



Electronic Tax Administration Advisory Committee

# ANNUAL REPORT

## TO CONGRESS

June 2021



## ETAAC MEMBERS

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The Chair would like to recognize this year's IRS Electronic Tax Administration Advisory Committee (ETAAC) members. Due to the COVID pandemic, the committee only met virtually. Despite not meeting in person, the committee became a virtual team and spent countless hours researching, discussing, and developing the report's recommendations.

Dmitri Alexeev

Jared Ballew

Luanne Brown

Latryna Carlton

Daniel Eubanks

Larry Gray

Jenine Hallings

Eric Inkrott

Courtney Kay-Decker (Vice-Chair)

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Julie Magee

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Andrew Phillips

Lynnette T. Riley

Cynthia Rowley

Gene Salo (Chair)

Timur Taluy

Matthew Vickers

Lindsey West

Biographies of the Committee members are set forth in Appendix C. The Committee members also recognize and thank the IRS staff and leadership for their assistance in this report's development. We appreciate the amount of time spent and their responsiveness to numerous meetings and data requests. The Committee acknowledges the difficulties that the IRS is encountering during the COVID pandemic.

## HOW TO READ THIS REPORT

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ETAAC organized this report to provide brief critical insights through a high-level overview and deeper context in our full-length analysis. ETAAC organized this report into three sections that are consistent with our charter.

- Recommendations for Congressional consideration
- Recommendations for the IRS focused on Electronic filing
- Recommendations for the IRS focused on Security

For a **high-level overview**, review the

- Letter from the Chair and Vice-Chair
- Summary List of ETAAC 2021 Recommendations

To gain a **deeper context** for our 2021 recommendations, review the

- Current Environment for Electronic Tax Administration
- About the IRS Security Summit
- Detailed Support for ETAAC 2021 Recommendations

Finally, review the entire report to get the full context and analysis. We included a summary of our Committee's scope in Appendix A.

## LETTER FROM THE CHAIR AND VICE-CHAIR

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On behalf of the Electronic Tax Administration Advisory Committee, we are pleased to deliver its 2021 Annual Report to Congress.

### **Our Evaluation Process.**

As we contemplated our recommendations, we considered the IRS and taxpayers' environment during the last year. The COVID crisis has highlighted the challenges faced by the IRS in delivering its core mission of facilitating the voluntary tax compliance system by helping taxpayers understand and meet their tax responsibilities.<sup>1</sup> Congress continues to expand the IRS's mission beyond mere tax administration as they have now charged the IRS with distributing payments to taxpayers. On three separate occasions, the IRS sent Economic Impact Payments (EIP) to taxpayers. Congress has also directed the IRS to pay an Advance Child Tax Credit monthly. Rising to the challenge, the IRS will create an online portal to simplify the taxpayer's experience with the Advance Child Tax Credit. We have observed the IRS working admirably to serve Americans in need.

We also worked to ensure that our recommendations align with the Taxpayer First Act (TFA). Throughout this year's report, a common thread assesses how each recommendation would improve the taxpayer experience. In our view, improving taxpayer experience requires root cause analysis. In many cases, a poor taxpayer experience may occur well before any taxpayer interaction with the IRS.

We identified what we view as the most significant risks to effective electronic tax (and social program) administration by the IRS through our research.

1. **Budget** – Congress must establish flexible and predictable multi-year funding for the IRS. Without appropriate funding, the consistently high-quality taxpayer experience desired by Congress will be impossible to achieve.
2. **Secure Access** – Taxpayers and tax professionals must have greater digital access without a reduction in security.
3. **Digital Taxpayer Experience** – The IRS must continue to modernize its processes toward the goal of a paperless environment.
4. **Transparency** – As the IRS increases its digital interaction, taxpayers must have a high level of transparency in their tax returns and accounts.
5. **Reducing the Tax Gap** – Reporting requirements for information returns, particularly Forms 1099, must be tightened. The utilization of information returns is a proven method to reduce the tax gap.

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<sup>1</sup> "The Agency, Its Mission and Statutory Authority." Internal Revenue Service accessed May 10, 2021. <https://www.irs.gov/about-irs/the-agency-its-mission-and-statutory-authority>.

6. **Security** – Identity Theft Tax Refund Fraud (IDTTRF) is an ongoing, ever-changing threat. The IRS and Security Summit must continue to evolve their strategies, tactics, and policies to combat this ever-changing threat successfully this ever-changing threat.
7. **Staffing** – Congress must provide authority and funding for needed staffing increases. The IRS must revamp its hiring and training protocols for a successful paperless environment. While staffing is not directly in ETAAC's scope, technological advancements alone will not achieve the desired taxpayer experience.

Each of our recommendations contains elements that we believe will improve one or more of these risk areas.

### **The IRS's Taxpayer First Act Report Offers an Optimistic and Ambitious Vision for Serving Taxpayers.**

The IRS issued the Taxpayer First Act Report (TFA Report) in January 2021. The IRS articulates its taxpayer-centered approach in the report: to "meet taxpayers where they are." This high standard aims to provide an individualized and seamless experience to each taxpayer. Consistently providing this high level of service is an aspirational yet achievable goal over the ten-year horizon outlined in the report. We commend the IRS's vision for the future. Achieving that vision requires a commitment from Congress to predictable multi-year funding. The integrated IRS operational structure envisioned by the IRS requires funding that can be allocated among priorities as they evolve during planning cycles that do not neatly coincide with the legislative timelines. Using the IRS's proposed cost accounting approach enhances accountability within the IRS and transparency to Congress and taxpayers. ETAAC's first recommendation discusses this further.

The TFA Report reflects the IRS's confidence in its ability to deliver a 21st-century experience. Still, it recognizes that critical parts of the experience will not happen when the backbone technology relies on outdated computer languages. We echo that concern. The foundation of a high-quality taxpayer experience is modern and effective technology and information systems.

Though secure and flexible technology is the foundation of an effective and efficient tax system, the people and processes are no less important. We commend the IRS's vision for new organizational and training structures that establish opportunities for greater engagement, collaboration, and accountability. The IRS's strategy focusing on taxpayer-first service requires the integrated whole of the tax system – people, processes, and technology – to work together to deliver real-time, consistent information and assistance competently.

The IRS is diligently working to become a more taxpayer-centric organization. It has begun implementing the legislative changes required by TFA. We appreciate that the IRS has engaged with stakeholders to create feedback loops that make processes better for taxpayers. From ETAAC's vantage point, the IRS has been improving and shows an increasing ability to be nimble. The TFA Report demonstrates vision. In our view, IRS employees look forward to having tools that let them live by the "taxpayer first" motto. ETAAC commends Commissioner Rettig for quickly filling the Chief Taxpayer Experience Officer position and believes that his choice, Ken Corbin, the current Wage and Investment Commissioner, will further the IRS's progress to improve the taxpayer experience. Now, Congress should provide the ultimate tool for success: funding.

**The pandemic-era taxpayer experience highlighted gaps in service resulting from chronic underfunding.**

Undoubtedly, the taxpayer experience has been less than ideal for a significant number of taxpayers over the past year. COVID restrictions and weather events across the country shuttered or limited operations of processing campuses. Closed or reduced-force campuses mean that paper processing, whether tax returns or other correspondence, is delayed. The pandemic has taught us that eliminating paper processing, continuous process improvement, and digital solutions are requirements to better the taxpayer experience. The lack of transparency of the return's processing status was an issue, and we discuss options for improvement in Recommendation #7. To its credit, the IRS has worked during the pandemic to accelerate access to digital tools, such as e-filing of Form 1040X and third-party authorizations. Much work remains under the IRS's Technology Modernization Plan. Again, a lack of resources – financial and human – is hindering progress.

Underserved taxpayer communities saw some of the most devastating tax-related challenges during the pandemic. The Volunteer Income Tax Assistance (VITA) program, which prepares tax returns for underserved taxpayers, shut down with the rest of the country in March 2020. Many VITA sites were not equipped to operate virtually, and those that did remain open struggled with increased cleaning costs and difficulty in retaining volunteers. Fortunately, it appears that some of these taxpayers were able to use the IRS's Free File services to file their 2019 returns. For 2021, the IRS provided VITA sites with funding for cleaning supplies and tools for operating virtual sites. Anecdotal information indicates that for the 2021 filing season, VITA sites have continued to operate at a lower capacity than before the pandemic. We discuss the impacts of the pandemic in "Current Environment for Tax Administration" and throughout this report.

## **Security must remain a continuous area of focus.**

Amid the COVID pandemic backdrop, the cybersecurity threat is ever-present, and attacks against the IRS, tax preparers, and taxpayers grew over the last year. The SolarWinds hack caused widespread criminal infiltrations across many sectors.<sup>2</sup> Congress took a keen interest in knowing whether a breach occurred at the IRS, in particular, because of the older systems that the IRS uses.<sup>3</sup>

The Security Summit, the partnership among the IRS, states, the tax software industry, and other stakeholders, protects the tax ecosystem against IDTTRF. As the battle against IDTTRF has changed, the Security Summit should also continue to evolve. The fight against IDTTRF has changed over the last six years as the fraud attempts have decreased in numbers but increased in sophistication. The Identity Theft Tax Refund Fraud Information Sharing Analysis Center (ISAC) is well-positioned to fight fraud at both the federal and state levels, but increased data sharing capabilities would further the effort.

Professional tax preparers are constantly under attack for their sensitive taxpayer data, which criminals use to file fraudulent tax returns. Through the Security Summit, the IRS coordinates security policies with states, software companies, and financial partners. However, a parallel system does not exist among the IRS, states, and tax practitioners. ETAAC has consistently supported Congressional action giving the IRS authority to regulate security for professional tax preparers. Until Congress enacts tax preparer security regulation, taxpayer return data will continue to be at risk.

## **IRS Staff**

The COVID pandemic has affected all taxpayers in some way, including all the IRS staff. They needed to deal with the pandemic personally and were tasked with helping American citizens who were most in need. Transitioning to a work-from-home scenario was difficult. IRS staff stood tall during the last year, and ETAAC recognizes the contributions they all have made and says thank you.

## **Closing Thoughts**

There will always be a digital divide – those who interact with the IRS digitally and those who cannot or will not. The COVID pandemic has demonstrated that the American taxpayer can adapt to a virtual environment, which presents an opportunity to shrink that divide. We encourage the IRS to focus on their digital initiatives, freeing staff to serve non-digital taxpayers. The initiatives must be secure, user-friendly, and include a high level of transparency. The mission at the IRS has changed as it has expanded to

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<sup>2</sup> Baker, Pam. "The SolarWinds Hack Timeline: Who Knew What, and When?" CSO Online. CSO, April 5, 2021. <https://www.csoonline.com/article/3613571/the-solarwinds-hack-timeline-who-knew-what-and-when.html>.

<sup>3</sup> Jagoda, Naomi. "Lawmakers Ask IRS If Its Systems Were Compromised in SolarWinds Hack." TheHill, The Hill, 18 Dec. 2020, [thehill.com/policy/finance/530935-lawmakers-ask-irs-if-its-systems-were-compromised-in-solarwinds-hack](https://thehill.com/policy/finance/530935-lawmakers-ask-irs-if-its-systems-were-compromised-in-solarwinds-hack).

administer payments in social programs, and Americans will need to interact with the IRS more often than in the past. Congress and the IRS have a unique window of opportunity to adapt to the changing tax administration environment in a way that transforms the taxpayer experience for the better.

Respectfully submitted,

Geno Salo  
ETAAC Chair

Courtney Kay-Decker  
ETAAC Vice-Chair



## SUMMARY LIST OF ETAAC 2021 RECOMMENDATIONS

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Below are ETAAC's 2021 recommendations organized based upon the intended recipient: Congress and the IRS. Our detailed analysis and explanation of each recommendation are in the "Detailed Support for ETAAC 2021 Recommendations" section of this report.

