In 2015, again in response to urging from the National Taxpayer Advocate, Congress acted to further recognize the fundamental import of these rights by codifying the TBOR into IRC § 7803(a)(3).⁴

FIGURE 1.2.1



IRS adoption of the TBOR represents an important step for the IRS and taxpayers, as it communicates the IRS's commitment to keeping taxpayer rights – and by extension taxpayer service – as a driving principle of tax administration. Since TBOR adoption, the IRS has incorporated TBOR guidance and references within nearly every chapter of the Internal Revenue Manual, established an IRS.gov TBOR page, and provided IRS employees with annual training regarding taxpayer rights and the role of the Office of the Taxpayer Advocate as required by statute.⁵

TAS welcomes the IRS's ongoing promotion of the TBOR and its application to daily IRS work, but we can do more. The IRS is currently advancing an ambitious range of initiatives to “better serve taxpayers and tax professionals.”⁶ During this potentially transformative moment in taxpayer service, the IRS must continue to position the TBOR at the forefront of its efforts and embrace this opportunity to incorporate it into its decision-making process.

With Additional Funding Comes Additional Responsibility

Diminished funding was a recurrent obstacle to the IRS incorporating the TBOR into its service delivery. With its inflation-adjusted budget appropriation declining by about 20 percent between fiscal years (FYs) 2010-2021, the agency struggled to meaningfully put the TBOR into effect without the necessary funding to deliver on that commitment.⁷ The IRS strained to maintain and improve the *right to quality service*.

In August 2022, however, Congress provided multiyear funding, appropriating billions of dollars in additional IRS support.⁸ This funding allows the IRS to implement much-needed service improvements, and in April 2023, the IRS presented its Strategic Operating Plan (SOP) that communicates how it intends to use the multiyear funds to deliver notable improvements to tax administration with a strong emphasis on the taxpayer service experience.⁹ In April 2024, the IRS presented the first annual update to its SOP, reporting on key improvements made during its first year of the multiyear funding, such as improvements to live assistance for taxpayers, reduced call wait times, expanded online services, and simplified taxpayer notice initiatives.¹⁰

The National Taxpayer Advocate recognizes, supports, and applauds the IRS embracing this moment to improve taxpayer service, but taxpayer service and taxpayer rights are two sides of the same coin, and the opportunity afforded by the multiyear funding comes with a responsibility to ensure that it protects taxpayer rights. Yet, sadly, neither the IRS SOP nor the 2024 update report mention or cite to the TBOR.

The IRS is unquestionably working hard to improve service for taxpayers, but now is a critical moment to reflect and refocus attention on the TBOR. It must consider these questions as it implements improvements:

1. How might new initiatives and technological applications, for instance, affect taxpayer rights?
2. Will these new initiatives and applications raise new risks to the taxpayer *rights to privacy or confidentiality*?
3. Will adjustments to the IRS's enforcement approach protect the taxpayer *right to a fair and just tax system*?
4. Are there processes that look appealing from an administrative perspective but might come at a cost to taxpayer rights?¹¹
5. Is the IRS considering new metrics to more meaningfully measure the quality of service taxpayers receive?

The initiatives put forth in the SOP are expansive and welcome, but employing the TBOR as a core tenet of its decision-making process would focus this ambitious multi-part plan by grounding it around a vitally important and fundamental premise – taxpayer rights.

TAXPAYER SERVICE: TAX RETURN PROCESSING

The TBOR comes into play every time a taxpayer interacts with the IRS, and nearly every taxpayer interaction is either directly or indirectly linked to the filing of a tax return. Tax return processing is a fundamental IRS service, and return filing metrics are an important measure of IRS workload and taxpayer service. For many taxpayers, preparing and timely filing a tax return comes with some level of cost and effort. Once they have filed, however, taxpayers expect the IRS to follow through on its end of the bargain – by timely processing the return. When taxpayers experience processing delays, their confidence in the tax system may waver, their frustration may grow, and their likelihood of future compliance may lessen. For taxpayers who are in critical need of their refunds to cover rent, food, or other essential living costs, this core function is more than an abstract process discussed in government reports. The IRS can analyze processing metrics, but taxpayers *feel* processing delays and experience the profound impact on their *rights to quality service* and *to a fair and just tax system*.

The IRS's projected number of tax returns filed in FY 2024 is tapering slightly after a rise to over 271 million tax returns (including supplemental documents such as extensions to file federal income tax returns) received in FY 2023, but receipts are still high, and taxpayers filed over ten million of the projected FY 2024 individual returns on paper. Paper return processing is challenging for the IRS and sometimes leads to long delays and frustrating backlogs.¹² In 2023, the IRS announced a paperless processing initiative, indicating that by the 2025 filing season it would digitally process all paper-filed tax returns, a laudable – if too ambitious – goal.¹³ As the IRS continues to explore new remedies and processing options, it must thoughtfully balance its resources between implementing strategies to mitigate backlogs and assisting taxpayers and tax professionals with filing season issues and questions when they encounter delays. Importantly, it should utilize the TBOR to guide that development and its efforts to balance the workload.

FIGURE 1.2.2, Income Tax Returns and Information and Reporting Documents Filed, FYs 2022–2024

Measure/Indicator	FY 2022	FY 2023	FY 2024
Returns Filed (Primary Types) ¹⁴	262,830,692	271,462,415	266,597,200
Total Individual Income Tax Returns ¹⁵	160,577,401	163,124,867	162,315,300
Total Individual Income Tax Returns Filed on Paper ¹⁶	12,152,399	15,159,438	10,637,900
Total Individual Income Tax Returns Filed Electronically ¹⁷	148,425,002	147,965,429	151,677,400
Free File Consortium (Tax Year) ¹⁸	2,449,458	2,437,000	2,569,472
Fillable Forms (Tax Year) ¹⁹	645,049	449,653	399,181
Total Corporation Income Tax Returns ²⁰	7,783,235	8,269,075	8,398,800
Total Corporation Income Tax Returns Filed on Paper ²¹	1,155,810	1,356,072	1,144,900
Total Corporation Income Tax Returns Filed Electronically ²²	6,627,425	6,913,003	7,253,900
Total Forms W-2 ²³	270,096,597	278,908,239	283,865,800
Total Forms 1099 ²⁴	4,729,269,709	4,669,826,769	5,431,361,600

Observation: The total number of individual and corporation income tax returns filed electronically remains high. The number of projected FY 2024 paper filed individual returns fell by nearly a third from the number filed in FY 2023. Electronically filed returns now account for over 93 percent of individual filings and approximately 86 percent of corporation filings in FY 2024 (note that FY 2024 return counts are projected numbers). The increase in electronic filings is a positive development for tax administration. The sheer number of Forms W-2 and 1099 submitted is astronomically high, and information forms are anticipated to substantially increase in the future with the additional reporting requirements on Forms 1099-K and 1099-DA.

TAXPAYER SERVICE: EXAMINATION AND COLLECTION

IRS examination and collection action can inherently lead to taxpayer anxiety, which may increase if taxpayers perceive the process as prolonged or biased. The perception of equitable IRS treatment across all taxpayer populations is important; it promotes tax compliance and supports the *right to a fair and just tax system*. The IRS has been vocal about its use of multiyear funding to address perceived imbalances in audit selection, and this is good for promoting a sense of tax parity.²⁵ New approaches, however, can bear inadvertent results, and shifts in process require regular assessment to identify impacts to taxpayer rights. The IRS, for example, is piloting the use of artificial intelligence (AI) to select large partnerships for audit.²⁶ AI may be a useful tool in accurately targeting for audit selection, but without careful and transparent review, automated systems could operate with unintended biases.²⁷ Stanford University's 2023 report identifying racial disparities linked to aspects of the IRS's examination selection algorithm is one example of unintended bias, and it highlights the necessity for transparent program reviews to mitigate threats to taxpayer rights and foster confidence that the IRS is applying tax laws fairly.²⁸ AI will provide efficiencies, but the IRS must be cautious how it uses it.

AI and improved technology will not preclude the need for the IRS to hire, train, and retain employees with the necessary skills to implement its new examination initiatives. As the IRS hires new employees to support proposed enforcement initiatives, it must adequately train them to perform their duties, upgrade its training for existing employees, and ensure that training includes guidance on recognizing, understanding, and integrating a respect for taxpayer rights into the essential work they perform.²⁹ Training will be key in the IRS's ability to be transformational for future examination and collection activities. Developing these skills and experience will not occur overnight. The IRS needs to invest long term in its employees to improve the taxpayer experience. Implicit in the taxpayer *right to quality service* is that examination and collection activities respect all provisions of TBOR.³⁰

Attention to closed case resolutions can indicate whether the IRS is applying resources appropriately and/or promoting a sense of parity. A drop in FY 2024 no-change audit closures for taxpayers with total positive income under \$50,000, for instance, suggests a potential improvement in audit selection for this income group.³¹ A nearly 54 percent failure-to-respond rate, however, suggests the need for an adjustment in approach or outreach.³²

FIGURE 1.2.3, Type of Audit, Outcomes, and Time to Complete by Income, FYs 2022-2024

Measure/Indicator	FY 2022	FY 2023	FY 2024
Examination			
Total Open Audits Pending in Exam ³³	425,704	323,401	335,157
Total Closed Audits – Individual Tax Returns ³⁴	625,947	518,811	444,258
Total Positive Income (Under \$50,000)			
No-Change Rate	12.8%	11.6%	5.6%
Agreed Rate ³⁵	17.1%	16.2%	12.9%
Taxpayer Failed to Respond Rate ³⁶	44.2%	47.2%	53.7%
Average Days to Audit Completion	269.6	259.9	249.9
Average Total Exam Time (Hours) Correspondence Audits	1.4	1.5	1.5
Average Total Exam Time (Hours) Field Exams	28.8	31.3	30.0
Percent of Correspondence Audits ³⁷	91.3%	91.6%	92.4%

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Total Positive Income (Greater Than or Equal to \$50,000 and Under \$10,000,000)			
No-Change Rate	13.1%	13.1%	13.2%
Agreed Rate	40.3%	41.0%	38.3%
Taxpayer Failed to Respond Rate	21.3%	18.7%	21.9%
Average Days to Audit Completion	317.6	295.2	304.7
Average Total Exam Time (Hours) Correspondence Audits	2.3	2.7	2.8
Average Total Exam Time (Hours) Field Exams	38.2	37.4	41.1
Percent of Correspondence Audits ³⁸	72.2%	68.0%	75.1%
Total Positive Income (Greater Than or Equal to \$10,000,000)			
No-Change Rate	31.1%	36.3%	37.9%
Agreed Rate	51.5%	46.0%	44.4%
Taxpayer Failed to Respond Rate	0.2%	0.7%	0.2%
Average Days to Audit Completion	982.0	679.3	635.4
Average Total Exam Time (Hours) Correspondence Audits	7.7	8.6	7.4
Average Total Exam Time (Hours) Field Exams	110.6	115.4	116.2
Percent of Correspondence Audits ³⁹	32.2%	18.3%	15.4%

Observation: The total number of FY 2024 open audits pending in exam is tipping upward after a sharp drop in FY 2023. Closed audit numbers in FY 2024 continue to drop. Taxpayers with incomes below \$50,000 had about 92 percent of their audits conducted by correspondence, 53 percent or more failed to respond to the IRS, and roughly 13 percent agreed to the proposed adjustments. As income levels increase, the relative number of correspondence audits and failure-to-respond rates decrease, whereas the agreed rates rise.

FIGURE 1.2.4, Offers in Compromise (OICs), Installment Agreements (IAs), and the Queue, FYs 2022-2024

Measure/Indicator	FY 2022	FY 2023	FY 2024
Collection			
OICs Submitted ⁴⁰	36,022	30,163	33,591
OICs Accepted ⁴¹	28.7%	28.5%	21.3%
Individual and Business IAs ⁴²	2,383,849	2,696,963	3,403,214
IAs With Bots ⁴³	8,505	16,379	23,662
Rejected Taxpayer Requests for IAs ⁴⁴	8,800	8,625	8,155
Cases Pending Assignment (in the Queue) (Taxpayers) ⁴⁵	17.5%	22.6%	19.3%
Cases Pending Assignment (in the Queue) (Modules) ⁴⁶	24.0%	29.5%	25.9%
Age of Individual Delinquencies Pending Assignment (in the Queue) ⁴⁷	4.9 years	4.9 years	4.9 years

Observation: The percentage of accepted OICs has dropped about seven percent from FY 2023 to FY 2024 while IA submissions have increased by roughly 26 percent during the same period. The number of taxpayers in the collection queue dropped slightly in FY 2024 while the number of IAs with bots rose by about 44 percent.

TAXPAYER SERVICE: TAXPAYER-FACING COMMUNICATION CHANNELS

As the IRS continues its efforts to translate the additional funding into palpable taxpayer service improvements, it is making progress. The number of face-to-face Taxpayer Assistance Center (TAC) contacts rose to nearly two million in FY 2024. The average cycle time to work individual taxpayer correspondence between FY 2023 to FY 2024 fell by nearly 30 days. The IRS updated its Where's My Refund? tool to provide more detailed refund status information, and the tool showed a significant increase in usage compared to FY 2023.⁴⁸ The IRS also received and answered more phone calls on its Accounts Management (AM) lines in FY 2024, and wait times went down. Improved phone service is good news for taxpayers, though the fiscal year numbers are far less dramatic than the numbers generally shared by the IRS based upon filing season data, when it reassigns more customer service representatives to handle the high volume of calls.⁴⁹ Additionally, the IRS continues to use a Level of Service (LOS) phone metric that does not account for service on all IRS phone lines and that the National Taxpayer Advocate feels does not meaningfully measure taxpayers' phone experience.⁵⁰ Gauging taxpayer experience when advancing service initiatives is vital to determining a program's success. The IRS should develop and transparently report on a broad range of metrics, including metrics that measure the quality of taxpayer services provided, taxpayer experience, equity, and TBOR impact. Putting TBOR at the core of this development is important as these rights are essential to the standard of service a taxpayer receives when working with the IRS, no matter the service area or communication channel.

FIGURE 1.2.5, In-Person Service, Correspondence, Telephone Service, and Online Service, FYs 2022-2024

Measure/Indicator	FY 2022	FY 2023	FY 2024
In-Person Service			
TAC Offices ⁵¹	360	363	363
Number of Face-to-Face TAC Contacts ⁵²	1.3 million	1.6 million	1.9 million
Calls to the TAC Appointment Line That Did Not Result in a Scheduled Appointment ⁵³	501,000	913,000	1,300,000
Correspondence⁵⁴			
Individual Correspondence ⁵⁵	6,950,094	6,690,427	5,639,271
Average Cycle Time to Work Individual Correspondence ⁵⁶ (Individual Master File)	207 days	139 days	110 days
Inventory Overage ⁵⁷	43.4%	63.2%	56.6%
Business Correspondence ⁵⁸	4,599,806	5,750,123	3,594,311
Average Cycle Time to Work Business Correspondence ⁵⁹ (Business Master File)	163 days	148 days	147 days
Inventory Overage ⁶⁰	57.0%	74.5%	85.1%
Telephone Service			
Total Calls to IRS ⁶¹	173,265,572	92,875,396	98,927,201
Calls Answered by IRS Employees ⁶²	21,740,474	27,257,751	30,491,251
Percentage of Calls Answered by IRS Employees ⁶³	12.5%	29.3%	30.8%
IRS LOS ⁶⁴	21.3%	51.3%	55.6%
IRS Average Speed of Answer ⁶⁵	28.6 minutes	13.3 minutes	11.7 minutes

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Practitioner Priority: Percentage of Calls Answered (LOS) ⁶⁶	16.9%	34.0%	60.1%
Practitioner Priority: Average Speed of Answer ⁶⁷	25.4 minutes	16.2 minutes	11.9 minutes
Online Service			
Visits to IRS.gov ⁶⁸	1,087,210,500	880,940,703	689,965,251
Page Views ⁶⁹	5,310,673,611	3,761,006,353	1,745,005,359
Online IAs ⁷⁰	1,858,004	2,020,102	1,150,919
Where's My Refund? Inquiries ⁷¹	447,729,355	303,133,000	382,815,000

Observation: In-person TAC visits have steadily increased between FYs 2022-2024, and individual and business correspondence inventories have fallen between FY 2023 and FY 2024. While the overage individual correspondence inventory has dropped, the overage business correspondence inventory continues to increase. The IRS received and answered more calls in FY 2024 than in FY 2023. The number of FY 2024 online IAs dropped by nearly 43 percent since FY 2023, and Where's My Refund? inquiries have risen about 26 percent.

TAXPAYER SERVICE: INFORMATION TECHNOLOGY

An important aspect of transforming and modernizing the IRS requires revamping its information technology. The IRS is using the multiyear funding to enhance its digital service options and IT systems. Notably, it expanded the functionality of its online platforms such as the Individual Online Account, the Business Tax Account, and the Tax Pro Account.⁷² These are welcome improvements, and the IRS should be recognized for these efforts. But to truly make these robust service options for taxpayers and tax professionals, the IRS needs to make further advancements.⁷³ The IRS also introduced online voicebot assistance and expanded use of the Document Upload Tool, both of which are positive additions to IRS digital service.⁷⁴ Importantly, the IRS is making progress on upgrading its core tax processing system.⁷⁵ Improving technology options and modernizing its core IT infrastructure is imperative, remains a central aspect of the SOP, and is key to the success of many of the IRS's planned service initiatives.