### **Congressional Recommendations**

#### **Recommendation #1: Provide the IRS with flexible, predictable multi-year funding.**

*While the IRS budget has decreased over the years, its mission has expanded. The addition of the monthly advance child tax credit option later this summer is just the latest example of how the IRS's role has grown in recent years. ETAAC views the biggest challenge facing the IRS as the lack of appropriate funding and thus recommends:*

- *Restructure the IRS's funding to eliminate appropriations categories.*
- *Predictably and fully fund the IRS's budget requests each year.*
- *Establish a pilot benefits-based funding tool that allows the IRS to retain a portion of defined amounts it collects for technology or staffing-related projects.*
- *Immediately fund the backlog of technology projects described in the IRS's Technology Modernization Plan.*
- *Ensure that inapplicable budgetary limitations do not impact IRS funding.*

#### **Recommendation #2: Accelerate the filing deadline for certain informational returns.**

*ETAAC recommends that Congress accelerate the filing deadline for certain information returns to January 31st. Third-party information returns are a proven tool that encourages voluntary compliance and helps to reduce the tax gap. Accelerating the filing deadlines of informational returns has proven to be an effective tool to reduce fraud and increase efficiency across the tax ecosystem by allowing for more real-time matching of information reporting to tax returns. The IRS should then share the applicable state return information with states as soon as possible after receipt. The earlier filing deadlines ensure that relevant data is available when it is most needed, improving the filing season for taxpayers, tax preparers, issuers, the IRS, and states.*

#### **Recommendation #3: Modernize the data-sharing statutes among federal agencies.**

*ETAAC recommends that Congress review and modify IRC Section 6103 to expand data sharing across federal and state agencies to combat stolen identity theft fraud. The IRS is currently limited to sharing data with other agencies for tax administration purposes. This limitation prevents the IRS from sharing detailed data related to existing and emerging schemes with other agencies that combat stolen identity fraud.*

## IRS Recommendations

### Electronic Filing

**Recommendation #4: The Form 1099 Portal should have functionality that integrates with key stakeholders at the time of rollout.**

*The IRS must work with stakeholders, so the Form 1099 Platform includes:*

- *Authentication before a user can enter the platform.*
- *Communication of usable real-time information related to such filings with states and other appropriate stakeholders.*

*Consistent with our recommendation last year, the IRS has worked collaboratively with stakeholders, including gathering information and input from taxpayer groups, practitioners, states, and industry. Collaboration with states and industry must become more robust as the development continues. Future-focused design in the platform's security and IRS-facing components will be vital in ensuring that the new customer platform achieves Congressional goals. If necessary, Congress should extend the deadline for completing the Form 1099 platform to ensure that the tax ecosystem can quickly detect and prevent a fraudulent Form 1099 from being used in Identity Theft Tax Refund Fraud.*

**Recommendation #5: Increase the electronic filing goals.**

*ETAAC recommends that the IRS further increase its electronic filing goals to enhance the taxpayer experience. Congress set the IRS goal of 80% paperless filing for major federal tax and information returns 23 years ago. The IRS considers that they met that goal for major tax returns four years ago. ETAAC believes it is time to reset the electronic filing goal to better match digital communications progress since 1998. The IRS could either raise the 80% goal or be more inclusive of what is considered a major return, or both. Estimated tax returns, extensions, and amended returns should be added to the goals. Additional focus is warranted on the employment series of tax returns, which currently languishes around an electronic filing rate of 53%.*

## Security

### **Recommendation #6: Enhance the taxpayer experience in the IRS Identity Theft Tax Refund Fraud (IDTTRF) resolution process.**

*Pre-verification of tax returns by the actual taxpayer can improve the processing of tax returns that have indicators of potential fraud. Currently, the IRS uses the Taxpayer Protection Program (TPP) to determine if a suspicious return is fraudulent. Despite its success, the TPP can improve by reducing false positives, which negatively impact taxpayers. False positives in the program are declining but are difficult to eliminate due to the sophistication of fraudulent actors. The expanded nationwide availability of the Identity Protection Personal Identification Number (IPPIN) provides taxpayers a level of control over their returns, allowing them to pre-verify their returns and bypass the TPP. The IRS needs to expand the awareness campaign to tout this effective program vigorously.*

### **Recommendation #7: Allow for greater transparency into return processing status.**

*The IRS should improve the transparency of tax return processing for taxpayers. The IRS's "Where's My Refund" suite of tools gives easy access to basic return status information. The IRS promotes Where's My Refund, and many taxpayers use it as a first step. However, if a return has any deviation from standard processing, the taxpayer does not have any insight into what is happening. Enhancing the information available through a self-service return tracking tool will improve the taxpayer experience. Also, the IRS should explore leveraging existing taxpayer and tax preparer third-party partnerships to expand online taxpayer service options.*

### **Recommendation #8: Expand the taxpayer protection tools in the EFIN Toolset.**

*Fraudulent returns are highly sophisticated and closely match real returns, in many cases relying on actual return information as the basis of the return. Tax professionals are a favorite target for identity thieves to gather that information. Included in the IRS e-services Terms of agreement is **"Protect the data you access through e-services; it's your legal obligation to protect all tax information."**<sup>4</sup> The IRS should validate EFINs in real-time. The EFIN application should align with the FTC Safeguards Rule to enhance practitioner Compliance.*

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<sup>4</sup> "New e-Service User Agreement." Internal Revenue Service accessed May 10, 2021. <https://www.irs.gov/pub/irs-utl/New%20eServices%20User%20Agreement.pdf>.

**Recommendation #9: Enhance security plan guidance for tax practitioners.**

*IRS provides guidance to tax practitioners, through Publication 4557, web content, at IRS Tax Forums and otherwise, of a practitioner's security obligations under the Safeguards Rule adopted according to the Graham Leach Bliley Act (GLBA). Some practitioners have struggled to convert the IRS guidance into actionable steps to protect themselves and their clients. There will be a significant benefit to taxpayers and tax administration if the IRS, in collaboration with its Security Summit partners, refines its guidance to include additional tools that are easy for practitioners to implement.*

**Recommendation #10: Accelerate the investment in and timing of digital initiatives.**

*The IRS has adopted a digital-first mindset to improve the taxpayer experience but needs to accelerate the implementation of these tools. Taxpayers and practitioners alike desperately need modern, user-friendly tools to interact with the IRS digitally. The COVID pandemic has highlighted key tools where an accelerated digital commitment can enhance the taxpayer experience and create more effective and efficient tax administration:*

- *Implement the Secure Access Digital Identity (SADI) Program as quickly and broadly as possible.*
- *Make permanent the temporary e-signature initiatives.*
- *Promote digital payment methods.*
- *Expand electronic filing options.*

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## CURRENT ENVIRONMENT FOR ELECTRONIC TAX ADMINISTRATION

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In assessing the vast range of what the IRS actually "does," most Americans compartmentalize their perception of IRS operations to that which directly impacts their everyday lives. Core operations far surpass the annual acquisition and processing of more than 240 million federal tax returns and forms.<sup>5</sup> The IRS provides comprehensive taxpayer assistance by issuing supporting regulatory guidance and customer service assistance.<sup>6</sup> They work alongside countless agencies and stakeholders, both foreign and domestic, to provide straightforward methods and processes for taxpayers to fulfill their tax obligations.<sup>7</sup> And perhaps most importantly, the IRS works to preserve the integrity of tax administration by openly and fairly enforcing the law.

### **The COVID-19 pandemic presented unprecedented challenges to the U.S. tax administration.**

During the first two months of 2020, the world was not yet aware of the challenges we were about to face. The pandemic has tested the ingenuity and resilience of IRS staff beyond what ETAAC members have ever seen. Considering the obstacles already in its way before the pandemic, the IRS has done a remarkable job of balancing competing demands on its resources. We commend the IRS for its ability to realign its tax season operations and take on pandemic relief efforts during the 2020 and 2021 filing seasons.

A national disaster was declared on March 13, 2020, and many states implemented stay-at-home orders shortly after that. Because of technology and security limitations, employees could not take taxpayer assistance calls at home. The IRS closed 81 of 87 toll-free taxpayer assistance phone lines while stay-at-home orders were in place. To keep its staff and the public safe, the IRS closed all 358 Taxpayer Assistance Centers and its Tax Processing Centers. These facilities were closed or operated with drastically reduced staffing through the heaviest intake period of the year, starting on March 20, 2020, through June 29, 2020.<sup>8</sup>

Due to the sensitive nature of tax information, most of the work performed by the IRS is not easily converted to telework.<sup>9</sup> As discussed in Recommendation #10, the pandemic proved that too many tasks remain dependent on paper processes, even if the return is filed electronically. Functions that require in-office human intervention include:

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<sup>5</sup> "Progress Update Fiscal Year 2020." Internal Revenue Service, December 2020: 8. <https://www.irs.gov/pub/irs-pdf/p5382.pdf>.

<sup>6</sup> Ibid., p. 3.

<sup>7</sup> Ibid., p. 29.

<sup>8</sup> "Results of the 2020 Filing Season and Effects of COVID-19 on Tax Processing Operations." Treasury Inspector General for Tax Administration, March 22, 2021: 3-4.

<https://www.treasury.gov/tigta/auditreports/2021reports/202146023fr.pdf>.

<sup>9</sup> Ibid.

- receiving, processing, and distributing returns and mail,
- entering return data into the IRS systems,
- addressing and responding to processing errors, and
- connecting with taxpayers where necessary.<sup>10</sup>

As late as November 13, 2020, the IRS reported that only 77.8% of its Submission Processing employees worked in IRS locations or through virtual means.<sup>11</sup> The remaining 22.2% of employees were on leave due to high risks for severe illness stemming from the COVID-19 pandemic. As of November 16, 2020, 263 of the 358

Type of Work Remaining	Week Ending May 23, 2020	Week Ending November 14, 2020	Prior Year Week Ending December 28, 2019
Unopened Mail Volumes	10,276,573	2,964,216	<i>Not Available</i>
Paper Tax Returns – Individual	10,070,000	4,702,000	183,000
Error Resolution – Individual	1,535,229	601,917	24,621
Rejects – Individual	1,110,332	1,681,994	121,397
Unpostables – Individual	585,457	1,195,850	193,536
Accounts Management – Individual and Business (Adjustments)	1,176,723	1,471,862	1,263,397

*Source: IRS Filing Season Statistics, Mail Receipts, and Accounts Management Inventory Reports for the weeks ending December 28, 2019; May 23, 2020; and November 14, 2020.*

Taxpayer Assistance Centers were able to reopen.<sup>12</sup> The IRS worked down the backlog of unopened mail from an estimated 13.4 million mail items in late May<sup>13</sup> to about 2.9 million in Mid-November. Though the IRS cleared the mail backlog by mid-December, the reality is that opening mail is just the beginning of processing. As of December 25, 2020, the backlog of unprocessed tax returns grew to more than 11.7 million individual and business returns.

The data reflects that the IRS entered the 2021 processing season well behind its typical processing pace. Pre-pandemic, the IRS did its best to complete filing season tasks as efficiently as possible with its available staff. To continue operations during the pandemic,

<sup>10</sup> Ibid.

<sup>11</sup> Ibid., Closure of Tax Processing Centers results in significant backlogs in each of the IRS's submission processing functional areas.

<sup>12</sup> Ibid., What TIGTA Found.

<sup>13</sup> "Results of the 2020 Filing Season." Unopened mail backlog is decreasing; however, inventory and backlogs in other submission processing functions are increasing.

the IRS had to redesign paper-based workflows so employees could work remotely quickly.

During the pandemic, the IRS implemented major new laws requiring it to issue thousands of pages of communications and guidance, re-program existing systems, and design new ones while operating two tax seasons with a skeleton crew. After each round of legislation, the IRS began issuing guidance and retooled systems within days of enactment. We acknowledge and appreciate that Congress included additional appropriations for the IRS's pandemic-related work. We expect that some of the funding Congress provided will benefit the American taxpayer after the pandemic is over. We believe that the IRS would have been better prepared to serve taxpayers during the pandemic if Congress had provided predictable multi-year technology funding over the past decade.