The IRS's modernization efforts face challenges when a large portion of available funding goes toward just maintaining current operations and legacy systems. While the multiyear funding budgeted the IRS \$4.8 billion in funding for business systems modernization, IRS budgeting remains a current source of much debate.⁷⁶ TAS continues to maintain that without sustained, consistent, and dedicated funding, the IRS will remain challenged to develop and maintain the workforce and administrative tools necessary to deliver a high quality of service that all taxpayers are entitled to and should reasonably expect from their federal tax administrator. The modernization of aging IRS information systems, the need for increased online tools and functionality, and the requisite application of trained and experienced staff to maintain that effort is integral to improving IRS taxpayer service and respecting the taxpayer *right to quality service*.

Endnotes

- 1 The TBOR is a list of ten rights organized to help taxpayers and IRS employees alike gain a better understanding of the dozens of discrete taxpayer rights scattered throughout the multi-million word IRC. See TBOR, <https://www.taxpayeradvocate.irs.gov/taxpayer-rights> (last visited Nov. 20, 2024). The rights contained in the TBOR are also codified in IRC § 7803(a)(3). These measures are presented as a sample of indicators and are not intended to be read as a comprehensive listing of performance benchmarks.
- 2 IRS News Release, IR-2014-72, IRS Adopts "Taxpayer Bill of Rights," 10 Provisions to be Highlighted on IRS.gov, in Publication 1 (June 10, 2014), <https://www.irs.gov/newsroom/irs-adopts-taxpayer-bill-of-rights-10-provisions-to-be-highlighted-on-irs-gov-in-publication-1>. See also National Taxpayer Advocate 2013 Annual Report to Congress (Special Report: *Toward a More Perfect Tax System: A Taxpayer Bill of Rights As a Framework For Effective Tax Administration*), <https://www.taxpayeradvocate.irs.gov/wp-content/uploads/2020/08/TOWARD-A-MORE-PERFECT-TAX-SYSTEM.pdf>.
- 3 IRS Notice Delivery System – CP 504 notices issued in fiscal year (FY) 2024; IRS, Pub. 1, Your Rights As a Taxpayer (June 2014); see also IRC § 7803(a)(3).

- 4 Consolidated Appropriations Act, 2016, Pub. L. No. 114-113, Div. Q, § 401, 129 Stat. 2241, 3043 (2015) (Division Q is called the Protecting Americans From Tax Hikes Act of 2015). See also National Taxpayer Advocate 2014 Annual Report to Congress 275 (Legislative Recommendation: *Codify the Taxpayer Bill of Rights and Enact Legislation that Provides Specific Taxpayer Protections*), https://www.taxpayeradvocate.irs.gov/wp-content/uploads/2020/08/2014-ARC_VOL-1_S2_LR-1-508.pdf. The National Taxpayer Advocate continues to push for further elevation of the TBOR within the IRC; see National Taxpayer Advocate 2025 Purple Book, *Compilation of Legislative Recommendations to Strengthen Taxpayer Rights and Improve Tax Administration (Elevate the Importance of the Taxpayer Bill of Rights by Redesignating It as Section 1 of the Internal Revenue Code)*.
- 5 See TBOR, <https://www.taxpayeradvocate.irs.gov/taxpayer-rights> (last visited Nov. 20, 2024); Taxpayer First Act, Pub. L. No. 116-25, § 2402(2), 133 Stat. 981, 1014 (2019).
- 6 IRS, Pub. 3744, IRS Inflation Reduction Act Strategic Operating Plan (Apr. 2023), <https://www.irs.gov/pub/irs-pdf/p3744.pdf>.
- 7 IRS response to TAS fact check (Dec. 14, 2020); U.S. Dep't of the Treasury FY 2022 Budget in Brief (2021), <https://home.treasury.gov/about/budget-financial-reporting-planning-and-performance/budget-requestannual-performance-plan-and-reports/budget-in-brief/fy-2022-budget-in-brief>.
- 8 An Act to Provide for Reconciliation Pursuant to Title II of S. Con. Res. 14, Pub. L. No. 117-169, 136 Stat. 1818 (2022) [hereinafter referred to as the "Inflation Reduction Act"]; Further Consolidated Appropriations Act, 2024, Pub. L. No. 118-47, 138 Stat. 460; Fiscal Responsibility Act of 2023, Pub. L. No. 118-5, 137 Stat. 10 (2023).
- 9 IRS, Pub. 3744, IRS Inflation Reduction Act Strategic Operating Plan (Apr. 2023), <https://www.irs.gov/pub/irs-pdf/p3744.pdf>.
- 10 IRS, Pub. 3744-B, IRA Strategic Operating Plan: Annual Update (Apr. 2024), <https://www.irs.gov/pub/irs-pdf/p3744b.pdf>.
- 11 For example, see Erin M. Collins, IRS Proposed Regulations on Third Party Contacts Unfairly Erode Taxpayer Notice Requirements, NATIONAL TAXPAYER ADVOCATE BLOG (Nov. 7, 2024), <https://www.taxpayeradvocate.irs.gov/news/nta-blog/irs-proposed-regulations-on-third-party-contacts-unfairly-erode-taxpayer-notice-requirements/2024/11/>.
- 12 For further discussion of processing delays, see Most Serious Problem: *Return Processing: Continuing Delays in IRS Return Processing Are Frustrating Taxpayers and Causing Refund Delays*, *infra*. See also National Taxpayer Advocate 2023 Annual Report to Congress 5 (Most Serious Problem: *Processing: Ongoing Processing Delays Burden and Frustrate Taxpayers Awaiting Refunds and Other Account Actions*), https://www.taxpayeradvocate.irs.gov/wp-content/uploads/2024/02/ARC23_MSP_01_Processing-Delays_FINAL_01292024.pdf; National Taxpayer Advocate 2022 Annual Report to Congress 34 (Most Serious Problem: *Processing Delays: Paper Backlogs Caused Refund Delays for Millions of Taxpayers*), https://www.taxpayeradvocate.irs.gov/wp-content/uploads/2023/01/ARC22_MSP_01_Processing-Delays.pdf; National Taxpayer Advocate 2021 Annual Report to Congress 37 (Most Serious Problem: *Processing and Refund Delays: Excessive Processing and Refund Delays Harm Taxpayers*), https://www.taxpayeradvocate.irs.gov/wp-content/uploads/2022/01/ARC21_MSP_01_Processing-Delays.pdf.
- 13 IRS Fact Sheet, FS-2023-18, IRS Launches Paperless Processing Initiative (Aug. 2023), <https://www.irs.gov/newsroom/irs-launches-paperless-processing-initiative>.
- 14 IRS, Pub. 6292, Fiscal Year Return Projections for the United States: 2023-2030, at 4 (Sept. 2023), <https://www.irs.gov/pub/irs-prior/p6292--2023.pdf>. The FY 2022 figure has been updated from what was reported in the 2023 Annual Report to Congress. IRS, Pub. 6292, Fiscal Year Return Projections for the United States: 2024-2031, at 4 (June 2024), <https://www.irs.gov/pub/irs-pdf/p6292.pdf>. The FY 2023 figure has been updated from what was reported in the 2023 Annual Report to Congress to report actual return counts. The FY 2024 figure is a projected number. Data for FY 2022 and FY 2023 for each table was accurate as of the close of each fiscal year; however, the IRS often refines the data as additional information becomes available. Therefore, this data may differ slightly from other data sources with a later publication date. Primary types of returns include, but are not limited to, individual and business income, estate, gift, employment, fiduciary, excise, and several other types of tax returns. See Publication 6292 for a complete listing. The number of returns and related metrics are proxies for IRS workload and provide context for the environment in which taxpayers seek quality service and other rights from the TBOR.
- 15 IRS, Pub. 6292, Fiscal Year Return Projections for the United States: 2023-2030, at 4 (Sept. 2023). IRS, Pub. 6292, Fiscal Year Return Projections for the United States: 2024-2031, at 4 (June 2024). The FY 2023 figure has been updated from what TAS reported in the 2023 Annual Report to Congress to report actual return counts. The FY 2024 figure is a projected number.
- 16 IRS, Pub. 6292, Fiscal Year Return Projections for the United States: 2023-2030, at 4 (Sept. 2023). The FY 2022 figure has been updated from what TAS reported in the 2023 Annual Report to Congress. IRS, Pub. 6292, Fiscal Year Return Projections for the United States: 2024-2031, at 4 (June 2024). The FY 2023 figure has been updated from what TAS reported in the 2023 Annual Report to Congress to report actual return counts. The FY 2024 figure is a projected number.
- 17 IRS, Pub. 6292, Fiscal Year Return Projections for the United States: 2023-2030, at 4 (Sept. 2023). The FY 2022 figure has been updated from what TAS reported in the 2023 Annual Report to Congress. IRS, Pub. 6292, Fiscal Year Return Projections for the United States: 2024-2031, at 4 (June 2024). The FY 2023 figure has been updated from what TAS reported in the 2023 Annual Report to Congress to report actual return counts. The FY 2024 figure is a projected number.
- 18 The FY 2022 number is from IRS, Compliance Data Warehouse (CDW), Electronic Tax Administration Research and Analysis System (ETARAS) Modernized e-File for Individuals and excludes about 8.5 million returns filed for the purpose of claiming Economic Impact Payments in FY 2020. The FY 2022 figures represent tax year (TY) 2021 tax returns. The FY 2023 figures represent TY 2022 tax returns. The FY 2024 figures represent TY 2023 tax returns through September 30, 2024. FY 2023 data has been updated in accordance with revised data provided by the IRS during its November 2024 fact check response.
- 19 Numbers for FYs 2022-2023 are from IRS, CDW, ETARAS Modernized e-File for Individuals, and exclude returns filed for the purpose of claiming Economic Impact Payments. The FY 2022 figures represent TY 2021 tax returns. The FY 2023 figures represent TY 2022 tax returns. The FY 2024 figures represent TY 2023 tax returns through September 30, 2024.
- 20 IRS, Pub. 6292, Fiscal Year Return Projections for the United States: 2023-2030, at 4 (Sept. 2023). IRS, Pub. 6292, Fiscal Year Return Projections for the United States: 2024-2031, at 4 (June 2024). The FY 2023 figure has been updated from what TAS reported in the 2023 Annual Report to Congress to report actual return counts. The FY 2024 figure is a projected number.
- 21 IRS, Pub. 6292, Fiscal Year Return Projections for the United States: 2023-2030, at 4 (Sept. 2023). IRS, Pub. 6292, Fiscal Year Return Projections for the United States: 2024-2031, at 4 (June 2024). The FY 2023 figure has been updated from what TAS reported in the 2023 Annual Report to Congress to report actual return counts. The FY 2024 figure is a projected number.

- 22 IRS, Pub. 6292, Fiscal Year Return Projections for the United States: 2023-2030, at 4 (Sept. 2023). IRS, Pub. 6292, Fiscal Year Return Projections for the United States: 2024-2031, at 4 (June 2024). The FY 2023 figure has been updated from what TAS reported in the 2023 Annual Report to Congress to report actual return counts. The FY 2024 figure is a projected number.
- 23 IRS, Pub. 6961, Calendar Year Projections of Information and Reporting Documents for the United States and IRS Campuses: 2023 Update, at 6 (Aug. 2023), <https://www.irs.gov/pub/irs-prior/p6961--2023.pdf>. Pub. 6961, Calendar Year Projections of Information and Reporting Documents for the United States and IRS Campuses: 2024 Update, at 6 (Sept. 2024), <https://www.irs.gov/pub/irs-pdf/p6961.pdf>. The FY 2024 figure is a projected number. The IRS only publishes information and withholding document volumes on a calendar year basis; however, these documents are generally due to the IRS no later than March 31 of each calendar year (depending on document type and filing method).
- 24 IRS, Pub. 6961, Calendar Year Projections of Information and Reporting Documents for the United States and IRS Campuses: 2023 Update, at 6 (Aug. 2023), <https://www.irs.gov/pub/irs-prior/p6961--2023.pdf>. Pub. 6961, Calendar Year Projections of Information and Reporting Documents for the United States and IRS Campuses: 2024 Update, at 6 (Sept. 2024), <https://www.irs.gov/pub/irs-pdf/p6961.pdf>. The FY 2024 figure is a projected number. The IRS only publishes information and withholding document volumes on a calendar year basis; however, these documents are generally due to the IRS no later than March 31 of each calendar year (depending on document type and filing method).
- 25 IRS News Release, IR-2024-233, U.S. Dep't of the Treasury, IRS Announce \$1.3 Billion Recovered From High-Income, High-Wealth Individuals Under Inflation Reduction Act Initiatives (Sept. 6, 2024), <https://www.irs.gov/newsroom/us-department-of-the-treasury-irs-announce-1-point-3-billion-recovered-from-high-income-high-wealth-individuals-under-inflation-reduction-act-initiatives>; Janet L. Yellen, Sec'y of the Treasury, Remarks in Austin, TX (Sept. 6, 2024), <https://home.treasury.gov/news/press-releases/jy2564>.
- 26 IRS News Release, IR-2023-166, IRS Announces Sweeping Effort to Restore Fairness to Tax System With Inflation Reduction Act Funding; New Compliance Efforts Focused on Increasing High-Income, Partnerships, Corporations and Promoters Abusing Tax Rules on the Books (Sept. 6, 2023), <https://www.irs.gov/newsroom/irs-announces-sweeping-effort-to-restore-fairness-to-tax-system-with-inflation-reduction-act-funding-new-compliance-efforts>.
- 27 See Lauren Loricchio & Chandra Wallace, *Transparency, Oversight Urged for IRS Artificial Intelligence*, TAX NOTES, Oct. 22, 2024, <https://www.taxnotes.com/featured-news/transparency-oversight-urged-irs-artificial-intelligence/2024/10/21/7m6nv>.
- 28 Hadi Elzayn et al., *Measuring and Mitigating Racial Disparities in Tax Audits* (Stanford Inst. For Econ. Pol'y Rsch., Working Paper, 2023), <https://siepr.stanford.edu/publications/working-paper/measuring-and-mitigating-racial-disparities-tax-audits>.
- 29 For a further discussion of IRS hiring challenges, see Most Serious Problem: *Hiring: The IRS's Continuing Challenges in Employee Recruitment, Hiring, Training, and Retention Are Hindering Its Ability to Achieve Transformational Change in Taxpayer Service and Tax Administration*, *infra*.
- 30 See IRC § 7803(a)(3). See also TBOR, <https://www.taxpayeradvocate.irs.gov/taxpayer-rights> (last visited Nov. 20, 2024).
- 31 A no-change audit occurs when a taxpayer substantiates all items the audit is reviewing, resulting in no change to the reported tax.
- 32 A no-response audit occurs when a taxpayer under examination does not respond to IRS communication attempts, and the IRS subsequently inputs proposed tax adjustments as if the taxpayer had agreed to the examination determination. This metric includes cases where the IRS deemed the audit notice undeliverable (e.g., a taxpayer may have moved without giving an updated address, and the notice was returned), and there was no response from the taxpayer.
- 33 IRS response to TAS fact check (Dec. 9, 2022); IRS responses to TAS information requests (Oct. 16, 2023; Oct. 29, 2024).
- 34 IRS response to TAS fact check (Dec. 9, 2022); IRS responses to TAS information requests (Oct. 16, 2023; Oct. 29, 2024). These numbers reflect examination cases closed by the IRS and do not account for subsequent appeals or litigation.
- 35 An audit is closed as agreed when the IRS proposes changes, and the taxpayer understands and agrees with the changes.
- 36 The non-response rate includes taxpayers with undelivered IRS audit notices or statutory notices of deficiencies and taxpayers who did not respond to the IRS audit notices.
- 37 This represents the percentage of correspondence audits for taxpayers with total positive income under \$50,000.
- 38 This represents the percentage of correspondence audits for taxpayers with total positive income greater than or equal to \$50,000 and under \$10,000,000.
- 39 This represents the percentage of correspondence audits for taxpayers with total positive income greater than or equal to \$10,000,000.
- 40 IRS, Small Business/Self-Employed (SB/SE), Collection Activity Report (CAR) No. 5000-108, Monthly Report of Offer in Compromise Activity, cumulative through September, FY 2022 (Oct. 3, 2022); FY 2023 (Oct. 2, 2023); FY 2024 (Sept. 29, 2024).
- 41 IRS, SB/SE, CAR No. 5000-108, Monthly Report of Offer in Compromise Activity, cumulative through September, FY 2022 (Oct. 3, 2022); FY 2023 (Oct. 2, 2023); FY 2024 (Sept. 29, 2024). The figure calculations include all dispositions, including not-processable dispositions.
- 42 IRS, SB/SE, CAR No. 5000-6, FY 2022 (Oct. 2, 2022); FY 2023 (Oct. 1, 2023); FY 2024 (Sept. 28, 2024). This number includes short-term payment agreements and continuous wage levies.
- 43 Weekly Automated Collection System Conversational Interactive Voice Response (ACI) and Voice Bot Reports (week ending Sept. 30, 2022) (Cumulative); Weekly ACI and Voice Bot Reports (week ending Sept. 30, 2023) (Cumulative); IRS response to TAS information request (Oct. 29, 2024). This service was not offered until July 2022.
- 44 IRS, CDW, FY 2022 (Oct. 2022); FY 2023 (Oct. 2023); FY 2024 (Sept. 26, 2024). The IRS accepts about 99 percent of requests for IAs that meet the processable criteria.
- 45 IRS, SB/SE, CAR No. 5000-2, Taxpayer Delinquent Account Cumulative Report, FY 2022 (Oct. 2, 2022); FY 2023 (Oct. 1, 2023); FY 2024 (Sept. 28, 2024). When taxpayers incur delinquent tax liabilities, the IRS sends them a series of notices during an approximately six-month period in which the taxpayers are in "notice status." If the taxpayer does not resolve their liability during the notice status, the account enters into taxpayer delinquent account status. The IRS then determines whether it will refer the case to the Automated Collection System (ACS), assign it directly for in-person contact by a revenue officer, assign it to the collection queue to await assignment to a revenue officer or other collection status, or shelve it. ACS may also assign cases to the collection queue. The IRS shelves cases prior to assigning the case to a private collection agency.
- 46 IRS, SB/SE, CAR No. 5000-2, Taxpayer Delinquent Account Cumulative Report, FY 2022 (Oct. 2, 2022); FY 2023 (Oct. 1, 2023); FY 2024 (Sept. 28, 2024). Modules are the number of accounts attributable to a taxpayer. For example, if an individual taxpayer owes unpaid taxes on the 2017 and 2018 Forms 1040, they represent one taxpayer with two modules.

- 47 Query by TAS Research of tax delinquent accounts with queue status in IRS, CDW, Accounts Receivable Dollar Inventory, Individual Master File, Modules. Age of balance due cases in the collection queue as of cycle 37 of FY 2022, cycle 37 of FY 2023, and cycle 37 of FY 2024. We did not consider the age of Taxpayer Delinquency Investigations.
- 48 IRS News Release, IR-2024-563 Tax Time Guide: IRS Enhances Where's My Refund? Tool for 2024 (Feb. 28, 2024), <https://www.irs.gov/newsroom/tax-time-guide-irs-enhances-where-s-my-refund-tool-for-2024-filing-season>.
- 49 IRS News Release, IR-2024-109 IRS Delivers Strong 2024 Tax Filing Season; Expands Services for Millions of People on Phones, In-Person and Online With Expanded Funding (Apr. 15, 2024), <https://www.irs.gov/newsroom/irs-delivers-strong-2024-tax-filing-season-expands-services-for-millions-of-people-on-phones-in-person-and-online-with-expanded-funding>.
- 50 See Most Serious Problem: *IRS Service: Taxpayer Service Is Often Not Timely or Adequate*, *infra*. See also TAS Research Report: *Improving IRS Telephone Service: A Review of Best Practice Processes and Measures Used by Large Government and Private Sector Call Centers*, *infra*.
- 51 FY 2022 figure from IRS response to TAS fact check (Dec. 12, 2022). As of August 1, 2022, 317 of the 358 TACs were open, and 41 were closed or unstaffed. As of September 2023, 266 of the 363 TACS (73 percent) were less than fully staffed, limiting service appointments available to taxpayers. IRS responses to TAS information requests (Dec. 4, 2023; Oct. 28, 2024).
- 52 IRS response to TAS fact checks (Dec. 12, 2022; Dec. 4, 2023); IRS response to TAS information request (Oct. 28, 2024).
- 53 IRS response to TAS fact check (Dec. 12, 2022). Note these numbers include both calls resolved by CSRs (thus negating the need for a TAC appointment) and calls where the taxpayer could not schedule an appointment at the available times. IRS response to TAS fact check (Dec. 4, 2023); IRS response to TAS information request (Oct. 28, 2024).
- 54 Correspondence represents AM inquiries and responses received from taxpayers who do not belong specifically to another area.
- 55 IRS, Joint Operations Center (JOC), Adjustments Inventory Reports: July-September FY Comparison (FYs 2023-2024). These are Individual Master File cumulative fiscal year receipts for Correspondence, Amended, Carryback, Injured Spouse, and Individual Taxpayer Identification Number. These metrics measure taxpayer correspondence requesting account adjustment.
- 56 IRS, Research Analysis and Data (RAD), AM Reports: Correspondence Imaging System (CIS) Closed Case Cycle Time (FYs 2023-2024). The FY 2023 figure has been updated from what TAS reported in the 2023 Annual Report to Congress.
- 57 IRS, Weekly Enterprise Adjustments Inventory Report (weeks ending Sept. 24, 2022; Sept. 30, 2023; Sept. 28, 2024). The IRS must work certain inventories within a specific timeframe to be considered timely. If not closed in that timeframe, the inventory item will be classified as "overaged." FY 2022 data has been updated in accordance with revised data provided by the IRS during its November 2024 fact check response.
- 58 IRS, JOC, Adjustments Inventory Reports: July-September Fiscal Year Comparison (FYs 2023-2024). These metrics measure taxpayer correspondence requesting account adjustment.
- 59 IRS, RAD, AM Reports: CIS Closed Case Cycle Time (FYs 2023-2024).
- 60 IRS, Weekly Enterprise Adjustments Inventory Report (weeks ending Sept. 24, 2022; Sept. 30, 2023; Sept. 28, 2024). FY 2022 data has been updated in accordance with revised data provided by the IRS during its November 2024 fact check response.
- 61 IRS, JOC, Snapshot Reports: Enterprise Snapshot (weeks ending Sept. 30, 2023; Sept. 30, 2024).
- 62 IRS, JOC, Snapshot Reports: Enterprise Snapshot (weeks ending Sept. 30, 2023; Sept. 30, 2024). The IRS answered approximately 30 million, 17 million, and 18 million additional calls, respectively, by automation or information messaging for the indicated fiscal years.
- 63 *Id.*
- 64 *Id.* The IRS generally defines its LOS measure as Numerator = Assistor Calls Answered + Info Messages and Denominator = Assistor Calls Answered + Info Messages + Emergency Closed + Secondary Abandons + (Add either Calculated Busy Signals OR Network Incompletes) + (Add either Calculated Network Disconnects OR Total Disconnects).
- 65 IRS, JOC, Snapshot Reports: Product Line Detail (weeks ending Sept. 30, 2023; Sept. 30, 2024).
- 66 *Id.*
- 67 *Id.*
- 68 IRS.gov Site Traffic Calculator (FYs 2022-2023); IRS response to TAS information request (Oct. 28, 2024).
- 69 *Id.*
- 70 IRS, SB/SE, CAR No. 5000-6, Installment Agreement Cumulative Report, FY 2022 (Oct. 2, 2022); FY 2023 (Oct. 1, 2023); FY 2024 (Sept. 28, 2024). This number includes short-term payment plans. IRS response to TAS fact check (Dec. 4, 2023).
- 71 IRS Databook for FY 2022, Table 10, Selected Online Taxpayer Assistance, by Type of Assistance, Fiscal Year 2022, <https://www.irs.gov/pub/irs-soi/22dbs02t10ap.xlsx>; the FY 2022 figure has been updated from what TAS reported in the 2022 Annual Report to Congress; IRS response to TAS information request (Oct. 29, 2024); the FY 2023 figure has been updated from what TAS reported in the 2023 Annual Report to Congress.
- 72 IRS News Release, IR-2024-196, IRS Continues to Expand Taxpayer Services and Online Tools, Key Milestones Reached With Inflation Reduction Act Funding (July 25, 2024), <https://www.irs.gov/newsroom/irs-continues-to-expand-taxpayer-services-and-online-tools-key-milestones-reached-with-inflation-reduction-act-funding>.
- 73 See Most Serious Problem: *IRS Service: Taxpayer Service Is Often Not Timely or Adequate*, *infra*.
- 74 IRS, Pub. 3744-B, IRA Strategic Operating Plan: Annual Update (Apr. 2024), <https://www.irs.gov/pub/irs-pdf/p3744b.pdf>. IRS News Release, IR-2024-155, Document Upload Tool Reaches Key Milestone; 1 Million Submissions Received (June 5, 2024), <https://www.irs.gov/newsroom/document-upload-tool-reaches-key-milestone-1-million-submissions-received>.
- 75 IRS News Release, IR-2024-233, U.S. Dep't of the Treasury, IRS Announce \$1.3 Billion Recovered From High-Income, High-Wealth Individuals Under Inflation Reduction Act Initiatives (Sept. 6, 2024), <https://www.irs.gov/newsroom/us-department-of-the-treasury-irs-announce-1-point-3-billion-recovered-from-high-income-high-wealth-individuals-under-inflation-reduction-act-initiatives>.
- 76 IRA, Pub. L. No. 117-169, 136 Stat. 1818 (2022).

Introduction: The Most Serious Problems Encountered by Taxpayers

IRC § 7803(c)(2)(B)(ii)(III) requires the National Taxpayer Advocate to submit an annual report to Congress that contains a summary of the ten “Most Serious Problems” encountered by taxpayers.¹ For 2024, the National Taxpayer Advocate has identified, analyzed, and offered recommendations to assist the IRS and Congress in resolving ten such problems.

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

#1 Employee Retention Credit

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



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

#2 Return Processing

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



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

#3 Identity Theft

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



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

#4 IRS Service

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



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

#5 Tax-Related Scams

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



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

#6 Hiring

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



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

#7 Individual Taxpayer Identification Number Processing

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



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

#8 Tax and Financial Literacy

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



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

#9 Civil Penalty Administration

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



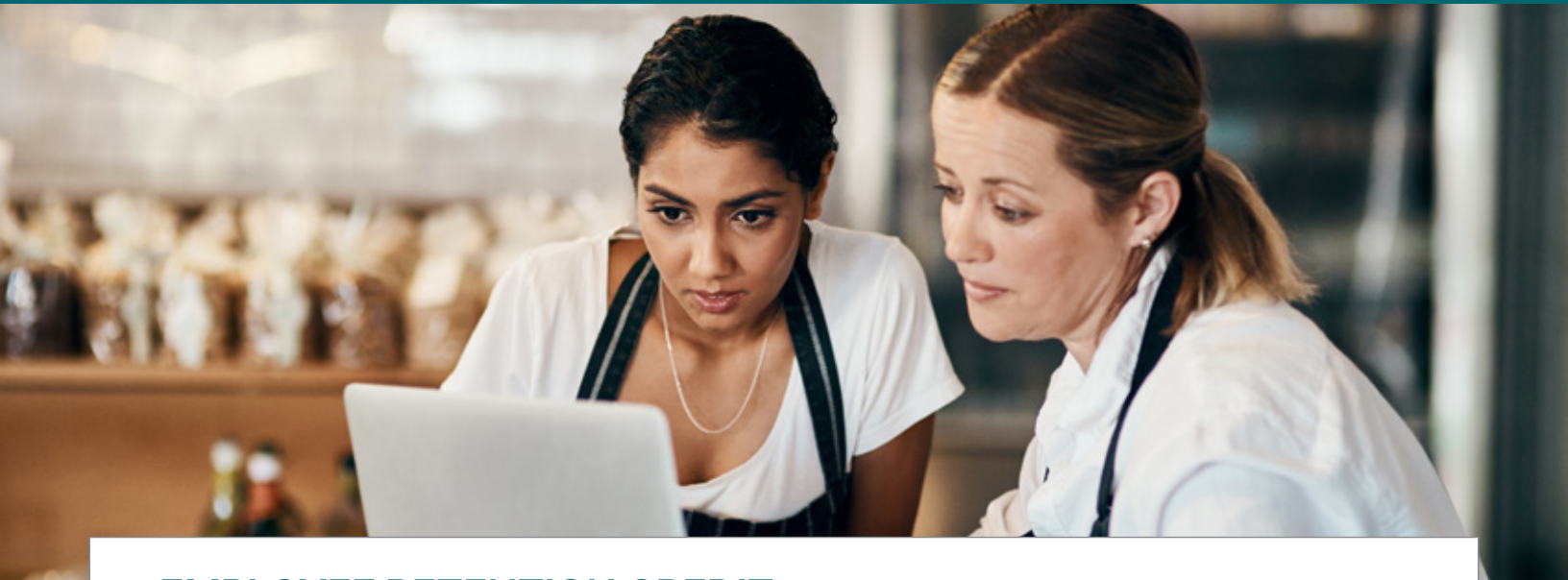
IRS records reflect over 55 percent of accuracy-related penalties proposed by Exam for calendar years 2018-2022 were either not sustained in Appeals or were abated.

#10 Criminal Voluntary Disclosure

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



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



EMPLOYEE RETENTION CREDIT

IRS Processing Delays Are Resulting in Uncertainty and Are Harming and Frustrating Business Owners

PROBLEM

At the onset of the COVID-19 pandemic, Congress enacted the Employee Retention Credit (ERC) to support struggling businesses and exempt organizations impacted by government-imposed restrictions by providing a tax credit intended to keep employees on the payroll. However, the ERC statutes are complicated and difficult to administer. Bad actors have taken advantage of this complexity by misleading some taxpayers to believe they are eligible for the credit. Thus, the IRS has been inundated with ERC claims and struggled to discern which were valid or invalid.

In the summer of 2023, the IRS drastically slowed ERC processing, culminating in a moratorium on processing new claims starting September 14, 2023. This moratorium continues to aggravate processing delays and cause harm and frustration for many business owners. To make matters worse, over the past four years, taxpayers have not received adequate information from the IRS about delays or the status of their ERC claims. Thousands of business owners have reached out to TAS and/or their congressional representatives for guidance on how to proceed. More than a year from the implementation of the moratorium, the IRS still has not processed many claims filed prior to September 14, 2023. Many businesses with legitimate ERC claims are depending on the funds to aid in their recovery from the pandemic. While waiting for the IRS to process these claims, businesses have been forced to close, experienced significant financial hardship, or taken out loans that continue to accrue interest.

ANALYSIS

The ERC was designed by Congress as a vital financial lifeline for businesses and exempt organizations during the pandemic. However, this lifeline still remains out of reach for many. As of October 26, 2024, the IRS has yet to process approximately 1.2 million ERC claims, leaving countless businesses and exempt organizations in limbo with no ability to check on the status of their pending claim. These prolonged delays create significant uncertainty and frustration for taxpayers who depend on these funds to stabilize their operations.

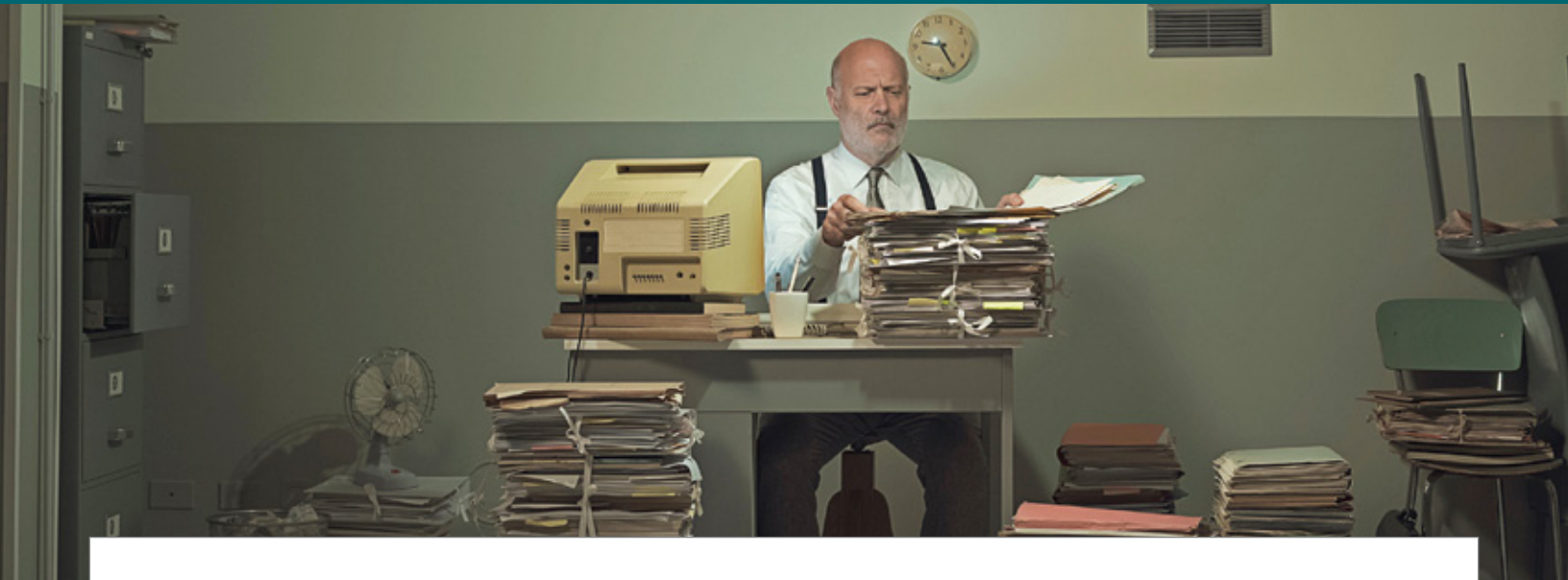
Compounding the problem, the IRS has mishandled key aspects of ERC claim processing. Notices disallowing ERC claims are often unclear and confusing, leaving taxpayers unsure of how to respond or address the issues raised by the IRS. Additionally, the IRS's use of a reverse audit process risks time-barring the issuance of rightful refunds, further undermining taxpayer confidence. The lack of accessible alternative dispute resolution options, such as the Fast Track Settlement process, limits taxpayers' ability to resolve disputes efficiently. When the IRS issues ERC refunds via paper check, some refunds may be stolen from the mail, forcing taxpayers to request replacement checks, which may take several months to receive – an unacceptable delay for businesses relying on these funds.