Highlights of the challenges and successes of the pandemic period are discussed below. These snapshots show that the IRS processing systems are not nimble enough to quickly adapt to tax law changes. If the IRS is used to facilitate social program payments, it must receive appropriate funding to have a reasonable opportunity for success.

#### **Implementation of Federal tax credits for employers started quickly.**

On March 18, 2020, the Families First Coronavirus Response Act (FFCRA)<sup>14</sup> was signed into law to provide hard-hit businesses with various tax credits. This Act helps offset employer costs, providing paid sick leave and additional family and medical leave to employees affected by the pandemic. Within days of the FFCRA becoming law, the IRS issued informal guidance on the credits' parameters and published Form 7200, *Advance Payment of Employer Credits Due to COVID-19*.

#### **Reliance on paper filing for amended employment tax return processing delayed relief to businesses impacted by the pandemic.**

COVID-related legislative changes allow businesses to take the Employee Retention Tax Credit (ERTC) retroactively for 2020, even if they received a Paycheck Protection Program loan. The legislative changes highlight the downside of paper processing since businesses often must file a paper-based amendment to receive the ERTC. Original Form 941 returns can be e-filed and are generally processed almost immediately following transmission. Any refund due under an error-free Form 941 is issued roughly two weeks from the return due date. But the amended 941 (941-X) remains a paper process that has needed an overhaul for quite some time. Before COVID, a Form 941-X filed on paper took on average two to three months to be processed. Since the pandemic onset, an amended Form 941-X may take six to nine months or more to process. The

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<sup>14</sup> U.S. Congress, House. "H.R.6201 - 116th Congress (2019-2020): Families First Coronavirus Response Act." March 18, 2020. <https://www.congress.gov/bill/116th-congress/house-bill/6201/text>.



result is that ERTC relief intended to help businesses immediately has instead been unacceptably delayed because needed technology improvements have not been funded.

### **The IRS delivered EIPs with astonishing speed to most eligible Americans.**

The March 27, 2020 enactment of the Coronavirus Aid, Relief, and Economic Security (CARES) Act initiated additional ongoing federal stimulus measures geared toward assisting individual Americans impacted by the COVID-19 pandemic.<sup>15</sup> While still balancing the 2020 tax filing season and acclimating to a virtual and socially distanced landscape, the IRS quite suddenly found itself responsible for ensuring the delivery of EIPs to millions of individuals.<sup>16</sup> Within 14 days of enactment, taxpayers began seeing EIPs in their mailboxes or directly deposited into their accounts.<sup>17</sup> The IRS would continue to successfully facilitate more than 160 million first-round EIPs, totaling nearly \$275 billion.<sup>18</sup>

Following the first "call to arms," Congress enacted the Tax Relief Act on December 27, 2020. The IRS delivered 147 million second-round EIPs, totaling nearly \$142 billion. This time, they delivered the stimulus payments during the time that is typically focused intensely on preparing for the 2021 tax filing season.<sup>19</sup> On March 11, 2021, the American Rescue Act became law, and the IRS delivered a third round of EIPs during the heart of the 2021 filing season. As of May 5, 2021, the IRS had issued over 164 million third-round payments totaling about \$386 billion.<sup>20</sup>

### **EITC and CTC relief required manual processes, slowing refunds for impacted taxpayers.**

Congress recognized that the complex calculations for the Earned Income Tax Credit (EITC) and the Child Tax Credit (CTC) needed to be adjusted to ensure that taxpayers who became unemployed due to pandemic shutdowns did not lose needed EITC and CTC. The solution required the taxpayer to make an election to use 2019 earned income data in the 2020 calculations. But the IRS software is not designed to match data from two different tax years. EITC and CTC matches are critical since both programs see significant fraud each year. Rather than allowing returns that made the 2019 election bypass fraud review, the IRS reviewed them manually. We recognize that this was a difficult choice for the IRS since it ultimately meant that some people in need had to wait longer for refunds.

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<sup>15</sup> U.S. Congress, House. "H.R.748 - 116th Congress (2019-2020): CARES Act." March 27, 2020. <https://www.congress.gov/bill/116th-congress/house-bill/748>.

<sup>16</sup> Ibid., Title II, Subtitle B-Rebates and Other Individual Provisions.

<sup>17</sup> "Oversight Subcommittee Hearing with the IRS Commissioner on the 2021 Filing Season." 117<sup>th</sup> Congress, March 18, 2021, 6 (statement of Charles Rettig, IRS Commissioner).

<sup>18</sup> Ibid.

<sup>19</sup> Ibid., 7.

<sup>20</sup> IRS Press Release. IR-2021-103, May 5, 2021.

### **IRS Technology cannot keep up with rapid law changes.**

As a part of the March 2021 American Rescue Act, the first \$10,200 of unemployment compensation was excluded from tax. Changes to last year's tax law, while taxpayers are filing their returns, require the IRS to consider what to do with previously filed returns. The standard processing solution would be for the taxpayer to file an amended return. To make it easier for taxpayers, the IRS automatically changed the returns for most taxpayers and sent any additional refund without intervention by the taxpayer. While this fulfilled the intent of the American Rescue Act by getting money back into the hands of taxpayers as quickly as possible, we expect that some taxpayers will face some unintended consequences. For example, a taxpayer who filed a state tax return that uses Federal AGI as the starting point might also need to file an amended state return in states that did not exclude at least the first \$10,200 of unemployment compensation. The taxpayer, though, would not have a copy of the federal return to use as a starting point. We commend the IRS staff for its nimble people-first approach to the unemployment income law change. Unfortunately, the IRS systems are not as agile.

### **The IRS leveraged its partnerships to deploy modern tools and features to track EIPs.**

The IRS made good use of its time between the first and second rounds of EIPs. On April 10, 2020, the IRS released a Non-Filer's tool on the IRS website.<sup>21</sup> This tool was available in English and Spanish, and it provided an avenue to individuals who did not have a tax-filing obligation to provide the IRS with the information needed to obtain their EIPs. On April 15, 2020, the IRS also released the **Get My Payment** tool, again in English and Spanish, to permit a significant portion of taxpayers to check the status of their EIPs.<sup>22</sup> Within two months following this tool's release, the IRS reported a 400% increase in taxpayer electronic banking registrations.<sup>23</sup>

### **COVID-19 pandemic shut down taxpayer assistance programs available to underserved communities.**

VITA and the Tax Counseling for the Elderly (TCE) Program are IRS-sponsored programs available to underserved communities. The VITA program provides tax preparation services for specified forms and tax situations by IRS-certified volunteers.<sup>24</sup> TCE offers similar services to taxpayers over age 60. These centers are typically located at non-profit, religious, or other educational institutions and are of no cost to the taxpayers who utilize them.

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<sup>21</sup> "Oversight Subcommittee Hearing with the IRS Commissioner on the 2021 Filing Season." 117<sup>th</sup> Congress, March 18, 2021, 6 (statement of Charles Rettig, IRS Commissioner).

<sup>22</sup> Ibid.

<sup>23</sup> See U.S. Department of the Treasury, Internal Revenue Service. "IRS Integrated Modernization Business Plan." Publication 5336, April 2019.

<sup>24</sup> See <https://www.irs.gov/individuals/irs-tax-volunteers>.

Many of these voluntary locations struggled to navigate the sudden onslaught of health concerns while responding to individuals who needed assistance more than ever. These taxpayer assistance sites generally operate in a face-to-face environment.<sup>25</sup> Many centers either closed their locations or attempted to develop creative solutions to ensure eligible individuals had access to the support they needed to complete and file their taxes.<sup>26</sup> Of the 11,014 VITA/TCE sites available, 10,792 locations were still closed as of May 24th, 2020.<sup>27</sup> For the 2021 season, fewer sites were able to open.

The locations that stayed open exemplified true ingenuity in overcoming the obstacles of operating in a face-to-face environment.<sup>28</sup> Some sites that continued to work with a face-to-face model opted to stagger appointments to adhere to social distancing protocols, implement personal protective equipment for its volunteers, or install Plexiglas separated workstations.<sup>29</sup> Other locations chose to implement a 100% virtual model with enhanced security requirements and drop-off/pick-up sites for paperwork. Still, others used a facilitated self-assistance model where a volunteer could assist several taxpayers at once to utilize other virtual means to fulfill their tax obligations.<sup>30</sup>

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<sup>25</sup> U.S. Department of the Treasury, Internal Revenue Service. "2021 VITA/TCE Site Operations." Publication 5450, October 21, 2020, 2.

<sup>26</sup> U.S. Department of the Treasury, Internal Revenue Service. "Internal Revenue Service Progress Update, Fiscal Year 2020." Publication 5382, 2020. 10.

<sup>27</sup> "Results of the 2020 Filing Season." What TIGTA Found.

<sup>28</sup> "2020 Annual Report." IDTTRF-ISAC, 2020.

<sup>29</sup> IRS, "VITA/TCE Site Operations," 1-2.

<sup>30</sup> Partner Symposium Presentation - Oct. 21, 2020, page 6.

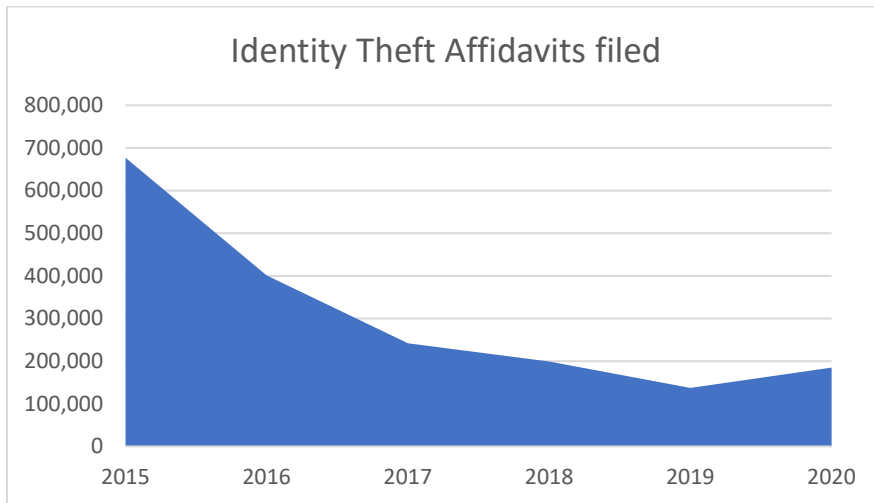
## ABOUT THE IRS SECURITY SUMMIT

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The Security Summit includes representatives from the IRS, state tax revenue agencies, the tax practitioner community, tax preparation firms, software developers, financial service companies, and payroll community members. Since the formation of the Security Summit in 2015, the IRS and Security Summit partners have collaborated to combat identity theft tax refund fraud (IDTTRF) with prodigious success. However, these achievements come with an even greater responsibility to maintain a heightened security level and seek additional mechanisms to harden the tax filing system's defenses against ever-changing security threats. We recognize that striking a balance between security and service is a challenge that government and private industry partners face, both individually and together, as the need for digital transactions increases exponentially worldwide. We also commend the IRS for setting an objective in its modernization plan "to protect the IRS system and retain public trust."<sup>31</sup>

### **The number of taxpayers experiencing IDTTRF has declined since 2015.**

When the IRS formed the Security Summit, IDTTRF levels demanded a strong reaction. Taxpayers affected by identity theft face a lengthy delay in processing their actual return and any applicable refund. The Security Summit's collaborative approach has had a positive effect on taxpayer experience. The number of identity affidavits filed in 2015 was 677,000, and in 2020, the number decreased to 185,000.<sup>32</sup>



Source: IRS Briefing

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<sup>31</sup> IRS, "IRS Modernization Plan."