The IRS must take immediate action to expedite ERC claim processing and establish a fair, transparent, and efficient system for resolving disputes over disallowed or recaptured claims. Taxpayers deserve an IRS process that minimizes delays, provides clear communication, and offers robust options for dispute resolution. By addressing these shortcomings, the IRS can fulfill its mission of providing timely and effective service, ensuring the ERC fulfills its purpose as a crucial financial lifeline.

RECOMMENDATIONS

The National Taxpayer Advocate recommends that the IRS:

1. *Provide transparent training and guidance:* Ensure it provides internal subject matter training and guidance to all IRS employees working on processing, conducting an audit, or in Appeals considering an ERC claim, and post IRS training materials online on IRS.gov within 30 days of issuance to the employees.
2. *Expedite claim processing:* Process all ERC claims filed before January 31, 2024, by April 30, 2025, and claims pending for over six months by July 31, 2025. Processing includes paying the claim, denying the claim, or notifying the taxpayer that the claim is under audit.
3. *Prioritize economic hardship cases:* Process claims from businesses in financial hardship first and then process the remaining claims in the order received.
4. *Lift the moratorium:* Resume processing post-January 31, 2024, claims and process future claims within six months of receipt.
5. *Enhance communication:* Provide regular updates on IRS.gov on the processing of outstanding ERC claims and include specific anticipated timeframes.
6. *Provide clear disallowance explanation:* Provide a detailed factual and legal explanation in Letter 86C as to why the ERC claim disallowance is being upheld and provide the taxpayer more time to submit additional information before referring the case to Appeals.
7. *Request supporting documentation proactively:* When taxpayers have not been subject to an exam, issue a letter allowing taxpayers to send in documentation and seek an appeal prior to the notice of claim disallowance being issued for the ERC.
8. *Track and extend statutes:* In Appeals, track the two-year IRC § 6532 statute cases on ERC claims in inventory and notify taxpayers of this pending statute expiration six months prior to the two-year deadline. Also, provide taxpayers an explanation of the impact of the expiration of the statutory period to file suit and the option of executing Form 907 to extend the statute.
9. *Offer Fast Track:* Allow ERC taxpayers to utilize the Fast Track process.
10. *Enable direct deposit for replacement checks:* Partner with the Bureau of the Fiscal Service to provide taxpayers an option to elect to have funds deposited electronically in lieu of receiving a replacement paper check.



RETURN PROCESSING

Continuing Delays in IRS Return Processing Are Frustrating Taxpayers and Causing Refund Delays

PROBLEM

The primary way hundreds of millions of Americans interact with the IRS every year is through their submission of a tax return. For this reason, Submission Processing is the “bread and butter” of the IRS; the 10,400 employees working in that function are responsible for processing returns, depositing the payments that fund our government, and issuing the refunds upon which families rely. Simply put, without Submission Processing, our economy would grind to a halt. Yet, this crucial function relies on ancient technology and decades-old processes that hinder its ability to work efficiently. The IRS burdens millions of taxpayers each year with issues related to return processing. Taxpayers can experience challenges with rejections of electronically filed (e-filed) returns, slow processing of paper returns, difficulty correcting errors after filing, the glacial pace for processing of amended returns, challenges obtaining information from their online accounts, and confusion responding to notices and letters. With the notable exception of e-filed returns, many submissions still rely on manual IRS processing, which can be time-consuming and costly, and is subject to errors that can create or further exacerbate delays. These types of challenges can lead to delayed refunds and frustrating and slow processes for remedying filing issues, such as proving eligibility for credits and deductions. In addition to the negative impact delayed refunds have on taxpayers waiting to receive them, the IRS must pay interest on overpayments it does not timely refund; while that may be favorable for taxpayers, it is an additional cost to the government. TAS has reported on processing delays among the most serious problems facing taxpayers in the past five Annual Reports to Congress, even before the onset of the COVID-19 pandemic.

ANALYSIS

Although it will be a huge lift, the IRS must undertake a transformative overhaul of its Submission Processing and Accounts Management functions to enhance efficiency, improve the taxpayer experience, and reduce errors. This transformation is essential to fostering compliance and lowering operational costs. By embracing modern technology and replacing outdated practices, the IRS can create a streamlined, secure, and user-friendly tax system that better serves all Americans.

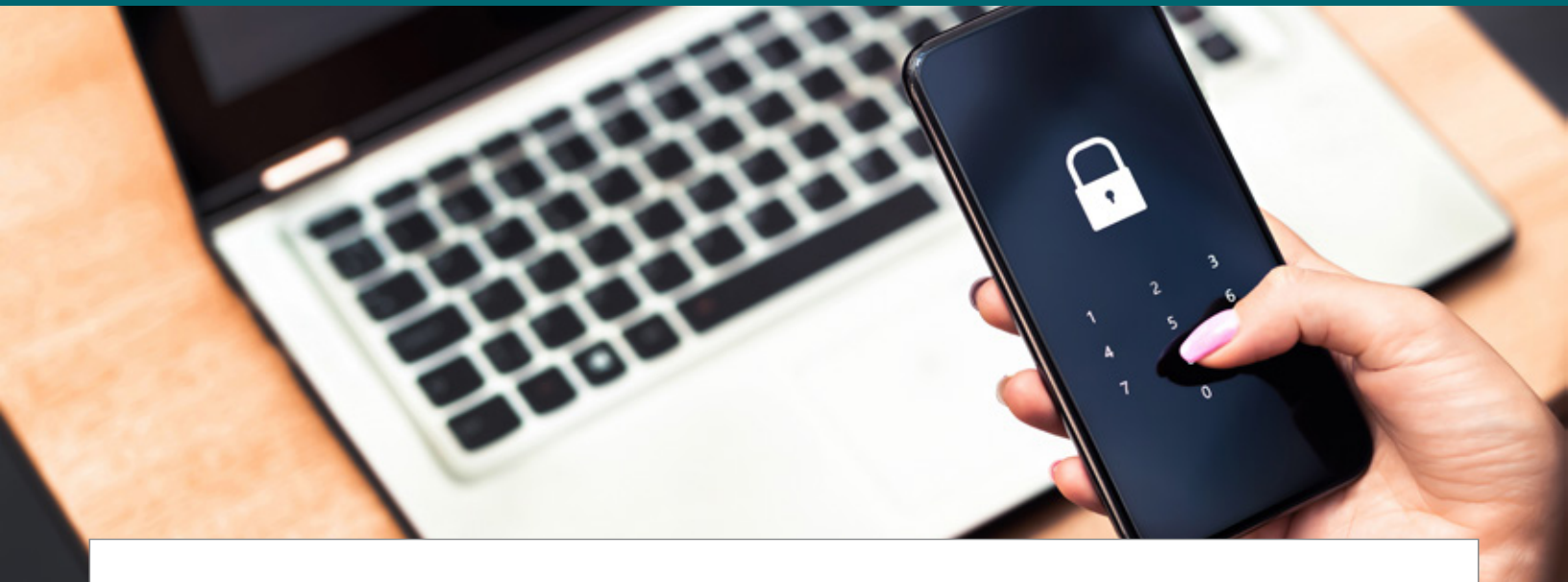
A key component of this modernization effort is improving the IRS's ability to scan and process paper submissions automatically, reducing reliance on manual processes. Increasing the rate of electronic filing (e-filing) is also critical. During the 2024 filing season, over 93 percent of individual taxpayers chose to file electronically, underscoring the demand for e-filing options. However, efforts to combat fraud and correct errors have inadvertently prevented some taxpayers with valid returns from e-filing. To address this, the IRS must leverage tools like individual online accounts (IOLA) integrated with e-filing software. This would revolutionize the e-filing process, allowing for seamless interactions between taxpayers and the IRS while significantly reducing taxpayer burden.

Although the IRS has made progress, such as enabling taxpayers to receive certain notices through IOLA, critical gaps remain. Taxpayers still cannot respond to all notices electronically or receive timely answers to tax questions via digital channels. Expanding digital communication options would align the IRS with industry standards already adopted by many state and national tax authorities. Finally, automating the manual processing of amended returns is crucial to alleviating taxpayer burden. Current delays, such as an average refund processing time of 132 days for Forms 1040-X and 189 days for Forms 1120-X, are unacceptable. Automation would not only reduce these wait times but also improve overall efficiency and taxpayer satisfaction. By committing to this comprehensive modernization effort, the IRS can build a tax administration system that meets the needs of today's taxpayers while setting the foundation for future success.

RECOMMENDATIONS

The National Taxpayer Advocate recommends that the IRS:

1. By the end of Fiscal Year (FY) 2025, ensure Submission Processing's scanning technology captures the same data elements on paper returns as from e-filed returns.
2. Conduct an analysis by the end of FY 2025 to identify the root causes of the missed Program Completion Dates and other business measure targets from Filing Seasons 2023 and 2024 and develop an action plan to meet them for the upcoming filing season.
3. Broaden business rules for e-filed returns to accept submissions where they satisfy the *Beard* test and direct them to an appropriate treatment stream for resolving discrepancies by FY 2027.
4. Work with the Social Security Administration to integrate information return documents available in IOLA with e-filing software by FY 2027 and post it by March 1 each year.
5. Add capabilities that allow taxpayers to respond to notices and letters, including uploading documents within IOLA by (or in) FY 2026, and within TaxPro Account and Business Online Account by FY 2027.
6. Upgrade the Where's My Amended Return? tool to allow international taxpayers to use it for any pending amended returns by FY 2026.
7. Revise Form 1040 to add a box indicating it is an amended return and allow taxpayers to file it electronically by FY 2027.



IDENTITY THEFT

Processing and Refund Delays Are Harming Victims of Tax-Related Identity Theft

PROBLEM

Once again, we are highlighting the challenges for victims of tax-related identity theft as a most serious problem impacting taxpayers. These victims are still experiencing unconscionable delays waiting for the IRS to process their returns and pay their refunds with no immediate resolution in sight. In the 2023 Annual Report to Congress, we pointed out that the IRS's processing times for resolving Identity Theft Victim Assistance (IDTVA) cases as of the end of fiscal year (FY) 2023 was 556 days, nearly 19 months. At the end of FY 2024, the average processing time to resolve IDTVA cases for many victims jumped to 676 days, or over 22 months – *almost two years!* Although the IRS is taking steps to try to reduce processing times and appears to have closed more IDTVA cases, those steps have not yet affected the average processing time, which increased by 120 days from FY 2023 to FY 2024. Tax-related identity theft has been more prevalent, but the IRS's outdated practices and prioritization of other service areas are contributing factors to the unprecedented delays victims experience. Until the IRS prioritizes providing timely resolution in identity theft cases, it will continue to burden victims with significant delays that have real financial consequences.

ANALYSIS

Hundreds of thousands of taxpayers fall victim to tax-related identity theft each year through no fault of their own and are left to navigate a frustrating and prolonged process with the IRS to resolve their tax issues. The pandemic further exacerbated this crisis. Lucrative pandemic-related tax benefits attracted fraudsters, leading to a surge in identity theft case receipts. Compounding the problem, IRS policy decisions that shifted priorities and diluted resources have left victims struggling to obtain timely resolutions.

The IRS's IDTVA program is specifically designed to support these victims, yet its performance has been woefully inadequate. For years, victims have faced unacceptably long delays, with average resolution times reaching 556 days in 2023. Shockingly, this delay increased to an average of 676 days in FY 2024, showing no improvement since this issue was highlighted in our 2023 Annual Report to Congress.

The National Taxpayer Advocate recognizes the challenges the IRS faces in combating illegal activity and appreciates the agency's efforts in addressing fraud. However, these efforts cannot come at the expense of the identity theft victims trapped in the IDTVA backlog, waiting endlessly for resolution and refunds. The IRS must prioritize these taxpayers, ensuring their fundamental rights are protected and their cases are resolved swiftly and fairly. To restore trust and uphold its responsibility to taxpayers, the IRS must focus on addressing and preventing delays, providing meaningful assistance to victims, and ensuring timely service. Victims of identity theft deserve better, and the IRS must take decisive action to deliver the relief they urgently need consistent with their fundamental taxpayer rights.

RECOMMENDATIONS

The National Taxpayer Advocate recommends that the IRS:

1. Prioritize keeping all IDTVA employees working identity theft cases until the average cycle time for resolving IDTVA cases is less than 90 days.
2. Develop and implement an initial screening process for IDTVA cases to timely review tax account information, categorize and prioritize refund cases for assignment to appropriately trained employees, send timely acknowledgement letters, and quickly forward misrouted cases to the correct IRS Business Operating Division/Function when necessary.
3. Upon receipt of a taxpayer's Form 14039, Identity Theft Affidavit, timely acknowledge receipt of the form and communicate estimated timeframes for case resolution. Consider procedures for providing updates while cases are pending under review.
4. Explore technologies, such as automation or artificial intelligence, and develop tools to improve research capabilities and efficiency for IDTVA employees.
5. Establish hardship criteria for expediting IDTVA cases and provide a reliable way for identity theft victims with significant hardships who meet the criteria to notify the IRS to prioritize work assignment.
6. Conduct an analysis of the accuracy of Taxpayer Protection Program filters and models and establish a plan to consistently achieve a false detection rate of 50 percent or less.



IRS SERVICE

Taxpayer Service Is Often Not Timely or Adequate

PROBLEM

When taxpayers need assistance from the IRS to meet their filing and payment obligations, many do not receive the quality service that taxpayers and tax professionals need, leading to delays, frustration, and unnecessary costs. Generally, taxpayers obtain service through IRS phone lines, Taxpayer Assistance Centers (TACs), and IRS online accounts and digital services. When taxpayers and tax professionals cannot get answers to their questions, they experience additional burdens or an inability to resolve their issues, violating their *rights to quality service* and *to be informed*.

ANALYSIS

During fiscal year (FY) 2024, the IRS made commendable strides by using multiyear funding to hire additional customer service representatives (CSRs), maintain the Level of Service (LOS) on its telephone lines, extend TAC hours, and enhance online account functionality. These efforts represent progress, but they fall short of fully addressing taxpayer needs. The IRS must do more to meet the growing demand for responsive, efficient, and accurate taxpayer service.

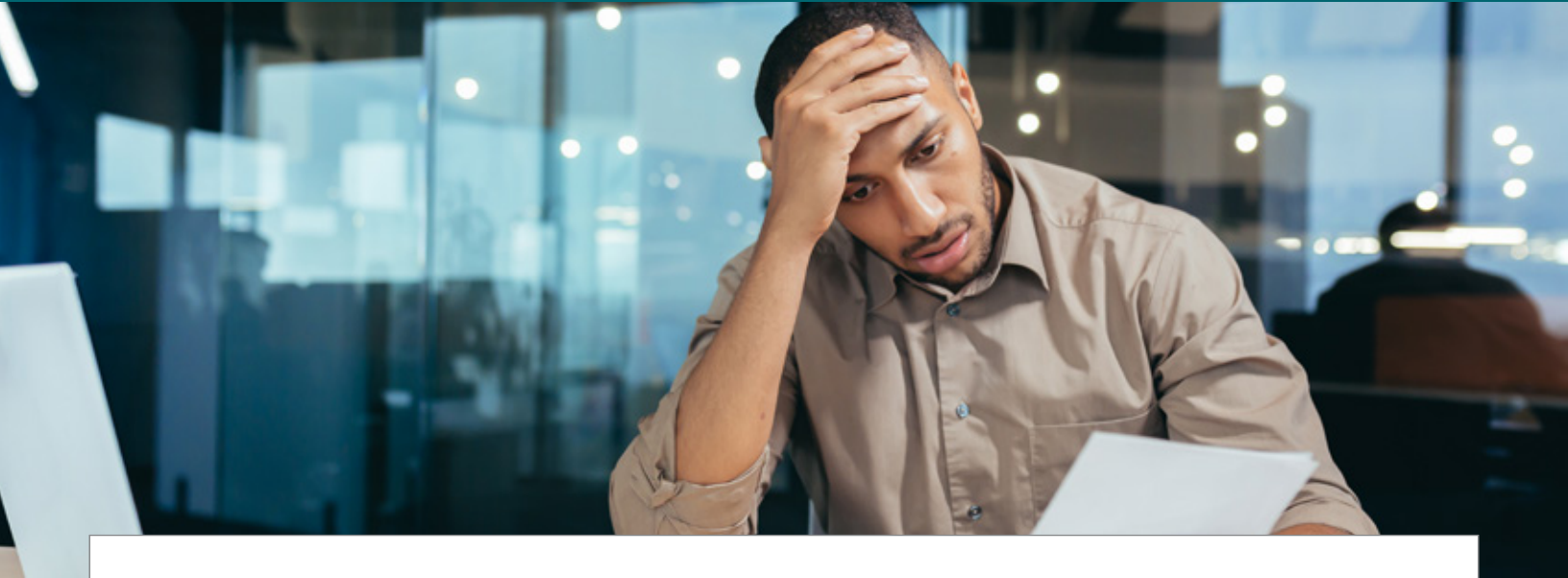
The current LOS calculation, which serves as the primary metric for phone line performance, does not accurately reflect the taxpayer experience. It fails to account for the quality of service provided across all IRS phone lines and overlooks the broader consequences of delayed or inadequate communication, such as processing delays and increased taxpayer frustration. To truly measure its success, the IRS must adopt a more balanced and comprehensive suite of performance metrics that evaluates service across all communication channels, including phone, online accounts, and in-person assistance.