<sup>32</sup> The benefits provided through pandemic relief legislation, including the increased unemployment benefits and the Economic Impact Payments, resulted in increased identity theft and fraud during the 2020 filing season. We expect to see higher than historical levels of identity theft and fraud again during the 2021 filing season.

### **The Security Summit has evolved since its inception.**

In the initial formation of the Security Summit, three primary sub-groups were formed to focus on specific areas or problems.

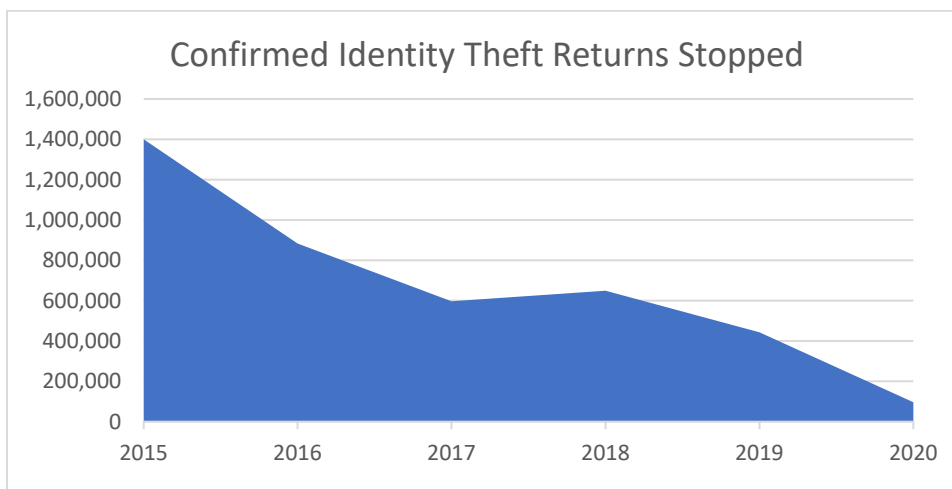
- Authentication
- Information Sharing
- Strategic Analysis

As the Security Summit partners developed their working relationships, it became apparent there were more specialized needs, specifically:

- Financial Services
- Communications
- Tax Professionals

The final piece added was the ISAC, which became the central point for analysts to share information and recognize immediate threats.

Through the efforts of the IRS and its and Security Summit partners, the IRS protected a significant amount of taxpayer money from being sent to criminals. Between 2015 and 2019, over \$26 billion in revenue was protected, either before leaving the IRS or through partnerships with financial institutions. This equates to over 4,000,000 fraudulent returns that were stopped over the past six years. It is important to note that that revenue has also been protected at the state level. However, the variance in state legal definitions of fraud and identity theft makes quantifying the savings a challenge. Over the last six years, the number of returns with confirmed identity theft decreased by 93%.



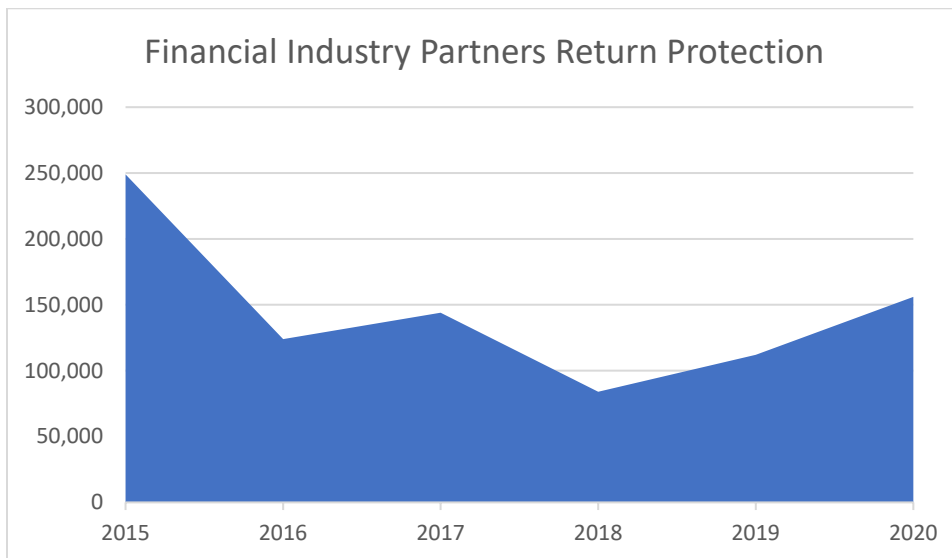
Source: Security Summit Data

**Law changes have helped improve the IRS's ability to stop fraud while reducing the burden to the legitimate taxpayer.** Congress provided a significant boost to the IRS's fraud detection tools by requiring employers to submit Form W-2 information by

January 31.<sup>33</sup> The earlier receipt of the Form W-2 data has allowed for more timely matching of employer information to the taxpayer's return. The earlier deadline for Form W-2 has resulted in increased fraudulent filings for forms with later deadlines, such as the Form 1099 series. Recommendation #2 discusses advancing the deadline for certain additional information returns to prevent fraud at both federal and state levels.

**The financial services industry plays a vital role in protecting refunds.**

The IRS's fraud filters are highly effective at stopping fraudulent returns. But the level of sophistication of some of the fraudulent returns is so high that they evade the filters. The financial industry also has filters that determine if a deposit account is valid. Over the past six years, the financial sector has protected over 850,000 additional returns, and over \$1.7 billion in revenue through 2019.<sup>34</sup> The Security Summit has been aggressive in adding new financial partners to join in the fight against IDTTFR.



Source: Security Summit Data

**The IDTTFR threat has also evolved.**

Despite the Security Summit's success, the fight is not over. As the IRS has successfully evolved its efforts against IDTTFR, the criminal element has refined its techniques. The threat remains real and is still substantial. In 2015, there were approximately \$15 billion in fraudulent refund attempts. In 2019, that number dropped to roughly \$4.8 billion. The latest schemes are of a higher sophistication. It is more challenging than ever to distinguish a fraudulent return from a legitimate taxpayer's return. The fraud, though, has started to move to other forms. One area of increased concern is programs administered across multiple federal or state agencies. For example, we saw this migration recently in the evolving scams related to unemployment compensation. Recommendation #3

<sup>33</sup> U.S Congress, Senate "S.185 - 114th Congress (2015-2016): PATH Act." April 18, 2016. <https://www.congress.gov/bill/114th-congress/senate-bill/185>.

<sup>34</sup> Security Summit Data. See [irs.gov/newsroom/security-summit](https://irs.gov/newsroom/security-summit).

discusses legislation needed from Congress to address these evolving threats to taxpayer dollars.

**Professional preparers are under attack.**

Criminals need a lot of accurate data about real taxpayers to complete their sophisticated return schemes. Professional preparers have that data and are constantly under attack. Unfortunately, due to the diverse professional preparer market, sections of the market are not prepared to adequately secure taxpayer data. Many smaller offices or single preparers do not know or understand security procedures to protect the data. The IRS does an excellent job of making the preparers aware of threats and schemes, but awareness does not equate to voluntary tax professional action.

**Collaboration through work groups and the ISAC accelerate solutions.**

The Security Summit is an excellent example of the benefits cross-sector collaboration provides in addressing significant challenges. Under the overall leadership of the Director of Return Integrity & Compliance Services, Michael Beebe, the Security Summit has developed a continuous evaluation model. Like tools used by the rest of the IRS, the model is used to measure accomplishments and set yearly goals. What makes the Security Summit and ISAC approach unique is the intensity of collaboration among subject matter experts and organizational leaders across the public and private sectors. We have included the responsibilities, 2020 accomplishments, and 2021 priorities of the Security Summit in Appendix B. We note that the IRS realignments contemplated by the TFA Report provide an excellent opportunity for the Security Summit and the ISAC to reevaluate their processes and structures to ensure vigorous engagement toward the taxpayer experience is embedded within the fraud prevention mission. We suspect that this process is already underway.

## **DETAILED SUPPORT FOR ETAAC 2021 RECOMMENDATIONS**

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Below are ETAAC's 2021 recommendations and accompanying analysis, which provide essential context and elaboration for each recommendation.

We divided our recommendations between recommendations for Congressional consideration and recommendations for IRS consideration. We further divided the IRS recommendations into two categories: Electronic Filing and Security.

Several overarching themes are consistent throughout the recommendations:

- Greater digital secure access by taxpayers
- Resources
  - Budget
  - Staff
  - IT
- Transparency of IRS operations
- Partnering with States and Industry to further the taxpayer experience



**Recommendation #1: Provide the IRS with flexible, predictable multi-year funding.**

ETAAC views the single biggest challenge facing the IRS as the lack of appropriate funding. ETAAC is not alone in urging Congress to fund the IRS appropriately. The National Taxpayer Advocate and our sister committee, the Internal Revenue Service Advisory Committee (IRSAC), cite the lack of appropriate resources as a critical hindrance to providing high-quality service to all taxpayers. The Treasury Inspector General for Tax Administration (TIGTA) frequently notes budget challenges when providing recommendations for improvement. Even practitioner groups have joined the chorus.<sup>35</sup> Shortly before we finalized this report, President Biden issued his budget proposals that included significant increases in the IRS budget.<sup>36</sup> The President's support of the IRS is important and appreciated, but Congress holds the power of the purse. We will be delighted if Congress uses its ability to make this recommendation moot before our report is released.

The IRS has developed a culture and workforce that takes on whatever project Congress throws at them and uses heroic efforts to meet the greatest number of taxpayers' needs. Even with the IRS's best efforts, we have become increasingly concerned that the IRS will not sustain current activities. That means the transformational change needed – and that the IRS envisions in the TFA Report – is out of the question.

While the IRS budget has decreased over the years, its mission has expanded. The IRS is the largest tax collector globally, but the IRS also administers substantial social programs. The addition of the monthly Advance Child Tax Credit option later this summer is just the latest example of how the IRS's role has expanded in recent years. Gone are the days when a typical taxpayer needs to only think about taxes once a year. The array of tax credits and programs layered on top of an already complex tax code means that taxpayers will ultimately interact with the IRS more often, some of them as frequently as monthly. Congress (and taxpayers) rightfully expect that the IRS will provide quality service. The IRS aspires to live up to the TFA Report's expectations. In the IRS's words, its goal is to meet taxpayers where they are.<sup>37</sup> Congress must not only provide funding for essential technology overhauls, but it must also fund an ever-expanding line of education and support services related to taxes and the IRS-delivered social programs.

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<sup>35</sup> Rainey, Michael. "Lawyers to Congress: It's Time to Fund the IRS Adequately." *The Fiscal Times*, January 17, 2018. <https://www.thefiscaltimes.com/2018/01/17/Lawyers-Congress-It-s-Time-Fund-IRS-Adequately>; "AICPA to Congress: Provide IRS with Sufficient Funds to Perform Its Duties." *CPA Practice Advisor*, September 6, 2013. <https://www.cpapracticeadvisor.com/accounting-audit/news/11145398/aicpa-to-congress-provide-irs-with-sufficient-funds-to-perform-its-duties>.

<sup>36</sup> See <https://www.whitehouse.gov/wp-content/uploads/2021/04/FY2022-Discretionary-Request-Press-Release.pdf>.

<sup>37</sup> *Congress.gov*. "H.R.3151 - 116th Congress (2019-2020): Taxpayer First Act." July 1, 2019. <https://www.congress.gov/bill/116th-congress/house-bill/3151>.

Our committee takes seriously our obligation, as a committee established by an Act of Congress, to provide advice and recommendations to Congress. It is with the utmost respect and deference to Congressional authority that we recommend some specific changes to the mechanics of IRS funding, as follows:

- **Restructure the IRS's funding to eliminate appropriations categories.** These categories disincentivize efficiency and accountability because they no longer align with how modern and efficient organizations operate. Funding should be flexible to allow for accountable allocations within the IRS that are consistent with accounting principles.
- **Consistently and fully fund the IRS's budget requests each year.** Lapses, shortfalls, or general uncertainty in funding punishes taxpayers. For example, when funding for front-line taxpayer service representatives is significantly below the IRS request for that service, we should not be surprised that there are significant wait times for service. Furthermore, inconsistent funding leads to starts and stops in substantial projects, increasing the cost to taxpayers.
- **Establish a pilot benefits-based funding tool that allows the IRS to retain a portion of defined amounts it collects for technology or staffing-related projects.** Several states use this approach.<sup>38</sup> The approach incentivizes revenue collection and cost control since the agency directly benefits if it performs well. A successful system at the federal level must include accountability to Congress and ensure that the Taxpayer Bill of Rights is respected.
- **Immediately fund the backlog of technology projects described in the IRS's Technology Modernization Plan.** Many of these projects are foundational to transformative improvements to the taxpayer experience. As noted above, these projects should receive a full funding allocation for the project's anticipated cost over the typically multi-year implementation period.
- **Ensure that inapplicable budgetary limitations do not impact IRS funding.** In particular, the Program Integrity Cap<sup>39</sup> should not apply to an agency whose key role is to ensure the tax system's integrity. A better approach for the IRS would be implementing the benefits-based strategy described above.

The IRS is the revenue engine of government and is already remarkably efficient. The IRS staff are dedicated to service and are eager to implement the sweeping changes envisioned by the TFA and the TFA Report. We believe that today's IRS can meet or exceed the bi-partisan expectations to "Put Taxpayers First" with Congress's financial support.

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<sup>38</sup> For example, the Iowa Department of Revenue can use a portion of debt and tax gap collections to fund the Department's budget. See Iowa Code Sections 421.17(23) and (27).

<sup>39</sup> See IRS Congressional Budget Justification & Annual Performance Report and Plan, Fiscal Year 2021, Publication 4450 (Rev. 2-2020). <https://home.treasury.gov/system/files/266/02.-IRS-FY-2021-CJ.pdf>.

## **Recommendation #2: Accelerate the filing deadline for certain informational returns.**

ETAAC recommends that Congress accelerate the filing deadline for Forms 1099-R (Distributions from Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts) and 1099-K (Merchant Card and Third-Party Payments) returns from March 31st to January 31st.<sup>40</sup> Congress took this action in the 2015 PATH Act for wages reported on Form W-2 and for non-employee compensation reported on Form 1099.<sup>41</sup> Accelerating the filing deadlines has proven to be an effective tool to reduce fraud and increase efficiency across the tax ecosystem by allowing for more real-time matching of information reporting to tax returns. Changing the deadline also allows the IRS to leverage existing systems to serve taxpayers better and better protect the national treasury.

### **Early information returns provide faster resolution of errors.**

Third-party information returns are a proven tool that encourages voluntary compliance and helps to reduce the tax gap. Issuers of informational returns file 102 million Forms 1099-R and nearly 9.8 million Form 1099-Ks each year. As a result, millions of taxpayers must report Forms 1099-R and 1099-K income on their tax returns. The electronic filing rate is 99.8%,<sup>42</sup> but the current due date for Forms 1099-R and 1099-K is too late to serve their purpose. Taxpayers will have already filed more than 80 million tax returns by the March 31st due date of Forms 1099-R and 1099-K.<sup>43</sup> The burden of late information ultimately falls on taxpayers, either from refund delays or after-the-fact recapture of inaccurate refunds. Furthermore, late matching costs taxpayers in another way – it is more expensive for the IRS to correct returns after the fact than to match them before sending a refund.

The IRS gathers independent information about income received and taxes withheld from information returns, such as Form W-2 and 1099 filed by employers and other third parties. The IRS uses this information to verify income and withholding that taxpayers self-report on their returns. The IRS then contacts taxpayers to resolve discrepancies.<sup>44</sup>

Third-party information returns allow the IRS to detect non-filers and assess them for unpaid tax, interest, and penalties.<sup>45</sup> Finally, as the gig economy grows, more taxpayers

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<sup>40</sup> The issuer must transmit these forms to the applicable taxpayers no later than January 31.

<sup>41</sup> U.S. Congress, PATH Act, § 201.

<sup>42</sup> U.S. Department of the Treasury, Internal Revenue Service. "Statistics of Income: Calendar Year Projections of Information and Withholding Documents for the United States and IRS Campuses, 2020 Update." Publication 6961, Rev. August 2020.

<sup>43</sup> E-File Weekly Statistics, as of Midnight March 26, 2021 reflected over 85 million returns e-filed.

<sup>44</sup> U.S. Department of the Treasury, Internal Revenue Service. "IRS Data Book, 2019." Publication 55-B, Rev. August 2020.

<sup>45</sup> IRS, "IRS Data Book, 2019, 32.

**Table 22. Information Reporting Program, Fiscal Year 2019**

[Money amounts are in thousands of dollars]

Item	Number or amount
<b>Number of information returns received [1]:</b>	
<b>Total</b>	<b>3,503,499,195</b>
Paper	33,030,902
Electronic	3,139,828,988
Other [2]	330,639,305
<b>Automated Underreporter Program [3]:</b>	
Number of closed cases [4]	1,968,731
Amount of additional assessments [5]	6,656,220
Number of full-time equivalent positions [6]	1,329
<b>Automated Substitute for Return Program [7]:</b>	
Number of closed cases [8]	364,612
Actual closures	207,203
Terminated closures	157,437
Amount of additional assessments [9]	6,566,226
Number of full-time equivalent positions [6]	51

**Timely information returns are a powerful fraud-prevention tool.**

It is difficult to recover funds after payments to fraudsters. When the IRS has information returns at the beginning of the tax season, it has a better chance of detecting fraudulent refund schemes as they evolve. The IRS advises issuers of information returns to file on time because:

***"The due dates for information returns, like Forms 1099-MISC and 1099-NEC, help the IRS more easily detect refund fraud by verifying income that individuals report on their tax returns."***

***-Internal Revenue Service<sup>47</sup>***

And fraudulent filings result in additional challenges for the actual taxpayer (and the preparer), who must prove that the taxpayer, not the fraudster, is the legitimate filer. Early detection of fraud schemes minimizes the number of actual taxpayers impacted. The

<sup>46</sup> Reported on the new Form 1099-NEC.

<sup>47</sup> IRS Press Release, IR-2021-14, January 14, 2021.

amount of identity theft and fraudulent tax returns associated with Forms 1099-R and 1099-K income are rising.<sup>48</sup> The IRS reported that Form 1099-R fraud was the top scheme identified in ISAC alerts in 2020, making up nearly 45 percent of the 2020 scheme alerts.<sup>49</sup> Criminals are most successful if they file before the actual 1099 and legitimate tax returns are received by the IRS. With the late deadline for Forms 1099-R and 1099-K, the criminal's odds of success increase.

***"The criminal tax return often looks identical to the real taxpayer's return. To eliminate refund fraud entirely, the IRS and state departments of revenue would have to wait until all returns are filed and analyzed before issuing refunds."***  
***-ISAC Annual Report<sup>50</sup>***

We note that this approach has already been tested and has proven successful. In 2015, Congress passed the PATH Act, which accelerated the filing deadline for Form W-2 and some Forms 1099 to January 31. Issuers readily adapted to this change. In the tax year 2016, nearly 85% of Form W-2s were filed on time. In the tax year, 2019 on-time filings grew to almost 90%. The IRS reports that Form W-2 filings were up 140% from last year as of January 29, 2021.<sup>51</sup>

The IRS must balance taxpayer dependence upon prompt refunds against the risk that a real-looking tax return is fraudulent. Congress can help the IRS work toward more timely and accurate detection by accelerating the due date of Forms 1099-R and 1099-K. Accelerated timing would allow the IRS to independently verify 1099-R and 1099-K income while processing the taxpayer's return. Return processing and issuing of associated refunds could happen sooner and with more accuracy.

The IRS can also assist states that require Forms 1099-R and 1099-K information and simplify the filing process for Form 1099 submitters. ETAAC recommends the IRS research with states the benefit of collecting both the federal and state filing information in a single submission and passing the state information along to states that have a 1099 filing requirement.

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<sup>48</sup> IRS Briefing, Denise Davis, January 2021.

<sup>49</sup> IRS briefing to Security Summit Partners by Denise Davis, January 2021.

<sup>50</sup> IDTTRF-ISAC, "2020 Annual Report."

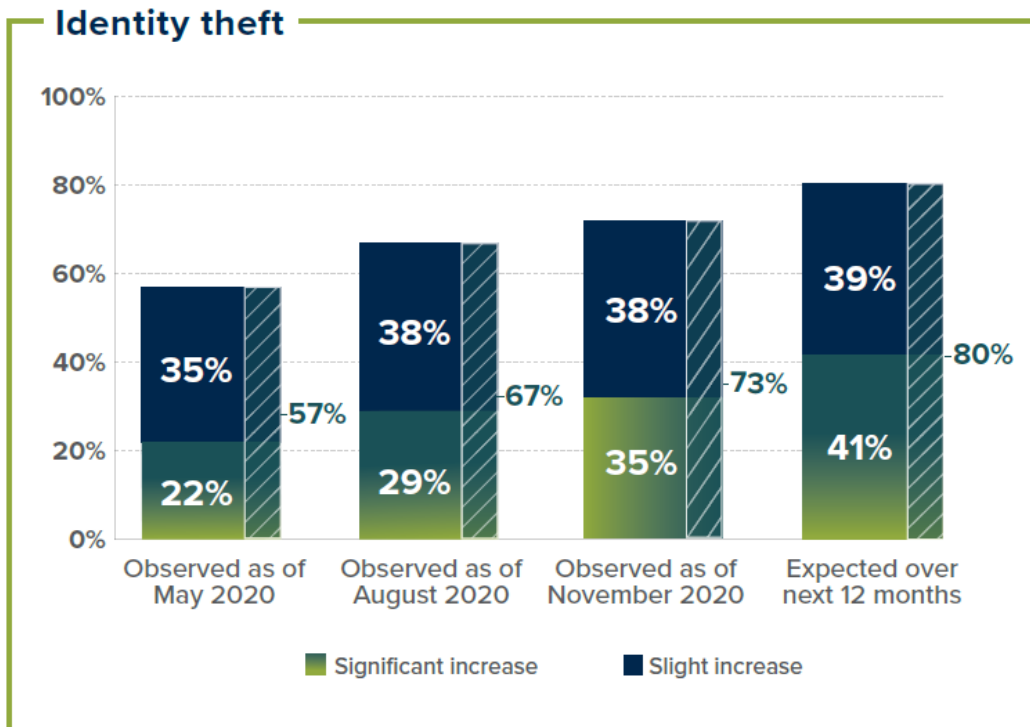
<sup>51</sup> IRS Briefing, Denise Davis, January 2021.

**Recommendation #3: Modernize the data-sharing statutes among federal agencies.**

Congress should modify IRC Section 6103 and other applicable laws to expand data sharing across federal and state agencies in support of combatting stolen identity fraud. The IRS is currently limited to sharing data with other agencies for tax administration purposes. This limitation prevents the IRS from sharing detailed data related to existing and emerging schemes with other agencies that combat stolen identity fraud.

**Criminals do not let a crisis go to waste.**

As history has shown, criminals and fraud schemes will change to find the path of least resistance. They take advantage of the uncertainty and fear caused by crises like the



pandemic to steal Americans' information. That stolen information is used to prepare fake tax return filings, send refunds to the criminal, and create a headache for the actual taxpayer. Tax law changes also create openings for criminals to take advantage of perceived or actual fraud detection gaps caused by law transitions. Criminals look for ways to use stolen information to generate a refund before the government (whether federal or state) notices. Often, those Americans most in need of help experience delays in receiving refunds due to these schemes.