As the IRS continues its transformation, it must prioritize the development of service measures that capture the actual taxpayer experience. These measures should address all points of interaction with taxpayers, from phone calls to digital communication, and ensure that improvements benefit every taxpayer equitably. Only by adopting a taxpayer-centric approach and committing to meaningful performance evaluation can the IRS achieve its mission of delivering exceptional service and earning the trust of the public.

RECOMMENDATIONS

The National Taxpayer Advocate recommends that the IRS:

1. Adopt an alternate measure of service for phones that measures the taxpayer experience, including metrics related to the quality of service provided and whether the IRS resolved the taxpayer's issue, and balance its resources to provide quality service more efficiently by the end of FY 2025.
2. Prioritize staffing and answering phone lines that service the most vulnerable taxpayers, including the Installment Agreement/Balance Due, Taxpayer Protection Program, and Automated Collection System lines.
3. Prioritize the implementation of Taxpayer 360 so CSRs can provide faster, more comprehensive service to taxpayers.
4. Offer expanded access to fully staffed TACs via extended and Saturday hours during the entire year, with more locations, virtual options, and additional Community Assistance Visits.
5. Continue to expand capabilities and functionality of online accounts using stakeholder feedback to provide taxpayers and tax professionals with robust self-service options.
6. On all phone lines, provide useful information during phone wait periods including advertising the availability and benefits of online accounts.



TAX-RELATED SCAMS

More Taxpayers Are Falling Victim to Tax-Related Scams

PROBLEM

Taxpayers face a growing threat. Every year, people from all walks of life fall victim to increasingly complex tax-related scams that are both sophisticated and financially devastating. Scammers use tactics like phishing, IRS impersonation, and promotion of incorrect tax credit claims. Victims often experience shattered financial security, indefinitely frozen IRS refunds, and confusion due to lack of understanding of the process and consequences. The growing sophistication and reach of tax-related scams demands an increasingly robust response from the IRS.

ANALYSIS

The increasing variety, sophistication, and evolving nature of tax scams present a significant challenge for the IRS in detecting improper activity, taking preventative measures, and assisting victims in a timely manner. By the end of fiscal year 2024, approximately 739,000 taxpayers were still waiting for the IRS to unfreeze their refunds due to potential frivolous credits – many of which were likely the result of tax scams or schemes.

In response to the surge of scams spreading across social media, the IRS Commissioner launched a proactive campaign to warn taxpayers about the dangers of falling victim to these schemes. By incorporating scam awareness messaging into speeches, press interviews, and local media appearances, the Commissioner has taken meaningful steps to alert the public to these threats.

While the IRS has prioritized combating tax scams and has taken proactive steps to protect taxpayers, tax professionals, and the integrity of tax administration, this fight requires a united front. Preventing scams and reducing their impact will necessitate the collaboration of tax professionals, industry leaders, other government agencies, and stakeholders as part of a comprehensive anti-scam campaign.

The IRS is addressing two distinct categories of scams. The first category includes *direct tax-related scams*, where taxpayers are misled into claiming ineligible tax credits. These scams, fueled by misinformation on social media, aggressive marketing tactics, and unqualified tax preparers, often lead to frozen refunds, penalties, and taxpayer hardship. The second category involves *indirect tax-related scams*, where fraudsters

manipulate taxpayers into withdrawing significant funds from tax-deferred retirement accounts. Victims of these schemes not only lose their retirement savings but also face substantial tax liabilities and early withdrawal penalties.

The IRS must continue to strengthen its efforts to combat scams, protect taxpayers, and enhance public awareness. By fostering collaboration and adopting innovative strategies, the IRS can safeguard taxpayer rights, ensure the integrity of the tax system, and reduce the devastating impacts of these schemes.

RECOMMENDATIONS

The National Taxpayer Advocate recommends that the IRS:

1. Enhance transparency by creating an online dashboard that provides up-to-date information to taxpayers regarding their tax returns, amended returns, the estimated date on which a taxpayer can expect to receive a refund, and the reason why the IRS suspended its processing of a refund.
2. Implement a policy to promptly mail meaningful plain language written notices to taxpayers affected by refund freezes or delays that clearly explain the problem and the next steps taxpayers must take to resolve the issue.
3. Provide guidance to scam victims on how to treat losses, whether they had a profit motive or not, similar to guidance provided to Ponzi scheme victims.
4. Develop an interactive online tool to help victims correctly report tax-related scams to the IRS.
5. Evaluate whether the IRS can implement appropriate security measures to eliminate concerns regarding access to TikTok or similar websites on federal devices for activities related to scam detection, outreach, and enforcement.
6. Create a specialized Scam Prevention and Victim Assistance Office staffed with employees trained to address issues specific to scam victim assistance and provide administrative remedies within the IRS.

The National Taxpayer Advocate recommends that Congress:

1. Allow the theft loss deduction under IRC § 165(h) of the Tax Cuts and Job Act of 2017 to expire after tax year 2025 so that a taxpayer can claim a theft loss deduction regardless of whether the loss occurred in a federally declared disaster area.
2. Amend IRC § 165(e) to enable taxpayers to deduct the loss in the same year as any associated income inclusion event and amend IRC § 6511 to extend the refund statute of limitations to allow for related refund claims.
3. Amend IRC § 72(t)(2) to create an exception to the ten percent additional tax (the “early withdrawal penalty”) on distributions from qualified tax deferred plans that taxpayers withdrew from because of a scam.
4. Amend Title 31, § 330 of the U.S. Code to authorize the Secretary to establish minimum standards for paid federal tax return preparers.



HIRING

The IRS's Continuing Challenges in Employee Recruitment, Hiring, Training, and Retention Are Hindering Its Ability to Achieve Transformational Change in Taxpayer Service and Tax Administration

PROBLEM

Taxpayers are entitled to quality service and a fair and just tax system under the Taxpayer Bill of Rights. However, due to underinvestment in the IRS and critically low staffing levels over the past decade, taxpayers have faced:

- Prolonged wait times for assistance;
- Delays in processing returns and refunds;
- Reduced access to knowledgeable IRS employees; and
- Inconsistent application of tax laws and increasing errors.

Although Congress provided multiyear funding in 2022 to address these issues, IRS success hinges on its ability to recruit, hire, train, and retain a skilled workforce. With high attrition rates in key divisions, taxpayers risk ongoing poor service and tax administration inefficiencies if these challenges persist. If the IRS fails to strengthen its recruitment, hiring, training, and retention practices, taxpayers may continue to face inadequate service, inefficient tax processing, limited access to knowledgeable IRS representatives, and potential errors in tax administration, resulting in potential harm to filing season services and collection of tax dollars.

ANALYSIS

The IRS continues to face significant challenges in attracting and retaining skilled employees, even with the additional multiyear funding that has supported recent hiring efforts. Addressing these persistent workforce issues requires a fundamental overhaul of the IRS's human capital strategy – an issue the agency itself has acknowledged. While the additional funding has enabled the IRS to meet its hiring goals for roles like customer service representatives, deeper systemic challenges persist.

Attrition threatens to undermine the progress made. An alarming 63 percent of the current IRS workforce will be eligible to retire within the next six years, creating a looming crisis in maintaining a sufficient and skilled employee base. This challenge is already apparent within the Taxpayer Services Division, where attrition rates over the past two years have ranged from 16 percent to 36 percent, depending on the position.

The IRS is aware that it cannot afford to treat these challenges as business as usual. To build a workforce capable of meeting taxpayer needs and fulfilling its mission, the agency must adopt bold and innovative approaches to recruiting, training, and retaining employees. This includes not only offering competitive compensation and career development opportunities but also creating a work environment that attracts the best talent and retains institutional knowledge.

Investing in a robust human capital strategy is essential for the IRS to achieve long-term success. Without immediate action, the agency risks falling behind in its ability to serve taxpayers, enforce compliance, and adapt to an increasingly complex tax landscape. The IRS must prioritize its workforce as the foundation of its mission to deliver world-class taxpayer service.

RECOMMENDATIONS

The National Taxpayer Advocate recommends that the IRS:

1. Revise job descriptions to better reflect the roles and responsibilities of positions.
2. Explore alternative recruitment platforms beyond USAJobs.
3. Study and report on the other pay systems utilized in the executive branch of the federal government and consider whether to petition Congress and OPM to grant the IRS flexibility to operate outside the General Schedule pay scale to offer more competitive salaries for highly specialized positions.
4. Analyze the issue and come up with a plan to reduce the number of acting or vacant IRS senior leader positions, especially in compliance operations.
5. Collect and analyze data from exit and stay interviews to learn why people are leaving or staying and use that data to implement additional retention strategies to address the attrition problem.



INDIVIDUAL TAXPAYER IDENTIFICATION NUMBER PROCESSING

IRS Dependence on Paper Forms and Manual Document Review Is Causing Delays, Mistakes, and Potential Security Risks

PROBLEM

From fiscal years 2020 through 2023, taxpayers filed over a million Individual Taxpayer Identification Number (ITIN) applications each year, asking the IRS to verify their identity and provide them with an ITIN that they need to file their federal tax return. Citing concerns about potential fraud, the IRS has long rejected recommendations to digitalize the ITIN application process, insisting on the use of paper applications and the manual verification of identification documents. The results for taxpayers are long delays in processing times, inconsistent treatment of applications, mistakes by tax examiners that may permanently deprive taxpayers of benefits they qualify for under law, and sometimes the loss or destruction of taxpayer identification documents. The irony for the IRS is that by not modernizing its identity verification processes, the agency risks falling behind in its capacity to detect fraud, as scammers have increasingly greater access to sophisticated image-generating and document-forging technology.

ANALYSIS

All individual taxpayers who need to file returns or other documents with the IRS are required to use a Taxpayer Identification Number. For most, this is a straightforward process using their Social Security number (SSN). However, individuals who are not eligible for an SSN must apply for an ITIN by submitting a paper application along with identification documents to verify their identity.

The IRS's process for verifying identification documents is cumbersome and falls outside its core mission of administering and enforcing tax law. Unlike security-focused agencies such as the Transportation Security Administration, the IRS lacks access to advanced document verification technology. Instead, the IRS relies on outdated, non-digital methods, placing the burden of identity verification on tax examiners who must visually inspect documents for authenticity.

For taxpayers, this outdated system creates significant challenges. The IRS's reliance on paper processing and manual reviews leads to prolonged wait times and unnecessary hardships. For taxpayers needing ITINs, the difficulty in obtaining one can act as a barrier to compliance, preventing them from filing returns and fulfilling their tax obligations. Without an ITIN, these individuals are effectively pushed out of the tax system, creating negative consequences for both the taxpayers and the IRS.

To improve both service and security, the IRS must modernize the ITIN application process. By adopting digital tools and reducing reliance on paper-based systems, the IRS can streamline ITIN processing, enhance the accuracy and efficiency of identity verification, and better serve taxpayers. Modernization is not optional – it is essential to ensuring that all taxpayers, regardless of their circumstances, can fully participate in the tax system.

RECOMMENDATIONS

The National Taxpayer Advocate recommends that the IRS:

1. Incorporate a method to verify government-issued identification documents electronically as part of the ITIN application process.
2. As an incremental step toward allowing e-filing for both ITIN applications and accompanying tax returns, develop a multilingual online tool that guides taxpayers through the ITIN application process and helps them verify whether their supporting documentation will meet IRS requirements.
3. Allow ITIN applications to be processed year-round with proof of a federal tax need, including but not limited to the submission of a federal tax return.
4. Create a systemic fix to prevent ITINs from being deactivated if taxpayers have used them on a federal tax return within the three prior years.
5. Modernize the Real-Time System the IRS uses to process ITIN applications to enhance data quality and management, including a process for logging documents upon receipt.
6. Develop a system for tracking original identification documents, responses to missing document requests, and the actions the IRS has taken to address missing documents.
7. Expand high-quality Certifying Acceptance Agent services, with particular emphasis on communities with high concentrations of ITIN filers who have little access to Taxpayer Assistance Centers or other forms of ITIN application assistance.

The National Taxpayer Advocate recommends that Congress:

1. Authorize the use of Volunteer Income Tax Assistance grant funding to assist taxpayers with applications for ITINs.



TAX AND FINANCIAL LITERACY

Limited Tax and Financial Knowledge Is Causing Serious Consequences for Taxpayers

PROBLEM

Insufficient knowledge about taxes leads to serious consequences for taxpayers. It can cause taxpayers to make mistakes on their taxes, which can have significant costs for those who fail to claim benefits for which they are eligible and for those who claim benefits they should not. Limited tax literacy imposes a variety of other costs that burden taxpayers, resulting in compliance costs and lost revenue for the government. Further, the consequences are not just tax related. Tax literacy is a key component of financial literacy, and insufficient tax knowledge can lead to a range of financial and related consequences that negatively affect individuals, families, and small businesses.

ANALYSIS

Limited tax and financial literacy is a critical issue in the United States, with many Americans lacking a clear understanding of taxes and the U.S. tax system. The complexity of the tax code and system makes it an overwhelming subject for many, yet this knowledge is essential to ensuring taxpayers can exercise their fundamental *rights to be informed* and *to pay no more than the correct amount of tax*. Without a basic understanding of tax laws, taxpayers risk making decisions without fully grasping the consequences, which can lead to errors, financial hardship, and missed opportunities for relief or benefits.

The burden of navigating the tax system, both in terms of cost and time, can also undermine policies designed to provide financial support to taxpayers. Tax literacy is inseparable from financial literacy, as the two intersect in everyday decisions such as household budgeting, retirement planning, education financing, homeownership, and entrepreneurship. These decisions often have significant tax implications, making a solid foundation in tax literacy critical for financial well-being.

While the IRS has made efforts to promote tax literacy in specific areas, more must be done to prioritize widespread education. Expanding initiatives to improve tax and financial literacy and increasing public awareness about the impact of tax dollars are vital components of providing quality service. A well-informed

taxpayer base not only fosters trust in the tax system but also empowers individuals to make informed decisions that improve their financial stability. By committing to advancing tax and financial literacy, the IRS can uphold its mission to serve taxpayers effectively while supporting their rights and financial success.

RECOMMENDATIONS

The National Taxpayer Advocate recommends that the IRS:

1. Develop a strategic plan to improve tax literacy among U.S. taxpayers, which should include the establishment of a task force with public and private stakeholders. The plan should include:
 - a. Developing standardized metrics for measuring tax literacy and regularly conducting surveys to evaluate tax literacy among specific types of taxpayers.
 - b. Identifying metrics to gauge the success of tax literacy outreach efforts.
 - c. Identifying opportunities to seek input from stakeholders and the public.
 - d. Creating customized tax literacy outreach, including for platforms inside and outside IRS.gov, for specific types of taxpayers and their individual circumstances.
 - e. Identifying and implementing strategies to partner with state agencies (including state departments of revenue, secretaries of state, and state treasurers) to develop and provide accessible tax education at key moments during the lives of individuals and families and the lifecycles of businesses.
 - f. Developing accessible tax education materials in consultation with tax preparer communities, including enrolled agents, Volunteer Income Tax Assistance/Tax Counseling for the Elderly programs, and software providers, to integrate into their existing communications with taxpayers.
 - g. Developing tax education materials targeted to vulnerable populations including the elderly, immigrants, individuals with disabilities, and low-income taxpayers.
2. Develop tax education materials that states can incorporate into 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.
3. Partner with federal agencies (including the Social Security Administration, the Department of Education, the Department of Labor, and the Department of Health and Human Services) and state agencies, in coordination with Recommendation 1.e., to provide IRS tax education materials at key moments during the lives of individuals and families and the lifecycles of businesses and to incorporate tax literacy content into financial literacy programming across federal 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.

The National Taxpayer Advocate recommends that Congress:

1. Consider amending 20 U.S.C. § 9703 to include the promotion of tax literacy among the duties of the Financial Literacy and Education Commission or creating a similar multi-agency commission focused on tax literacy.
2. Amend IRC § 7523 to require the IRS to develop, post on IRS.gov, and update at least annually, graphics that present information on government revenue and spending in an accessible way that uses interactive data visualization to provide taxpayers with an understanding of the U.S. tax system and require the IRS to publicize the availability of this information.