In a recent study conducted by the Association of Certified Fraud Examiners (ACFE), as of November 2020, 73% of respondents said they had seen an increase in the overall level of fraud (compared to 67% in August and 57% in May), with 35% noting that this increase has been significant (compared to 29% in August and 22% in May). The survey respondents expected this trend to persist: 80% anticipated a further increase in the overall level of fraud over the next 12 months, with 41% saying this change will likely be significant.<sup>52</sup>

Since June 2020, at least 16 billion records, including credit card numbers, home addresses, phone numbers, and other personal information, have been exposed through data breaches.<sup>53</sup> The first quarter of 2020 was one of the worst in data breach history, with over 8 billion records exposed. Criminals used the same stolen identities and schemes to defraud both state and federal government.

### **Are we just squeezing the balloon?**

Since its inception in 2015, the IRS Security Summit and the IDTTRF-ISAC Partnership have significantly reduced tax refund fraud.<sup>54</sup> As the Security Summit and the ISAC's detection and prevention tools have become faster and more robust, criminal schemes have also evolved. We commend the IDTTRF-ISAC Partnership's work in protecting the tax ecosystem as a whole and in anticipating the direction of tax refund fraud. Security Summit members – from states, the private sector, and the IRS – recognize that robust prevention and detection tools in only one sector of the tax ecosystem results in pushing the fraud to a weaker part, like squeezing a balloon. Tax system hardening against fraud is a never-ending project.

The pandemic laid bare a weak link in the government's fraud prevention efforts: The intersection points between programs that cross agencies. For example, one of the areas hit hardest by these new fraud trends is unemployment compensation. As of March 31, 2021, the Office of Inspector General for the Department of Labor estimated that \$89 billion or more of coronavirus-related unemployment benefits had been improperly paid, with a significant portion constituting fraud.<sup>55</sup> Con artists are attracted to a potentially hefty payday — perhaps more than \$10,000 or \$20,000 per fraudulent claim — and have taken advantage of gaps in the unemployment fraud prevention systems.

Benefits fraud schemes, such as the pandemic-related unemployment scheme, spill over into tax administration. In most cases, government benefits received must be reported

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<sup>52</sup> Fraud in the Wake of COVID-19: Benchmarking Report, December 2020 Edition” Association of Certified Fraud Examiners, December 2020.

<sup>53</sup> “All Data Breaches in 2019 - 2021 - An Alarming Timeline.” SelfKey, April 7, 2021. <https://selfkey.org/data-breaches-in-2019/>.

<sup>54</sup> <https://www.irs.gov/newsroom/security-summit>.

<sup>55</sup> “DOL-OIG Oversight of the Unemployment Insurance Program.” Office of Inspector General - U.S. Department of Labor, Rev. March 31, 2021. <https://www.oig.dol.gov/doloiguoversightwork.htm>.

on a tax return. As in the unemployment example, the actual taxpayer receives a Form 1099-G for money never received and fraudulently applied for by a criminal. With better real-time collaboration among relevant federal and state government agencies, identity theft fraud – whether related to benefits or tax refunds – could be reduced, and the burdens on the actual taxpayers minimized.

**Modernizing cross-agency identity fraud prevention will improve the taxpayer experience.**

The Security Summit and IDTTRF-ISAC Partnership's training system, communication, and data collaboration have transformed the tax ecosystem's ability to detect and prevent identity theft tax refund fraud. The two bodies have recognized the importance of appropriate sharing of suspected and confirmed data with those directly involved in electronic tax administration.<sup>56</sup> Valuable sharing is now occurring thanks to a carefully tailored expansion to sharing authority within the TFA.<sup>57</sup>

Including fraud prevention in the TFA reminds us that tax refund fraud harms taxpayers. The ISAC designed its structure and processes to share information essential to define the applicable scheme on a need-to-know basis. While the TFA sharing provision has dramatically improved the IRS and state revenue departments' fraud-fighting abilities, the law does not include the power to share data with other federal and state agencies that are not involved in "tax administration." The law narrowly defines tax administration as the traditional function of the taxing authority.<sup>58</sup> Criminals do not have these legal restrictions and freely leverage all data sources, agencies, and recipient information.

We recommend that Congress provide appropriate authority and direction to the IRS and other federal and state agencies to share in real-time suspected and confirmed identity theft data and information in the ISAC or otherwise. To the extent necessary, Congress should authorize appropriate federal agencies to participate in the ISAC and share and receive applicable fraud-related information. Eligible federal and state agencies should include those who deliver financial benefits to Americans.

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<sup>56</sup> IDTTRF-ISAC, "2020 Annual Report."

<sup>57</sup> <https://www.irs.gov/newsroom/taxpayer-first-act-cybersecurity-and-identity-protections>.

<sup>58</sup> IRC Section 6103(b)(4) defines tax administration.



**Recommendation #4: The Form 1099 Platform should have functionality that integrates with key stakeholders at the time of rollout.**

The TFA requires the IRS to develop a web-based Form 1099 Platform (the "1099 Platform" or the "Platform") with a user interface and functionality like the Social Security Administration's W-2 Portal. The Act requires the Platform to be live by January 1st, 2023.<sup>59</sup>

**The IRS has sought input and information from stakeholders in the initial development phase of the 1099 Platform.**

In our 2020 report, we provided our preliminary recommendation concerning the 1099 Platform. At that time, the IRS was early in the planning process. We recommended the following:

*The IRS should expand its existing collaboration with states and industry in the design and implementation of the TFA-mandated 1099 service in a way that anticipates its integration into future modernized IRS systems.<sup>60</sup>*

Since the project's inception, the IRS has made significant progress in designing the new web-based customer-facing 1099 Platform. Consistent with our recommendation, the IRS has worked collaboratively with stakeholders, including gathering information and input from taxpayer groups, practitioners, states, and industry. See Figure 1 for highlights of the project accomplishments. In our view, collaboration and communication with stakeholders will be increasingly important when adding features and developing the back-end administrative and compliance tools.

**Development of the customer-facing interface is progressing well, with features that improve the taxpayer experience.**

As mandated by Congress, the IRS is designing the Form 1099 Platform to supplement, not replace, the existing 1099 e-file portal, FIRE. FIRE is a web-based portal for bulk file uploads of Forms 1099 that has existed for over two decades. Payors who file 250 or more Forms 1099 each year must use FIRE. Thus, the focus of the new 1099 Platform is on adding a user-friendly tool for lower-volume filers. The Platform progress as of October 2020 is depicted below.

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<sup>59</sup> The statutory text of the 1099 Platform mandate is set forth Section 2102 of the Taxpayer First Act, Public Law 116-25, codified at 26 USC 6011.

<sup>60</sup> Recommendation #10, 2020 ETAAC Report to Congress.



## Project Accomplishments

Summarized below are the key developments and accomplishments to ensure delivery of the TFA Sec. 2102 1099 platform by the legislative deadline of January 1, 2023.



### Team Formation

Formed a team with representatives from SB/SE, W&I, TE/GE, LB&I, Counsel, IT, and other impacted organizations throughout the IRS



### Counsel Input

Secured input from IRS Chief Counsel on legislative intent and requirements



### SSA System Research

Viewed a demonstration of SSA's Business Services Online Suite of Services in November and conducted a follow-up meeting in April



### Other Agency System Research

Performed research on similar systems used by states and Canada



### External Outreach

Conducted outreach to external industry and practitioner groups and sought input on system needs



### System Capabilities

Completed validation and prioritization for high-level business requirements, including defined areas, capabilities, and user stories



### User Interface Development

Partnering with IT to define priorities for prototype development, clarify system requirements, and provide feedback on wireframes



### Customer Research

Collaborating with IT and Online Services (OLS) to conduct customer research and usability testing for the most current iteration of the prototype

The Platform's planned functionality is significantly more robust than the minimum requirements outlined in the TFA and reflects the IRS's growing commitment to meeting taxpayers where they are.<sup>61</sup> Many of the planned features are typical of what Americans expect in their online commercial transactions. The system will have inline error check capability at the launch time and will have functionality that allows the pre-population of data by 2024. These two features will enable users to correct or avoid errors some basic mistakes before filing and should help to ensure that the payees receive the correct information returns the first time. The IRS also intends the system to allow pre-population of forms with prior year data. These two features will enable users to correct or avoid errors – such as mistyped names, social security, or tax id numbers – before submission. These tools help to ensure that taxpayers receive the correct information the first time. Fewer taxpayers will experience the burden of seeking a corrected 1099 during the filing season or later. We are pleased to see that IRS plans that the Platform will allow file uploads for multiple Form 1099s when the Platform is launched. This feature will help taxpayers who use accounting software or electronic spreadsheets more easily maintain their business records.

### If you build it, they will come.

<sup>61</sup> In addition to providing access to information and guidance, the 1099 Platform must allow users to prepare Form 1099 for distribution and filing and to maintain a record of completed, filed, and distributed Forms. See Section 2102(a) of TFA.

As noted in our 2020 recommendation, the IRS should ensure that the Platform's design anticipates the future modernization of other components with which the Platform will need to integrate. The IRS has indicated that they are developing an information return modernization plan. The current iteration of the draft plan envisions the Platform, including functionality designed for larger volume users, including application programming interfaces (APIs). The 1099 Platform team has indicated that API functionality is expected to be available when the Platform is launched and that FIRE users will be permitted to satisfy their obligations using the new Platform. It will be important for the IRS to engage in early, detailed communications with larger filers so that taxpayers, filers, and the IRS can fully reap the benefits of the new Platform right away.

**Collaboration and future-focused design in the security and data management components of the Platform will be key in ensuring that the Platform achieves Congress' goals.**

ETAAC was pleased to learn that the IRS has begun developing an overall information return modernization strategy. As with other initiatives, and consistent with last year's recommendation, we encourage the IRS to include stakeholders, particularly state revenue agencies and the private sector, in developing the modernization strategy and the continued evolution of the Platform and FIRE. Preparation, distribution, and records management are three distinct functional requirements within the TFA's directives for the 1099 Platform. These requirements are equally important in developing an overall information return modernization strategy.

We recommend the IRS establish a cross-sectional working group of IRS, State, and Software Industry partners across the relevant divisions of each agency or company to develop a holistic and modern approach to the information return process. We recommend that the working group be tasked with identifying the requirements of all applicable groups. Working together, they should create a joint solution that addresses partner and taxpayer needs, protects taxpayers and revenue systems, and results in taxpayer-friendly solutions that enhance voluntary compliance. This approach has proven successful on many occasions. Major successful initiatives resulting from this approach include the development of Modernized E-file in the late 1990s (MeF) to the more recent fraud prevention efforts of the Security Summit.

**Information returns only do their job if they are authentic.**

We understand that the IRS plans to use the new SADI system to authenticate users of the 1099 Platform. This means that a person filing on behalf of a business must authenticate themselves and demonstrate that they have authority to act on behalf of the business. We strongly support this approach. Information returns provide checks and balances within the tax system. Without controls on who can access and create

information returns, the new Platform could be a vehicle for criminals to increase their fraudulent activities. Recommendation 2 of this report provides further information about tax refund fraud in the context of information returns.

**The 1099 Platform must leverage the tools and resources of the Security Summit, including the ISAC, to protect taxpayers and the federal treasury.**

The best way to prevent IDTTRF is to stop returns from entering the tax system – both at the federal and state levels. Using appropriate authentication tools, as described above, attack the entry point. But those tools are not foolproof. For that reason, the 1099 Platform must integrate with the robust fraud prevention tools that already exist to identify and stop fraud that has entered the system quickly. It is critically important that the IRS ensure that the Platform shares information with the ISAC. Also, the IRS and its Security Summit partners must receive relevant fraud prevention data points timely. Currently, the IRS does not transmit Form 1099 data to states until the filing season is over. By then, the data is too late to stop IDTTRF. The Platform should ensure that the necessary security integration, processes, and procedures are in place.

## **Recommendation #5: Increase the electronic filing goals.**

### **Setting the goal.**

Section 2001(a) of the IRS Restructuring and Reform Act of 1998 (RRA 98)<sup>62</sup> provided that "it is the policy of Congress that -- paperless filing should be the preferred and most convenient means of filing Federal tax and information returns. The Internal Revenue Service's goal is to have at least 80 percent of all such returns filed electronically by 2007. The Internal Revenue Service should cooperate with and encourage the private sector by encouraging competition to increase electronic filing of such returns." Section 2001(b)(2) of RRA 98 authorized the creation of ETAAC, whose charter provides that the Committee research, analyze, consider and make recommendations on the IRS's progress toward achieving its 80% e-file goal.

According to its definition of "e-File Rate" in the IRS Strategic Plan 2009-2013,<sup>63</sup> IRS reported that it would "measure the percentage of all major tax returns filed electronically by individuals, businesses, and tax-exempt entities."<sup>64</sup> The IRS defined "Major" tax returns as those in which filers account for income, expenses, or tax liabilities.<sup>65</sup> "The IRS has not redefined this term in either of its two subsequent Strategic Plans or otherwise."<sup>66</sup> The IRS reached the 80% goal in 2017 for major returns as defined in the 2009-2013 Strategic Plan.

### **The pandemic taught us this: paper filing should be the exception to the rule.**

ETAAC believes that recent taxpayer experience was negatively affected due to the COVID-19 pandemic -- both in 2020 and 2021. The negative impacts were seen across the system; we suspect that every Congressional member received calls from constituents facing challenges with their taxes. The root cause of these problems: chronic underfunding of IRS technology and other taxpayer experience tools.<sup>67</sup> The pandemic underscored the value of electronic filing of tax returns, especially those that the IRS does not consider major returns. With e-filing, taxpayers get refunds or applicable IRS responses quicker at a lower cost. Both benefits make for a better taxpayer experience.

The pandemic-driven closure of IRS processing centers resulted in extended delays in processing returns of all types. On November 24th, 2020, the IRS noted that 7.1 million

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<sup>62</sup> Congress.gov. "H.R.2676 - 105th Congress (1997-1998): Internal Revenue Service Restructuring and Reform Act of 1998." July 22, 1998. <https://www.congress.gov/bill/105th-congress/house-bill/2676>.

<sup>63</sup> Publication 3744, (April 2009).

<sup>64</sup> The 80% series consists of the following return Forms: 1040 series (individual), 1120 series (corporate), 1065 (partnership), 1041 (Trusts and Estates), 990 (Exempt Entities), 94X (employment).

<sup>65</sup> <https://www.irs.gov/pub/is-prior/p3744-2009.pdf>.

<sup>66</sup> The IRS issued new Strategic Plans for the 2014-2017 period and for the 2018-2022 period.

<sup>67</sup> For further discussion of impacts of underfunding, see Recommendation #1.

2019 individual income tax returns remained unprocessed.<sup>68</sup> The unprocessed returns caused a delay in taxpayer refunds and the posting of payments to taxpayer accounts. Processing delays were understandable because COVID-19 prevented IRS staff from working in the office to process paper-filed returns. While 1040 personal returns reached an electronic filing rate of over 90%, other related individual returns, such as estimates, amendment, and extensions, fared much worse. It would seem clear that there are other barriers with these other personal returns that are preventing them from being electronically filed.

### **Redefine the goal.**

The IRS's 80% goal, as defined in the 2009-2013 Strategic Plan, has now been met. ETAAC recommends that the IRS's upcoming strategic plan redefine the e-filing goal to be consistent with Congress's policy vision.

***"[I]t is the policy of Congress that --  
paperless filing should be the preferred  
and most convenient means of filing  
Federal tax and information returns.***

***-RRA 1998***

Furthermore, the IRS has articulated its digital-first vision in its Technology Modernization Plan.<sup>69</sup> It recognizes the need for user-friendly online services to improve the taxpayer experience in its TFA Report.<sup>70</sup> The Strategic Plan goal should be consistent with the IRS's digital-first philosophy. To achieve the new goal, we recommend that the IRS prioritize work that will make e-filing available or easier for Forms with significant filing volume.

### **Form 1040X.**

Using the IRS's definition, the Form 1040X Amended Return should be considered a major return used in their overall electronic filing calculation. We commend the IRS for opening e-filing for Form 1040X, which began in August of 2020. The IRS is phasing in e-filing availability, initially limiting e-filing to the 2019 return. By 2022, the IRS will allow three years of returns, the usual time allotted to file an amended return. The IRS projects more than 3 million 1040X returns to be filed each year, with the projected e-filing rate to

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<sup>68</sup> Pitts, Breana. "It's Unacceptable,' IRS Still Processing Millions Of 2019 Tax Returns." CBS Boston. CBS Boston, December 28, 2020. <https://boston.cbslocal.com/2020/12/28/irs-tax-return-delays-late-refund-checks-2019/>.

<sup>69</sup> See IRS Integrated Modernization Business Plan (April 2019).

<sup>70</sup> See IRS Taxpayer First Act Report to Congress (January 2021).

be approximately 47% in 2022.<sup>71</sup> Due to the late release and phased-in approach, ETAAC chose not to include the 1040X in the overall e-filing rate for their report but should do so for future reports.

### 1040X E-filing rate

<i>Electronic</i>	<i>Paper</i>	<i>Total</i>	<i>E-filing rate</i>
163,400	3,188,600	3,352,000	.05%

Publication 6186 (Rev. 11-2020)

### Overall E-filing %

- Excluding Form 1040X : **84.2%**
- Including Form 1040X: **82.9%**<sup>72</sup>

ETAAC believes the IRS can increase the percentage of 1040X returns filed electronically with additional enhancements. Processing Form 1040X returns, even those filed electronically, involves manual processing, which adds significant processing time. When the taxpayers' experience is improved, so will the electronic filing rate. Also, currently, refunds cannot be direct deposited on a 1040X return. Adding this functionality benefits the taxpayer and the IRS as it reduces paper checks.

### Form 1040-ES

The IRS processed over 21 million Form 1040-ESs in 2020, but only approximately 250,000 of these Forms, or 1.1%, were filed electronically. IRS projects that in 2027, the electronic filing rate would only rise by .5% to 1.6%.<sup>73</sup> There is an opportunity for the IRS to analyze and improve the estimated tax returns' filing capabilities and the corresponding electronic payment of the estimated taxes due. It is important to note that e-filing of Form 1040-ES includes e-payment of the estimated tax. The IRS has two e-pay portals available to taxpayers: Electronic Federal Tax Payment System (EFTPS) and Direct Pay.<sup>74</sup>

ETAAC is concerned that the IRS appears to view the barriers to e-filing estimates as too high to progress in this area significantly. EFTPS will be replaced by the new Transforming Tax Collections (T2C) system built by the Bureau of Fiscal Services and Bank of Cleveland in partnership with IRS. We expect that a few minor changes to Direct Pay could move the needle materially. We recommend that the IRS consider the following technical updates to the tax payment systems:

<sup>71</sup> U.S. Department of the Treasury, Internal Revenue Service. "Statistics of Income: Calendar Year Projections for United States and IRS Campuses, 2020-2027." Publication 6186, Rev. November 2020.

<sup>72</sup> Calculated using IRS projections from publication 6186.

<sup>73</sup> Calculated using IRS projections from publication 6186.

<sup>74</sup> EFTPS can be found at <https://www.eftps.gov/eftps>. IRS Direct Pay can be found at <https://www.irs.gov/payments/direct-pay>.

**Direct Pay:** Allow scheduling of all four estimate payments at once. The current limit of two payments per day requires a taxpayer to return to Direct Pay on another day to schedule and pay all four estimated payments electronically.

**Direct Pay:** Remove the exact matching, down to the period, space, and capitalization, identity requirements on Direct Pay. This change should not compromise the integrity of the system.

### 1040/41ES- E-filing rate

	<i>Electronic</i>	<i>Paper</i>	<i>Total</i>	<i>E-filing rate</i>
1040	249,400	20,920,000	21,169,400	<b>1.18%</b>
1041	0	723,500	723,500	<b>0.00%</b>
Total	249,000	21,643,500	21,829,900	<b>1.14%</b>

Publication 6186 (Rev. 11-2020)

### Overall E-filing %

- Excluding Form 1040-ES: **84.2%**
- Including Form 1040-ES: **76.3%**

ETAAC understands why the 1041-ES does not have electronic filing capability based on a limited budget and expected usage. We include those numbers to highlight any potential solution impacts more than one return. Also, ETAAC recommends that the IRS convene a meeting with industry members and states that have been successful in this area to discuss barriers and how to mitigate them.

### Extensions

Electronic filing is available for all the major extensions of time to file returns. Often, taxpayers include a payment with the extension filing to avoid potential interest and underpayment penalty liability.

### Extension E-filing rate

	<b>Electronic</b>	<b>Paper</b>	<b>Total</b>	<b>E-filing rate</b>
Individual	12,047,000	4,276,200	16,323,200	<b>73.80%</b>
Business	7,313,800	869,200	8,183,000	<b>89.38%</b>
Exempt Organizations	427,800	171,000	598,800	<b>71.44%</b>
Total Extensions	19,788,600	5,316,400	25,205,000	<b>78.82%</b>

Publication 6186 (Rev. 11-2020)



#### Overall E-filing %

- Excluding major extension forms: **84.2%**
- Including major extension forms: **83.6%**

Paper returns are most likely to result in paper payments. Any consideration for mitigating the Form 1040-ES payment issues also applies to the extensions.

#### **Resetting the target.**

The IRS can reset its goals by simply raising the overall target percentage or by expanding the list of major forms or do both. ETAAC urges the IRS to extend the mandate's scope that impacts taxpayers internally. If the IRS included all the tax forms discussed, the new overall percentage would be 75.5%

#### Overall E-filing %

- Excluding Forms 1040X,1040-ES and Extensions: **84.2%**
- Including Forms 1040X,1040-ES and Extensions: **75.8%**

#### **Note on e-filing of employment tax returns.**

Employment tax returns are a part of the current calculation for the 80% goal; however, their electronic filing rates continue to lag other major return types. The IRS projects an electronic filing rate of 52.6% in 2021, well below the 80% goal. The 2018 ETAAC report to Congress included a recommendation to increase the electronic filing of employment returns, and ETAAC supports this recommendation.<sup>75</sup>

In response to that recommendation, the IRS stated in part:

*Phase Two - IRS continues to look for process refinement opportunities but believes the authentication and signature barrier must be dealt with at a corporate level before making strides in e-filing volumes for 94x.*

ETAAC understands the IRS's response, but we continue to believe that more progress must be made in removing these barriers. The COVID pandemic has magnified the lack of progress in this area by the inability to file an amended 941 return electronically. Congress has made efforts to help small businesses by providing payroll credits. Without the capability to file an amended 941 return, there are no reasonable solutions for the IRS to quickly process these paper returns and get the intended relief to businesses. The IRS needs to place greater emphasis on electronically filed employment returns.

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<sup>75</sup> Department of the Treasury, IRS Electronic Tax Administration Advisory Committee, "Annual Report to Congress." August 2018.

**Recommendation #6: Enhance the taxpayer experience in the IRS Identity Theft Tax Refund Fraud (IDTTRF) resolution process.**

**The Taxpayer Protection Program is an effective tool that has potential for further improvement.**

The most frequently applied identity verification process at the IRS occurs after a tax return is received. The Return and Integrity Compliance Services (RICS) Division filters the values on the tax return, programmatically seeking anomalies typically tied to identity theft. If a return is flagged as “suspicious” or potential identity theft, it is earmarked for the Taxpayer Protection Program (TPP).<sup>76</sup> The TPP is successful in its operation, as noted by the steady decrease in refund fraud since its inception. However, in part, because fraudulent returns often look nearly identical to actual returns, the process can result in refund delays for legitimate taxpayers. We commend the IRS for its current work in evaluating improvement in TPP. We offer our perspective on the challenges faced by innocent taxpayers while remaining mindful of the difficulty in authenticating a taxpayer whose identity has been fraudulently used.