CIVIL PENALTY ADMINISTRATION

The IRS's Administration of Penalties Is Often Unfair, Is Inconsistently Deterring Improper Behavior, Is Not Promoting Efficient Administration, and Thus Is Discouraging Tax Compliance

PROBLEM

During fiscal year 2023, the IRS assessed almost 46 million civil penalties totaling almost \$66 billion against taxpayers. Some of these penalties are immense, causing the total tax liability including penalties and interest to be life-changing and even insurmountable for some taxpayers. Taxpayers may not understand why the IRS penalized them or their right to provide defenses such as reasonable cause to excuse their noncompliance. The IRS often does not timely consider their defenses. In the case of assessable penalties, the IRS does not provide taxpayers the right to have their defenses considered prior to assessment, causing harm and downstream consequences to both taxpayers and the IRS. These taxpayers must attempt to undo the penalty assessment that the IRS often should not have made. The use of penalties should encourage tax compliance while also discouraging intentional or reckless noncompliance. Though penalties are a necessary tool, the IRS does not always administer them according to its own policies or in a fair and consistent manner, which harms taxpayers and erodes their confidence in the U.S. tax system.

ANALYSIS

The IRS administers nearly 200 tax penalties, and while the penalties themselves are established by law and subject to Congressional reform, their administration is solely the IRS's responsibility. Unfortunately, the IRS's current approach to penalty administration often fails to encourage compliance and, in some cases, actively undermines it. By not adhering to procedural penalty laws, the IRS violates fundamental taxpayer rights, including the *rights to be informed, to pay no more than the correct amount of tax, and to a fair and just tax system*.

The IRS's "assess first, ask questions later" approach to penalties – particularly International Information Return (IIR) penalties – is fundamentally unfair and counterproductive. The current culture presumes penalties apply unless taxpayers can prove otherwise, creating a system that feels like "guilty until proven innocent." This approach places an undue burden on taxpayers, causing stress, consuming significant time and resources, and discouraging compliance. It is also inefficient for the IRS, draining its limited resources without

effectively fostering tax compliance. The IRS must overhaul its penalty policies and culture. A modernized approach to penalty administration should prioritize compliance through education and support rather than fear and confusion. Penalties should be applied consistently, fairly, and transparently, with a clear focus on ensuring taxpayers understand their obligations and have a fair opportunity to address concerns. By shifting its penalty practices to prioritize fairness and effectiveness, the IRS can better uphold taxpayer rights, improve compliance rates, and allocate its resources more efficiently. This change is essential to restoring trust in the tax system and fostering trust between the IRS and taxpayers.

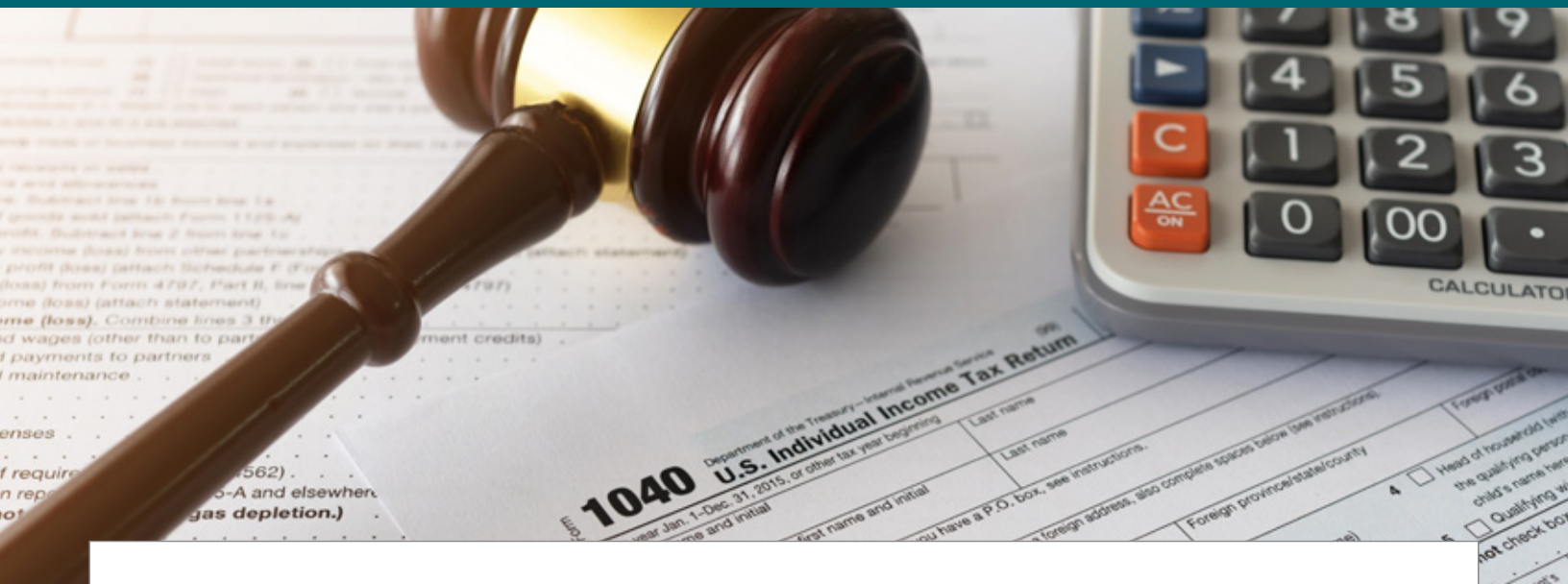
RECOMMENDATIONS

The National Taxpayer Advocate recommends that the IRS:

1. Create a task force consisting of IRS, other Treasury Department personnel, and stakeholders to study the current tax penalties regime and make administrative and legislative recommendations to ensure penalties are applied more fairly and consistently for the purpose of improving tax compliance.
2. Consider establishing civil voluntary disclosure programs to encourage voluntary and future compliance for emerging issues such as digital assets.
3. Conduct a thorough review of all penalty notices issued to taxpayers to determine whether they comply with IRC § 6751(a) and develop procedures to ensure that all penalty notices comply with IRC § 6751(a) along with remedial procedures for those that do not.
4. Stop the automatic assessment of all IIR penalties prior to considering the taxpayer's specific facts and circumstances, including providing taxpayers their appeal rights with Appeals.
5. Update the Internal Revenue Manual to require review of any reasonable cause relief requests before assessing penalties including exploring an option to check a box on the return if the taxpayer attaches a reasonable cause statement.
6. Extend eligibility for first-time abatement administrative relief to estimated tax penalties under IRC §§ 6654 and 6655 and to any other penalties automatically assessed through electronic means.

The National Taxpayer Advocate recommends that Congress:

1. Amend IRC § 6751(b)(1) to clarify that no penalty under Title 26 shall be assessed or entered in a final judicial decision unless the penalty is personally approved (in writing) by the immediate supervisor of the individual making such determination or such higher level official as the Secretary may designate, prior to the first time the IRS sends a written communication to the taxpayer proposing the penalty as an adjustment.
2. Amend IRC § 6751(b)(2)(B) to clarify that the exception for "other penalties automatically calculated through electronic means" does not apply to the penalty for negligence or disregard of rules of regulations under IRC § 6662(b)(1).
3. Amend IRC § 6212 to require the Secretary to establish procedures to send a notice of IIR penalties to the taxpayer by certified mail or registered mail for adjudication with the U.S. Tax Court prior to assessing any IIR penalty or other IIR penalty listed in Chapter 61, Subchapter A, Part III, Subpart A of the IRC.



CRIMINAL VOLUNTARY DISCLOSURE

Changes to the IRS's Criminal Voluntary Disclosure Practice Requirements May Be Reducing Voluntary Compliance and Negatively Impacting the Tax Gap

PROBLEM

Some of the most severe and potentially life-altering tax penalties are in the criminal arena. Taxpayers who are caught filing false or fraudulent returns or failing to file altogether can face extremely high penalties. These penalties can be far more severe than civil penalties and lead to criminal prosecution. In addition to the financial burden, they can result in the loss of civil rights, the potential for asset forfeiture, and even imprisonment. This makes the stakes particularly high for taxpayers who are noncompliant.

To mitigate the impact of severe penalties and encourage noncompliant taxpayers to come forward, the IRS has established voluntary disclosure programs. These programs offer the possibility of reduced penalties for taxpayers who voluntarily disclose their noncompliance. Often, these taxpayers are ones the IRS would not find on its own and include some taxpayers living “under the radar” as they have failed to file returns that might alert the IRS to their existence.

While the IRS has had a criminal voluntary disclosure practice (VDP) for decades, the VDP in its current form is not working as effectively as intended and the IRS's inability to track the progress of the VDP program makes it nearly impossible to determine its effectiveness. Lack of enthusiasm for the program is partly due to recent changes the IRS has implemented that have made taxpayers and tax professionals wary of using the program and many professionals uncomfortable recommending it to taxpayers. The changes have made the program less accessible and effective, which discourages taxpayers from participating. As a result, fewer taxpayers are coming forward, and the program is failing to achieve its goal of encouraging voluntary compliance. When taxpayers perceive penalties for noncompliance as too severe, they may not come forward, thus creating a paradox where taxpayers are so fearful of the consequences that they may avoid coming into compliance altogether.

ANALYSIS

Voluntary disclosure programs are essential tools for encouraging noncompliant taxpayers to step forward, address their past noncompliance, and fulfill their tax obligations. The IRS's criminal VDP offers taxpayers who may face criminal exposure a structured path to compliance, allowing them to pay overdue taxes and

potentially avoid prosecution. These programs are powerful mechanisms for closing the tax gap, fostering long-term compliance, and bringing additional revenue into the public fisc. However, the current structure of the IRS's VDP significantly undermines its effectiveness. Recent changes to the program – particularly those made in 2018 and 2024 – have increased its complexity, raised burdens on participants, and reduced its appeal to taxpayers. As a result, many tax practitioners are reluctant to recommend the program, and taxpayers who might otherwise come forward remain hesitant due to fear, uncertainty, and perceived inequities.

To fulfill its potential, the VDP must be reformed to reduce these barriers and create a clear, fair pathway to compliance. A well-designed program should address taxpayer concerns, minimize unnecessary burdens, and focus on achieving future compliance rather than instilling fear of the program. A transparent program would better serve taxpayers by providing a fair pathway for compliance that may encourage more taxpayers to come forward, ensuring that they can meet their obligations while helping to close the tax gap and strengthen trust in the tax system.

By making the VDP more accessible the IRS can achieve its dual goals of fostering voluntary compliance and promoting fairness. Reforming the program is not only a matter of improving taxpayer service but also a critical step toward building a stronger, more efficient, and equitable tax system.

RECOMMENDATIONS

The National Taxpayer Advocate recommends that the IRS:

1. Convene a working group with stakeholders to include tax practitioners, tax policy experts, and others to comprehensively review the current VDP and provide recommendations for reforming the program to make it more accessible and fair, and recommend narrowing the definition of illegal source income to the extent possible to encourage greater participation in the VDP and clarifying other terms such as non-willful.
2. Review the current VDP structure to determine whether the penalty structure is deterring participation in the VDP and reconsider the 75 percent civil fraud penalty with the goal of encouraging noncompliant taxpayers to enter the program without discouraging compliant taxpayers from remaining in compliance (similar to pre-2018 Internal Revenue Manual 9.5.11.9, Voluntary Disclosure Practice).
3. Revise Form 14457 to eliminate the willfulness checkbox requirement for VDP.
4. Provide flexible payment options and allow taxpayers to enter alternative payment options, including partial payment installment agreements and offers in compromise, when they establish that they cannot full pay all tax, penalties, and interest.
5. Extend appeals rights to VDP participants who disagree with positions taken by the civil examination agent.
6. Evaluate shifting the internal ownership of the VDP after acceptance from the IRS's Criminal Investigation Division to the Tax Compliance Office to ensure the program's administration focuses on compliance and taxpayer support rather than criminal enforcement.
7. Consider establishing other civil disclosure programs to encourage voluntary and future compliance for emerging issues such as digital assets where noncompliance may not rise to the level of criminal fraud.
8. Begin collecting robust data on VDP participation to measure program effectiveness that includes at minimum the amount of money collected through the VDP.
9. Introduce mechanisms for tracking taxpayer compliance after taxpayers complete the VDP process to ensure that the program is contributing to long-term compliance.



MOST LITIGATED ISSUES

IRC § 7803(c)(2)(B)(ii)(XI) requires the National Taxpayer Advocate to identify the ten tax issues most litigated in federal courts and provide recommendations to mitigate litigation in her Annual Report to Congress. To determine the top ten Most Litigated Issues, TAS used commercial legal research databases to identify and review published opinions involving a substantive civil tax issue decided on the merits in federal courts during the fiscal year (FY) 2024 period from October 1, 2023, through September 30, 2024 (the reporting period). We also reviewed the issued statutory notices of deficiency regarding which petitions taxpayers filed with the Tax Court during the same period.

Our analysis identified 414 court opinions, with 174 opinions issued by the Tax Court. We also reviewed 240 court opinions from other federal courts, including U.S. district courts, U.S. Courts of Appeals, U.S. Court of Federal Claims, U.S. Bankruptcy Courts, and the U.S. Supreme Court. The total number of opinions represents a 15 percent decrease from the 488 cases we identified last year. The second part of our analysis reviewed 16,117 petitions submitted by taxpayers in FY 2024 seeking judicial review in the Tax Court. We identified the issues appearing most frequently, using data provided by the IRS Independent Office of Appeals (Appeals). Only a small fraction of petitions results in a trial or court ruling on the merits. Of the 23,280 cases closed in the Tax Court in FY 2024, 23,095 cases, or more than 99 percent, were resolved due to a default or settlement without a ruling on the merits.

The top ten litigated issues decided by the Tax Court in FY 2024, separated by individual and business taxpayers, in order from most to least, are shown in Figures 3.1 and 3.2. Tax Court cases involving individual taxpayers (95 cases) outnumbered business taxpayers (79 cases).

FIGURE 3.1, Top Tax Court Opinions Issued for Individual Taxpayers, FY 2024

Ranking	Issue Category	Tax Court Opinions Discussing Issue
1	Gross Income (IRC § 61 and Related IRC Sections) and Unreported/Underreported Income	18
2	Innocent Spouse Relief (IRC § 6015)	10
3	Deadline for Filing a Petition in Tax Court (IRC §§ 6213(a), 6015(e))	7
4	Whistleblower Award Determinations (IRC § 7623(b)(1))	6
5	Adjusted Gross Income (AGI) Exclusions and Deductions	5 (tie)
6	Schedule A Deductions (Excluding IRC § 170)	5 (tie)
7	Failure-to-File Penalty (IRC § 6651(a)(1)), Failure-to-Pay Penalty (IRC § 6651(a)(2)), and Failure-to-Pay Estimated Tax Penalty (IRC § 6654)	3
8	Foreign Earned Income Exclusion (FEIE) (IRC § 911)	2 (tie)
9	Gift Tax (IRC § 2501)	2 (tie)
10	Limitations on Assessment Period (IRC § 6501)	2 (tie)
11	Ten Percent Additional Tax on Early Distributions From Qualified Retirement Plans (IRC § 72(t))	2 (tie)

FIGURE 3.2, Top Tax Court Opinions Issued for Business Taxpayers, FY 2024

Ranking	Issue Category	Tax Court Opinions Discussing Issue
1	Schedule C Income and Expenses	29
2	Corporate Income (Excluding Cost of Goods Sold) or Expenses	12
3	Charitable Contribution Deductions (IRC § 170)	9 (tie)
4	Failure-to-File Penalty (IRC § 6651(a)(1)), Failure-to-Pay Penalty (IRC § 6651(a)(2)), and Failure-to-Pay Estimated Tax Penalty (IRC § 6654)	9 (tie)
5	Partnership Income (Excluding Cost of Goods Sold) or Expenses	9 (tie)
6	Gross Income (IRC § 61 and Related IRC Sections)	7 (tie)
7	Schedule K-1 Flow-Through Items for Forms 1120-S and 1065	7 (tie)
8	Schedule A Deductions (Excluding IRC § 170)	5
9	Microcaptive Insurance Agreements (IRC § 832(b))	3 (tie)
10	Passive Activity (Schedule E) Income and Expenses	3 (tie)

The top ten issues petitioned to the Tax Court in FY 2024, separated by individual and business taxpayers, in order from most to least, are shown in Figures 3.3 and 3.4.

FIGURE 3.3, Top Ten Individual Taxpayer Issues Petitioned to the Tax Court, FY 2024

Ranking	Issue Category	Total Petitions to Tax Court
1	Gross Income (IRC § 61 and Related IRC Sections)	13,986
2	Statutory Adjustment	4,121
3	Filing Status and Dependents	1,537
4	Family Status Related Credits	1,247
5	Payments and Credits	1,207
6	Earned Income Tax Credit (EITC)	1,181
7	AGI Exclusions and Deductions	1,089
8	Federal Income Tax Withholding	769
9	Schedule A Itemized Deductions (Excluding IRC § 170)	628
10	Charitable Contributions	358

FIGURE 3.4, Top Ten Business Taxpayer Issues Petitioned to the Tax Court, FY 2024

Ranking	Issue Category	Total Petitions to Tax Court
1	Sole Proprietorship Trade or Business Expense	1,625
2	Sole Proprietorship Gross Income	1,009
3	Passive Activity (Schedule E) Income and Expenses	802
4	Payments and Other Credits	694
5	Corporate or Partnership Trade or Business Expense	436
6	Corporate or Partnership Gross Income	309
7	Employment Tax Issues	84
8	Schedule K-1 Flow Through Items	82
9	Balance Sheet – Assets	42
10	Balance Sheet – Stockholder Equity	37

At the end of FY 2024, approximately 63 percent of pending Tax Court cases involved less than \$50,000 at stake. However, about three percent of all docketed cases represented over 85 percent of all dollars in dispute. Historically, the Tax Court handles the overwhelming majority of cases, but tax litigation in the district courts and the Court of Federal Claims often involves larger amounts at issue. However, amounts at stake in the Tax Court rose sharply in FYs 2022-2024, roughly doubling the average in the prior eight years. In FY 2024, 75.8 percent of the Tax Court cases were settled, while 23.4 percent were dismissed or defaulted, and only 0.8 percent went to trial. Of the 17,659 cases settled in FY 2024, 11,720 were settled by Appeals and 5,939 by the IRS Office of Chief Counsel. In FY 2024, about 89 percent of taxpayers petitioning the Tax Court were unrepresented by counsel and about 11 percent were represented. Over the past decade, an average of about 85 percent of taxpayers in Tax Court were not represented by counsel.

Most Tax Court cases continue to stem from correspondence and automated underreporter audits from IRS campuses. From FY 2023 to FY 2024, filings arising from Campus cases and unreported cases declined, while cases arising from field examinations saw a slight increase and cases from Appeals remained steady. Petitions from Statutory Notices of Deficiency issued on Campus cases saw the largest real decrease, with about 800 fewer petitions compared to last year. This is an area that the IRS should focus on to resolve more issues administratively, minimizing the need to incur the time and expense of litigation. Assuming there is sufficient time remaining on the assessment statute, the IRS should consider providing more follow-up correspondence and additional time to respond prior to the issuance of the Statutory Notice of Deficiency.

As required under IRC § 7803(c)(2)(B)(ii)(XI), the National Taxpayer Advocate has provided recommendations to reduce disputes and mitigate litigation. For a further discussion of these recommendations, see National Taxpayer Advocate 2025 Purple Book, *Compilation of Legislative Recommendations to Strengthen Taxpayer Rights and Improve Tax Administration*.



TAS ADVOCACY

TAS is an independent organization within the IRS that serves as the advocacy ombuds for taxpayers. TAS operates around central statutorily mandated objectives:

- To assist taxpayers in resolving problems with the IRS;
- To identify areas in which taxpayers are experiencing problems with the IRS;
- To advocate for and propose changes in the administrative practices of the IRS to mitigate problems taxpayers are experiencing with the IRS; and
- To identify and propose potential legislative changes that may be appropriate to mitigate such problems.

Additionally, TAS administers the Low Income Taxpayer Clinic grant program and oversees the Taxpayer Advocacy Panel. In this section, TAS provides updates on how we advocated for taxpayers (individually and systemically) in fiscal year (FY) 2024.

TAS CASE ADVOCACY

Central to the mission of TAS is protecting taxpayer rights and assisting taxpayers (*e.g.*, individuals, business owners, and exempt entities) when they have issues resolving problems with the IRS. To accomplish this mission, our Case Advocates and Intake Advocates most often work one-on-one with taxpayers, their representatives, and congressional staff to resolve specific tax issues. TAS also uses information gleaned from the problems we see in individual cases to inform and support two other components of TAS's statutory mission – to advocate for and propose changes in the IRS's administrative practices and to identify and propose potential legislative changes to relieve taxpayer problems.

TAS SYSTEMIC ADVOCACY

While TAS Case Advocacy focuses on work with taxpayers or their representatives to resolve their specific problems with the IRS, TAS Systemic Advocacy has responsibility to address systemic problems that affect multiple taxpayers. Systemic Advocacy identifies, studies, and seeks to resolve problems, both reactively and proactively, that affect groups of taxpayers, including problems that affect individuals, businesses, or both. These systemic issues can involve systems, processes, policies, procedures, or legislation and may require

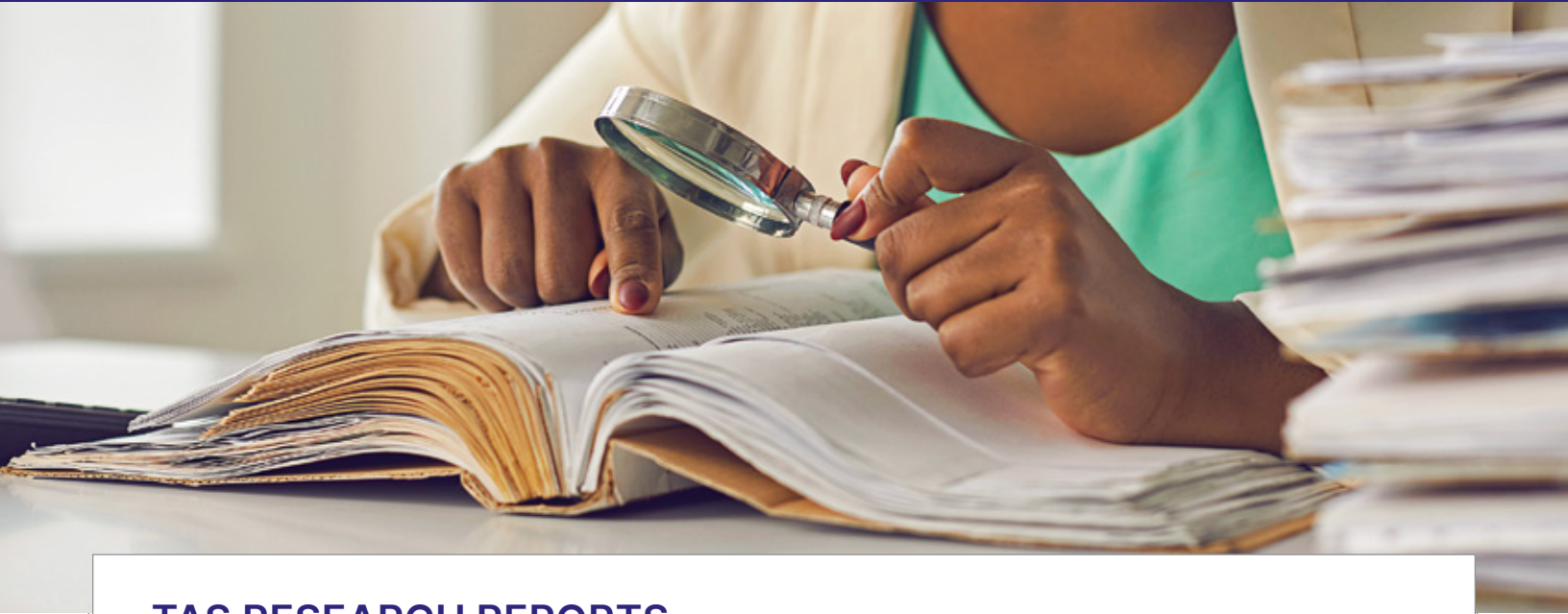
advocating for recommendations for administrative solutions to the IRS or legislative changes to Congress. Systemic issues involve protecting taxpayer rights, reducing or preventing taxpayer burden, striving to ensure equitable treatment of taxpayers, or providing essential services to taxpayers.

Systemic Advocacy does not limit itself to a single approach in its advocacy work for taxpayers. For example, Systemic Advocacy collaborates with TAS Case Advocacy to elevate trends identified through reviews of TAS casework and outreach events. This collaboration is critical to TAS's advocacy work as it looks at taxpayer service holistically to find and propose recommendations to resolve problems.

TAXPAYER ADVOCATE DIRECTIVES

A Taxpayer Advocate Directive (TAD) is a mechanism the National Taxpayer Advocate uses to formally raise systemic issues to IRS officials, requesting that they address her concerns and implement improvements to processes that affect taxpayer rights. IRS Delegation Order 13-3 authorizes the National Taxpayer Advocate to issue a TAD “to mandate administrative or procedural changes to improve the operation of a functional process or to grant relief to groups of taxpayers (or all taxpayers) when implementation will protect the rights of taxpayers, prevent undue burden, ensure equitable treatment, or provide an essential service to taxpayers.”

The National Taxpayer Advocate did not issue any TADs in FY 2024. However, she did issue one proposed TAD on July 5, 2024, to the Deputy Commissioner urging the IRS to significantly change the current Employee Retention Credit claim processing, lift the moratorium, and provide greater public transparency over the process.



TAS RESEARCH REPORTS

Some Legitimate Taxpayers Did Not Receive a Tax Year 2020 Refund Because They Did Not Respond to an IRS Letter Requesting Identity Verification

Each year, a few million refund returns trigger an IRS fraud filter, and these returns are set aside while the IRS awaits verification of the taxpayer's identity. One of the challenges the impacted taxpayers face is that the IRS only issues one letter notifying the taxpayers of the need to authenticate, with no subsequent follow-up. Beginning in 2024, the IRS updated Where's My Refund? messaging to reflect return delay and the need for identity verification. Although the need to verify information before receiving a frozen refund is now noted on a taxpayer's IRS Online Account, only a small percentage of taxpayers have these accounts.

Last year, in conjunction with the National Taxpayer Advocate 2023 Annual Report to Congress, TAS published an online report describing a research project in which TAS contacted taxpayers likely eligible to receive their frozen tax year (TY) 2020 refunds. As indicated, IRS procedures only require one letter notifying the taxpayers of the need to authenticate their identity before the IRS will release their refund. Many of these refunds remained frozen because the taxpayers had not authenticated their identity with the IRS. In December 2023, TAS sent its first letter offering to help a sample of taxpayers likely eligible to receive their TY 2020 tax refund with navigating the IRS identity authentication process. TAS sent a follow-up letter in early January 2024 to the same taxpayers, repeating its offer of assistance. The TAS offer of assistance did not circumvent the necessity of the taxpayer authenticating their identity with the IRS but served as a reminder of the authentication requirement and offered to assist taxpayers with the authentication process.

TAS believes many legitimate taxpayers may be entitled to their frozen refunds, even though they have not yet authenticated their identity with the IRS. Once the IRS selects a return as potentially being submitted by an identity thief, the taxpayer must authenticate their identity before the IRS will process the return. While IRS procedures only require it to send one letter notifying taxpayers of the need to authenticate their identity, a recent study conducted by TAS and the IRS Refund Integrity Compliance Services (RICS) office, which explored why many taxpayers often delay authenticating, found that many taxpayers reported never receiving the IRS letter requesting they authenticate their identity.

The TAS outreach study discussed in this report explored the effect of sending subsequent letters to a sample of potentially legitimate taxpayers who were likely entitled to their claimed refunds even though they had not authenticated their identity with the IRS in the past three years. The letters offered TAS assistance to taxpayers needing to authenticate their identity to receive their TY 2020 refund, which remained frozen by the IRS. TAS tracked both the number of respondents and whether the taxpayer could successfully verify their identity and tax return information as well as the number of taxpayers who successfully authenticated their identity directly with the IRS after receiving the TAS letter.

Our outreach study determined that over seven percent of sampled taxpayers were able to work with TAS or the IRS to successfully authenticate their identity, about 2.3 times the authentication rate of taxpayers from a control group not receiving the TAS outreach letter, where we observed a 3.1 percent authentication rate. Respondents in the study received over \$3.8 million in released refunds, and the IRS may release up to \$122,000 in additional refunds to taxpayers who contacted TAS but whose TAS case remains open.

RECOMMENDATIONS

The National Taxpayer Advocate recommends that the IRS:

1. Provide a second follow-up letter approximately 30 to 60 days later if the taxpayer has not yet responded and authenticated, notifying the taxpayer that they must authenticate their identity before the IRS can release their claimed refund.
2. When the IRS releases a refund for the current year and there are still frozen refunds for prior years, resend a notice to the taxpayer that they still need to authenticate their identity for the prior year. Taxpayers should receive this letter as close as possible to the filing date of the current year return.
3. Perform additional research on taxpayers, particularly those with lower incomes, who had their refund released much later with the goal of reducing the false detection rate for identity theft filters and to improve administrative processes around identity authentication.

Improving IRS Telephone Service: A Review of Best Practice Processes and Measures Used by Large Government and Private Sector Call Centers

The National Taxpayer Advocate has included IRS telephone operations as one of the ten Most Serious Problems facing taxpayers since 2020. To its credit, the IRS improved its primary measure – Level of Service (LOS) – on its Accounts Management (AM) phone lines during the 2023 and 2024 filing seasons, setting and achieving its goal of at least an 85 percent LOS. However, the LOS metric is an imperfect, incomplete measure of the service the IRS provides to taxpayers calling for assistance. The IRS has also expanded its online services to taxpayers by developing individual and business online accounts. The expansion of online services provides informative content on a variety of tax topics, allows taxpayers to check the status of their refunds or review their account, and makes it easier to get copies of tax returns and account transcripts, all of which should reduce the number of taxpayers who must call the IRS. Nevertheless, tens of millions of taxpayers continue to call the IRS each year.

The IRS receives approximately 100 million calls each year. It uses an enterprise of phone lines to provide service to taxpayers on a variety of issues, including tax law, compliance services, and other specialty topics. This report compares the telephone processes and metrics of the IRS with other public and private entities, including state and national governmental agencies that receive large call volumes. The goal of this comparison is to recommend metrics and processes that may improve IRS telephone operations.

Although the IRS has increased the likelihood of taxpayers having their calls answered during the filing season, practitioner complaints about IRS telephone service dominated the Town Halls that the National Taxpayer Advocate held at the 2024 IRS Nationwide Tax Forums during the summer. When the IRS provides better service during the filing season (late January to mid-April), it is more likely to receive tax returns with fewer errors. However, taxpayers who have something wrong with their return after the filing season face difficulty reaching the IRS to resolve the problem. For example, in fiscal year (FY) 2024, IRS customer service representatives (CSRs) answered 32.1 percent of the calls it received during the filing season and only 24.4 percent of the calls it received after the filing season through September 30, 2024; the wait time for a CSR to answer more than tripled, increasing from 3.4 minutes to 12.6 minutes. This is understandable as CSRs wear multiple hats and juggle work from answering telephones to processing correspondence to making account adjustments. That said, the challenge the IRS faces involves allocating its resources to properly adjust and provide taxpayers and practitioners with the quality service to which they are entitled across multiple channels (telephones, online services, and in-person).

As mentioned, the IRS uses LOS as a primary metric to evaluate its telephone operations. LOS measures how many calls the IRS answers, but this measure is somewhat misleading. During the 2024 filing season, the IRS LOS on its AM lines was 87.6 percent, even though live assistants answered only 32.1 percent of the calls they received. The primary reason for this discrepancy is that the IRS does not include calls that drop off before it places the caller in a queue for a live assistant, which impacts its LOS calculation.

We found that public or private entities typically do not use LOS or variations of this metric. Of the entities we reviewed, the IRS was the only one using this specific metric. Other incoming call center operations often measured aspects of the IRS's LOS measure including calls answered, call abandon rate, and callers receiving a busy signal. Both the IRS and other entities included metrics on the time spent answering an inquiry; the wait time before a representative answers a call, which the IRS refers to as the average speed of answer; the percent of calls transferred; and other metrics such as handle and wrap time. Like other entities, the IRS uses customer

satisfaction surveys to gauge taxpayer sentiment for its telephone service; however, the number of respondents is much lower for the IRS than for other entities. Additionally, we found that many entities track if the caller's first call resolves the issue, but the IRS does not currently track this metric.

In terms of alternate forms of service, the IRS is lagging technologically as it has yet to implement live chat functionality, which many other entities are using. However, the IRS is working to implement this technology when expanding its web services, which could decrease incoming call volumes and allow it to answer more taxpayer inquiries.

Significant conclusions from our study include:

- IRS incoming call volumes significantly exceed the volumes of other entities studied, even considering large national agencies like the Social Security Administration or the Department of Veterans Affairs.
- The IRS answers a smaller percentage of calls than the 80 percent standard of most public entities, and it generally answers a smaller percentage of calls than most of the state agencies we reviewed.
- Wait times for IRS callers is higher than the goal of other incoming call operations in the private sector, although wait times are similar during the filing season; wait times for IRS callers are less than those of most of the state agencies we reviewed.
- A common call center metric for many public and private entities is the first contact resolution (FCR) rate. A few state agencies use this metric, but the IRS does not.
- The IRS and most call center operations we reviewed use surveys to measure user satisfaction; however, the IRS should increase the feedback it gathers whether it involves increasing the sample size for its surveys or allowing callers to take the survey at a point in time after their call.

RECOMMENDATIONS

The National Taxpayer Advocate recommends that the IRS:

1. Revise the LOS formula so it is a function of total call attempts and includes calls answered through automation in the calculation. This formula will not only be more representative of the taxpayer experience, but it will allow for a better comparison between phone lines that only use a live assistor and phone lines that use both a live assistor and automation.
2. Implement a procedure for measuring FCR.
3. Offer all callers a survey in a separate call if the taxpayer consents. Because there is a risk of disconnection when the IRS transfers the caller to a survey after the call is complete, a separate call may lead to a higher response rate. By offering the survey to all callers, the IRS could capture more feedback that may be more representative of the population.
4. Deploy live chat functionality, which could redirect calls and provide faster taxpayer service.

IRS Processing of Individual Taxpayer Identification Numbers

Individual Taxpayer Identification Numbers (ITINs) are an essential tool for individuals who are not eligible for a Social Security number (SSN) to fulfill their tax obligations in the United States. While ITINs are often linked with immigration policy, their primary purpose is to allow a non-SSN holder to report income and pay taxes. Congress created the ITIN program in 1996 to facilitate tax return processing and payment for those without SSNs, emphasizing that ITINs are for tax purposes only. Over time, however, various private and public entities, including financial institutions and state agencies, have used ITINs as proof of identity for services like credit card applications or driver's licenses. The 2015 Protecting Americans from Tax Hikes Act introduced significant changes to the ITIN program. These include stricter application rules and automatic expiration of ITINs if unused for three consecutive tax years. Despite these updates, the ITIN program faces operational challenges that burden both the IRS and taxpayers.

This report examines the scope and impact of ITINs, focusing on the characteristics of ITIN-related tax returns, including the size of the ITIN tax return filing population, taxes paid, credits received, and other characteristics. It discusses the IRS administration of the program, including the challenge of the IRS reviewing and processing hundreds of thousands of ITIN applications. Finally, we look at the challenges faced by ITIN applicants, particularly when errors occur because the IRS erroneously deactivated their ITIN and the additional burdens imposed by the IRS issuance of ITIN-related math error notices, which taxpayers may not understand leading to delays and loss of millions of dollars in credits. The specific objectives for this study and corresponding significant conclusions are to:

1. Determine the size and composition of the ITIN program and quantify its impact on U.S. taxation.
 - Millions of tax returns include at least one ITIN annually, contributing billions of dollars in tax revenue, even after allowable credits, which range from about \$2 to \$4 billion.
 - ITIN filers are predominately low-income taxpayers with a median adjusted gross income of slightly over \$31,000.
 - ITIN applicants who use a Certifying Acceptance Agent (CAA) to certify the documents submitted with their ITIN application are 15 percent more likely to have the IRS accept their application, while ITIN applicants without CAA support face more than double the rejection rate of ITIN applications submitted by a CAA.
 - Volunteer Income Tax Assistance (VITA) sites may offer free CAA services to certify documents submitted with the ITIN application but are limited to only 17 states, leaving taxpayers without adequate support.
2. Assess the IRS's administration of the ITIN program.
 - The IRS assigns hundreds of thousands of ITINs each year. In calendar year 2023, the IRS issued nearly 900,000 ITINs and rejected more than 250,000 ITIN applications.
 - Navigating the IRS process may be quite difficult for taxpayers, and if they submit critical identification documents with their applications they risk not receiving them back.
 - In tax year 2022, the IRS invalidated ITINs for almost 22,000 taxpayers impacting nearly 32,000 dependents; and IRS-issued math error notices eliminated over \$6 million in claimed Other Dependent Credits.

RECOMMENDATIONS

The National Taxpayer Advocate recommends that the IRS:

1. *Survey ITIN taxpayers:* Conduct a survey of ITIN taxpayers to determine which aspects of the IRS ITIN application process are especially burdensome.
2. *Expand CAA services:* Increase the number of VITA sites that offer CAA services, focusing on high application areas to reduce processing burdens and costs for taxpayers.
3. *Resolve systemic errors:* Fix reoccurring systemic problems causing the erroneous deactivations of ITINs to prevent unnecessary hardships.
4. *Enhance taxpayer outreach:* Provide comprehensive outreach to taxpayers with deactivated dependent ITINs, explaining reactivation requirements and steps to secure associated tax credits.

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

Section 7803(c)(2)(B)(ii)(IX) of the Internal Revenue Code requires the National Taxpayer Advocate, as part of her Annual Report to Congress, to propose legislative recommendations to resolve problems encountered by taxpayers. This year, we present 69 legislative recommendations.

We have taken the following steps to make these recommendations as accessible and user-friendly as possible for Members of Congress and their staffs:

- We have grouped our recommendations into categories that generally reflect the various stages in the tax administration process so that, for example, return filing issues are presented separately from audit and collection issues.
- We have presented each legislative recommendation in a format like the one used for congressional committee reports, with “Present Law,” “Reasons for Change,” and “Recommendation(s)” sections. In addition, we begin each recommendation with a concise summary that describes the “Problem” and our suggested “Solution” in layman’s terms to the extent possible. Our objective is to allow readers to quickly get a feel for all our recommendations by scanning the summaries.
- Where bills have been introduced in the past that are generally consistent with one of our recommendations, we have included a footnote at the end of the recommendation that identifies one or more of those bills. (Because of the large number of bills introduced in each Congress, we may have overlooked some. We apologize for any bills we have inadvertently omitted.)
- We have compiled a table, which appears at the end of the 2025 Purple Book as Appendix 1, that identifies additional materials relating to our recommendations, where such materials exist. In addition to identifying a larger number of prior bills than we cite in our footnotes, the table provides references to more detailed discussions of the issues that have been published in prior National Taxpayer Advocate reports.

By our count, Congress has enacted approximately 51 legislative recommendations that the National Taxpayer Advocate has proposed. See Appendix 2 of the 2025 Purple Book for a complete listing. This total includes approximately 23 provisions that were enacted as part of the Taxpayer First Act.¹

The Office of the Taxpayer Advocate is a non-partisan, independent organization within the IRS that assists taxpayers in resolving problems with the IRS and makes administrative and legislative recommendations to mitigate taxpayer problems and protect taxpayer rights. We have dubbed this the “Purple Book” because the color purple, as a mix of red and blue, has come to symbolize bipartisanship. Historically, tax administration legislation has attracted bipartisan support. In 2019, for example, the Taxpayer First Act was approved by both the House and the Senate on voice votes with no recorded opposition.

The recommendations presented in this volume are common-sense, generally non-controversial reforms that will strengthen taxpayer rights and improve tax administration. We are happy to discuss these recommendations in more detail with Members of Congress and their staffs. We highlight the following ten legislative recommendations for particular attention:

- **Authorize the IRS to Establish Minimum Competency Standards for Federal Tax Return Preparers and Revoke the Identification Numbers of Sanctioned Preparers (Recommendation #4).** The IRS receives over 160 million individual income tax returns each year, and most are prepared by paid tax return preparers. While some tax return preparers must meet licensing requirements (*e.g.*, certified public accountants, attorneys, and enrolled agents), most tax return preparers are

not credentialed. Numerous studies have found that non-credentialed preparers disproportionately prepare inaccurate returns, causing some taxpayers to overpay their taxes and other taxpayers to underpay their taxes, which subject them to penalties and interest charges. Non-credentialed preparers also drive much of the high improper payments rate attributable to wrongful Earned Income Tax Credit (EITC) claims. In fiscal year (FY) 2023, 33.5 percent of EITC payments, amounting to \$21.9 billion, were estimated to be improper, and among tax returns claiming the EITC prepared by paid tax return preparers, 96 percent of the total dollar amount of EITC audit adjustments was attributable to returns prepared by non-credentialed preparers.

Federal and state laws generally require lawyers, doctors, securities dealers, financial planners, actuaries, appraisers, contractors, motor vehicle operators, and barbers and beauticians to obtain licenses or certifications and, in most cases, to pass competency tests. The Obama, first Trump, and Biden administrations have each recommended that Congress authorize the Treasury Department to establish minimum competency standards for federal tax return preparers. To protect taxpayers and the public fisc, we likewise recommend that Congress provide this authorization as well as authorization for the Treasury Department to revoke the Preparer Tax Identification Numbers (PTINs) of preparers who have been sanctioned for improper conduct.²

- **Expand the U.S. Tax Court’s Jurisdiction to Hear Refund Cases (Recommendation #43).** Under current law, taxpayers seeking to challenge an IRS tax-due adjustment can file a petition in the U.S. Tax Court, while taxpayers who have paid their tax and are seeking a refund must file suit in a U.S. district court or the U.S. Court of Federal Claims. Litigating in a U.S. district court or the Court of Federal Claims is generally more challenging – filing fees are relatively high, rules of civil procedure are complex, the judges generally do not have tax expertise, and proceeding without a lawyer is difficult. By contrast, taxpayers litigating their cases in the Tax Court face a low \$60 filing fee, may follow less formal procedural rules, are generally assured their positions will be fairly considered even if they don’t present them well because of the tax expertise of the Tax Court’s judges, and can more easily represent themselves. For these reasons, the requirement that refund claims be litigated in a U.S. district court or the Court of Federal Claims effectively deprives many taxpayers of the right to judicial review of an IRS refund disallowance. In FY 2023, about 97 percent of all tax-related litigation was adjudicated in the Tax Court.³ We recommend Congress expand the jurisdiction of the Tax Court to give taxpayers the option to litigate all tax disputes, including refund claims, in that forum.
- **Enable the Low Income Taxpayer Clinic Program to Assist More Taxpayers in Controversies With the IRS (Recommendation #65).** The Low Income Taxpayer Clinic (LITC) program assists low-income taxpayers and taxpayers who speak English as a second language. When the LITC program was established as part of the IRS Restructuring and Reform Act of 1998, the law limited annual grants to no more than \$100,000 per clinic. The law also imposed a 100 percent “match” requirement so a clinic cannot receive more in grants than it raises from other sources. The nature and scope of the LITC program have evolved considerably since 1998, and those requirements are preventing the program from expanding assistance to a larger universe of eligible taxpayers. We recommend Congress remove the per-clinic cap and allow the IRS to reduce the match requirement to 25 percent, where doing so would expand coverage to additional taxpayers.
- **Require the IRS to Timely Process Claims for Refund or Credit (Recommendation #2).** Millions of taxpayers file refund claims with the IRS each year. Under current law, there is no requirement that the IRS pay or deny them. It may simply ignore them. The taxpayers’ remedy is to file suit in a U.S. district court or the U.S. Court of Federal Claims. For many taxpayers, that is not a realistic or affordable option. The absence of a processing requirement is a poster child for non-responsive

government. While the IRS generally does process refund claims, the claims can and sometimes do spend months or even years in administrative limbo within the IRS. We recommend Congress require the IRS to act on claims for credit or refund within one year and impose certain consequences on the IRS for failing to do so.

- **Allow the Limitation on Theft Loss Deductions in the Tax Cuts and Jobs Act to Expire So Scam Victims Are Not Taxed on Amounts Stolen From Them (Recommendation #54).** Many financial scams involve the theft of retirement assets. In a typical scam, a con artist may pose as a law enforcement officer, convince a victim that their retirement savings are at risk, and persuade the victim to transfer their retirement savings to an account that the scammer controls. Then, the scammer absconds with the funds. Under the tax code, the victim's withdrawal of funds from a retirement account is treated as a distribution subject to income tax, and if the victim is under age 59½, to a ten percent additional tax as well. Thus, the victim may not only lose their life savings but also owe significant tax on the stolen funds. Prior to 2018, scam victims generally could claim a theft loss deduction to offset the stolen amounts included in gross income, but the Tax Cuts and Jobs Act (TCJA) eliminated this deduction. We recommend Congress allow this TCJA limitation to expire so the theft deduction is again available in these circumstances.
- **Extend the Reasonable Cause Defense for the Failure-to-File Penalty to Taxpayers Who Rely on Return Preparers to E-File Their Returns (Recommendation #31).** The tax law imposes a penalty of up to 25 percent of the tax due for failing to file a timely tax return, but the penalty is waived where a taxpayer can show the failure was due to "reasonable cause." Most taxpayers pay tax return preparers to prepare and file their returns for them. In 1985, when all returns were filed on paper, the Supreme Court held that a taxpayer's reliance on a preparer to file a tax return did not constitute "reasonable cause" to excuse the failure-to-file penalty if the return was not timely filed. In 2023, a U.S. Court of Appeals held that "reasonable cause" is also not a defense when a taxpayer relies on a preparer to file a tax return electronically.

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

- **Promote Consistency With the Supreme Court's *Boechler* Decision by Making the Time Limits for Bringing All Tax Litigation Subject to Equitable Judicial Doctrines (Recommendation #45).** Taxpayers who seek judicial review of adverse IRS determinations generally must file petitions in court by statutorily imposed deadlines. The courts have split over whether filing deadlines can be waived under extraordinary circumstances. Most tax litigation takes place in the U.S. Tax Court, where taxpayers are required to file petitions for review within 90 days of the date on a notice of deficiency (150 days if addressed to a person outside the United States). The Tax Court has held it lacks the legal authority to waive the 90-day (or 150-day) filing deadline even, to provide a stark example, if the taxpayer had a heart attack on Day 75 and remained in a coma until after the filing

deadline. In *Boechler, P.C. vs. Commissioner*, the Supreme Court held that filing deadlines are subject to “equitable tolling” in Collection Due Process hearings. We recommend Congress harmonize the conflicting court rulings by providing that all filing deadlines to challenge the IRS in court are subject to equitable tolling where timely filing was impossible or impractical.

- **Remove the Requirement That Written Receipts Acknowledging Charitable Contributions Must Be “Contemporaneous” (Recommendation #60).** To claim a charitable contribution, a taxpayer must receive a written acknowledgement from the donee organization before filing a tax return. For example, if a taxpayer contributes \$5,000 to a church, synagogue, or mosque, files a tax return claiming the deduction on February 1, and receives a written acknowledgement on February 2, the deduction is not allowable – even if the taxpayer has credit card receipts and other documentation that unambiguously substantiate the deduction. This requirement can harm civic-minded taxpayers who do not realize how strict the timing requirements are and undermines congressional policy to encourage charitable giving. We recommend Congress modify the substantiation rules to require a reliable – but not necessarily advance – written acknowledgement from the donee organization.
- **Require That Math Error Notices Describe the Reason(s) for the Adjustment With Specificity, Inform Taxpayers They May Request Abatement Within 60 Days, and Be Mailed by Certified or Registered Mail (Recommendation #9).** When the IRS proposes to assess additional tax, it ordinarily must issue a notice of deficiency to the taxpayer, which gives the taxpayer an opportunity to seek judicial review in the U.S. Tax Court if the taxpayer disagrees with the IRS’s position. In cases where a taxpayer commits a “mathematical or clerical error,” however, the IRS may bypass deficiency procedures and issue a “math error” notice that summarily assesses additional tax. If a taxpayer does not respond to a math error notice within 60 days, the assessment becomes final, and the taxpayer will have forfeited the right to challenge the IRS’s position in the Tax Court. Math error notices often do not clearly explain the reason for the adjustment and do not prominently explain the consequences of failing to respond within 60 days. We recommend Congress require the IRS to describe the error giving rise to the adjustment with specificity and inform taxpayers they have 60 days (or 120 days if the notice is addressed to a person outside the United States) to request that a summary assessment be abated or they will forfeit their right to judicial review.⁴
- **Provide That Assessable Penalties Are Subject to Deficiency Procedures (Recommendation #14).** The IRS ordinarily must issue a notice of deficiency giving taxpayers the right to appeal an adverse IRS determination in the U.S. Tax Court before it may assess tax.⁵ In limited situations, however, the IRS may assess penalties without first issuing a notice of deficiency. These penalties are generally subject to judicial review only if a taxpayer first pays the penalties and then sues for a refund. Assessable penalties can be substantial, sometimes running into the millions of dollars. Under IRS interpretation, these penalties include but are not limited to international information reporting penalties under IRC §§ 6038, 6038A, 6038B, 6038C, and 6038D. The inability of taxpayers to obtain judicial review on a preassessment basis and the requirement that taxpayers pay the penalties in full to obtain judicial review on a post-assessment basis can effectively deprive taxpayers of the right to judicial review. To ensure taxpayers have an opportunity to obtain judicial review before they are required to pay often substantial penalties they do not believe they owe, we recommend Congress require the IRS to issue a notice of deficiency before imposing assessable penalties.

Endnotes

- 1 Taxpayer First Act, Pub. L. No. 116-25, 133 Stat. 981 (2019). We say Congress enacted “approximately” a certain number of National Taxpayer Advocate recommendations because in some cases, enacted provisions are substantially similar to what we recommended but are not identical. The statement that Congress enacted a National Taxpayer Advocate recommendation is not intended to imply that Congress acted solely because of the recommendation. Congress, of course, receives suggestions from a wide variety of stakeholders on an ongoing basis and makes decisions based on the totality of the feedback it receives.
- 2 In general, a PTIN must be obtained by a tax return preparer who is compensated for preparing or assisting in the preparation of all or substantially all of a federal tax return or claim for refund. The preparer must then include the PTIN on any returns or claims for refund prepared.
- 3 Data compiled by the IRS Office of Chief Counsel (Nov. 11, 2024). IRS, Counsel Automated Tracking System, TL-711 and TL-712. This data does not include cases on appeal and declaratory judgments.
- 4 A taxpayer is given 60 additional days to respond to a notice of deficiency when the notice “is addressed to a person outside the United States.” IRC § 6213(a). By contrast, a taxpayer abroad is given no additional time to respond to a math error notice. To protect taxpayer rights and promote consistency, we recommend providing 60 additional days for taxpayers located outside the United States to respond to a math error notice. *See Give Taxpayers Abroad Additional Time to Request Abatement of a Math Error Assessment, infra.*
- 5 In the case of “mathematical or clerical errors,” the IRS may issue a “math error” notice that assesses tax without providing the right to judicial review. The taxpayer has 60 days to request that the math error assessment be abated. If the taxpayer makes the request, the IRS is required to abate the assessment, and if the IRS decides to challenge the taxpayer’s position, it must then issue a notice of deficiency. *See* IRC § 6213(b).

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