**False positives are falling but continue to be tough to avoid.**

The TPP process has been studied recently by TIGTA. In a report dated October 17, 2018, the agency remarked that the TPP program “Included processes and procedures that are generally effective in reducing taxpayer burden.”<sup>77</sup> However, TIGTA also reported a 65% false-positive rate for the calendar year 2017.<sup>78</sup> More recently, the false-positive rate for 2019 fell to approximately 50%, including EIP returns.<sup>79</sup>

Once a taxpayer responds to the verification letter, the average time for processing the information and issuing the refund remains significant. In the calendar year 2017, the post-response processing time was 46 days, more than twice the 21-day standard response time for a refund not included in the TPP.<sup>80</sup> More recently, the IRS reported that the post-response processing time was 75 days. It is unclear how the pandemic influenced that outcome.

Statistics provided by the IRS show that in 2019, 1.3 million people took the verification quiz and passed, but 481,000 taxpayers did not respond.<sup>81</sup> The IRS considers failure to respond to the verification letter as an example of confirmed identity theft. However, there are many reasons other than confirmed ID theft that could explain the non-response. Lost

<sup>76</sup> “How IRS ID Theft Victim Assistance Works: Internal Revenue Service.” IRS, December 9, 2020.

<https://www.irs.gov/individuals/how-irs-id-theft-victim-assistance-works>.

<sup>77</sup> “Results of the 2020 Filing Season.”

<sup>78</sup> Ibid.

<sup>79</sup> Ibid.

<sup>80</sup> “Results of the 2020 Filing Season.”

<sup>81</sup> Note that the IRS does not record information about the number of people who failed the quiz and therefore could not prove their identity.

mail or mailing to an old address are among the possible causes for non-response. We have also heard anecdotal stories where people are too frightened or intimidated to even open mail from the IRS. However, the high number of false positives suggests that non-response should not, without more verification, be assumed to be confirmed fraud. The IRS initiated a pilot program for the 2021 filing season where 150,000 taxpayers selected for the TPP will receive different wording intended to explain better the process and steps needed to improve the response rate. We are eager to see the results of this pilot.

The TPP program is an effective way to prevent criminals from stealing treasury dollars, but it is also costly. The IRS mails a letter to all those selected for the program at the cost of \$0.64 each. Then, it costs the IRS varying amounts per method used by the taxpayer.

- The online self-help process called ID Verify is \$1.00 for each use.
- Someone calling in to speak to an IRS employee to verify themselves costs the IRS \$6.50 each time.
- In-person verification costs the IRS \$15 per visit.

Hence the IRS can spend anywhere from \$1.64 to \$15.64 or more per return to resolve a false-positive result.

### **Expanded availability of Identity Protection Personal Identification Numbers provides taxpayers a new level of control.**

In the 2020 ETAAC report, we identified the Identity Protection Personal Identification Number (IPPIN) Program as the only proactive IDTTRF solution available. ETAAC recommended expansion beyond the few taxpayers who were then able to access it.<sup>82</sup> We were pleased that, in December 2020, the IRS announced that the IPPIN would be available nationwide for the 2021 filing season.<sup>83</sup> ETAAC commends the IRS for the nationwide expansion of the IPPIN program several years before the TFA-imposed deadline.<sup>84</sup> The IPPIN acts as a lock on the taxpayer's account, preventing return processing without the secret code – the six-digit IPPIN.

The IRS automatically enrolls known identity theft victims in the IPPIN Program and mails them a letter each year with the assigned IPPIN.<sup>85</sup> Also, any taxpayer may now opt-in to the IPPIN Program. To do so, the taxpayer must have or create a secure access account at IRS.gov and pass a rigorous identity verification process.

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<sup>82</sup> Recommendation 9, ETAAC 2020 Annual Report.

<sup>83</sup> "Identity Protection PIN Program Will Soon Be Available to Taxpayers Nationwide." IRS, December 9, 2020. <https://www.irs.gov/newsroom/identity-protection-pin-program-will-soon-be-available-to-taxpayers-nationwide>.

<sup>84</sup> The Taxpayer First Act was enacted on July 1, 2019 and required nationwide availability of IPPINs no later than five years after enactment. See TFA Section 2005.

<sup>85</sup> The IPPIN letter is known as the CP01A notice.

Some taxpayers may not have sufficient information to verify their identity online. The IRS has recently developed procedures for in-person verification or verification using a paper application in those cases.<sup>86</sup> We are mindful of the critical need to authenticate only taxpayers and not criminal imposters accurately. However, we are concerned that some taxpayers find setting up an online account difficult. As mentioned previously, to enroll in the IPPIN program online, you must first have an IRS account. Once the taxpayer has an IRS account, the taxpayer must pass the verification test. To create an IRS account, the taxpayer must pass the verification test. Taxpayers are having difficulty passing both verification tests.

We recommend that the applicable IRS units seek input from Security Summit partners to continue to evolve the steps needed to authenticate taxpayers who want to opt-in to using IPPIN. Furthermore, we recommend that the IRS establish benchmarks for opt-in participation.

**Awareness campaigns by the IRS and other stakeholders must begin early.**

IPPINs offer peace of mind and a faster and more manageable path through the fraud resolution process. In the 2020 filing season, out of the program's 4.6 million participants, a little more than 100,000 returns were selected by the IRS fraud filters. Those selections included returns where the IPPIN listed on the tax return did not match the IRS's file for the legitimate taxpayer. Voluntarily enrolling in the IPPIN program helps the IRS more quickly determine return validity.

Many taxpayers are still unaware of the IPPIN program and its ability to protect their return. Of the 4.6 million IPPINs issued last year, the IRS automatically enrolled 97% (4,462,000) as they were confirmed identity theft victims. Only 3% (138,000) voluntarily opted-in to the program. The low number of opt-in users can be attributed to the program not being available nationwide until December 2020 and, in part to the lack of taxpayer awareness of the program.

ETAAC recommends promoting the IPPIN program as the easiest, least costly short-term method of putting the taxpayer in control of their return verification. The IRS should encourage its stakeholders to support and share this message. Recognizing that, for now, obtaining an online account can take time, the campaign should begin well before the start of the filing season.

As noted in Recommendation 10 of this report, ETAAC commends the IRS for exploring innovations to ease the taxpayer experience validation process. Integrating an analogous pre-filing ID verification into the tax filing system could better satisfy fraud prevention

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<sup>86</sup> Paper authentication is made on Form 15227. The IRS website provides details on what information is needed to set up an online account and obtain an IPPIN. <https://www.irs.gov/identity-theft-fraud-scams/get-an-identity-protection-pin>.

goals. Pre-filing verification would ideally ensure that an authenticated taxpayer has a smooth path through the fraud components of the filing system. Another potential solution could be asking tax software companies to add this as an optional way to log into their systems or to include this ID verification step after logging in. They could send a value with the authentication header on the tax return indicating a positive ID verification. This federated approach seems to be the fastest way to bring to fruition just having one login for all federal government services, a US General Services Administration's goal.<sup>87</sup>

**The IRS adopted an innovative approach to help address the problem of practitioner breaches.**

A new program implemented by the IRS straddles both pre-filing and post-filing of tax returns. It serves the professional practitioner community impacted by identity thieves in recent years as they remain a rich target for criminals. In February 2021, the IRS issued another alert related to criminals trying to obtain Electronic Filing Identification Numbers (EFINs) from preparers or staff.

***“Phishing scams are the most common tool used by identity thieves to trick tax professionals into disclosing sensitive information, and we often see increased activity during filing season. Tax professionals must remain vigilant. The scammers are continually active and highly creative.”***

**- IRS Commissioner Chuck Rettig<sup>88</sup>**

Hackers also attempt and are often successful in breaking into an office network and obtaining taxpayer information. Between phishing attempts, network compromises, and account takeovers, the professional preparer's offices have been under attack. The pandemic-driven remote work creates more opportunities for security gaps. A recent press release from the IRS targeted tax pros and included this statement:

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<sup>87</sup> “Technology Transformation Services.” GSA, February 23, 2021. <https://www.gsa.gov/about-us/organization/federal-acquisition-service/technology-transformation-services>.

<sup>88</sup> “IRS, Summit Partners Issue Urgent EFIN Scam Alert to Tax Professionals.” IRS, February 10, 2021. <https://www.irs.gov/newsroom/irs-summit-partners-issue-urgent-efin-scam-alert-to-tax-professionals>.

***“As the IRS and Security Summit partners took important steps to strengthen defenses against cybercriminals, identity thieves increasingly turned to tax professionals, targeting their offices and systems. Data thefts from tax professionals can provide valuable information to thieves trying to file fraudulent tax returns.”***

The release included suggestions about basic security measures practitioners should take to harden their environment against data loss.<sup>89</sup>

While education to prevent data loss is one step, the IRS Liaison Stakeholder Division and the RICS Division worked to modify the existing Practitioner Relief Program (PRP) to create a novel solution to protecting taxpayer information after a practitioner is compromised. ETAAC applauds the divisions for thinking creatively to address taxpayer and practitioner needs and is an extension of the PRP.

Under PRP, practitioners who discover a data compromise contact their IRS stakeholder liaison as soon as the compromise is detected. The liaison serves as the practitioner’s point of contact, notifying IRS Criminal Investigation that criminals may have compromised a practitioner’s EFIN and other data and systems. The liaison also helps the practitioner institute protocols to minimize the impact on the applicable taxpayers.

Practitioners can now opt-in to a new feature of the program, under which the RICS division helps manage potentially impacted clients’ returns through the filing season. For returns not yet filed, the IRS assigns the practitioner-specific data to send in before filing the return. The IRS matches the data to what they have on file, and if a positive match, the practitioner is cleared to file the return. Between the 2019 and 2020 filing seasons, the IRS managed approximately 300,000 returns this way. For returns filed by the practitioner before they discover a breach, RICS works with the filed return client list and validates data points to determine legitimately filed tax returns. This innovative, behind-the-scenes work minimizes impacts on legitimate taxpayers.<sup>90</sup>

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<sup>89</sup> <https://www.irs.gov/newsroom/national-tax-security-awareness-week-day-5-security-summit-alerts-tax-professionals-to-potential-telework-scams-during-covid-19-urges-all-practitioners-to-use-multi-factor-authentication>

<sup>90</sup> We note that practitioners who have been compromised likely have reporting requirements outside of the tax system. Reporting requirements may include filings with state attorneys general, the Federal Trade Commission, and others. Those are beyond the scope of our report, and are, except in limited cases, outside of the jurisdiction of the IRS. See Loving v. IRS, 742 F.3d 1013 (2014).

**Recommendation #7: Allow for greater transparency into return processing status.**

**The IRS's "Where's My Refund" suite of tools gives easy access to basic return status information.**

ETAAC commends the IRS for providing timely, online access to valuable tax return status information to millions of taxpayers each year. The IRS offers basic tax return processing information for taxpayers expecting a refund through the self-service Where's My Refund (WMR) suite of tools. To check the status of their tax refund, taxpayers can choose to:

- Go to [IRS.gov/refunds](https://www.irs.gov/refunds) for refund status (the online WMR tool),
- Select Refund Status on the IRS2Go mobile app (the mobile WMR tool), or
- Call the automated refund hotline: 1-800-829-1954 (the WMR hotline).

In 2020, the IRS received over 545 million contacts to the WMR tools (by phone, online, and in the app) from over 54 million unique taxpayers.<sup>91</sup> Refund status information becomes available in the WMR tools 24 hours after the IRS accepts an e-filed return for processing and approximately four weeks after filing a paper return. The information currently available through the IRS WMR tools includes:

- High-level processing status,
- Refund date,
- High-level offset and math error information,
- Contact information for further questions, and
- Helpful links for additional information.

The tax return tracking tools that exist today, specifically the digital WMR tools, benefit taxpayers who want a quick update on their tax refund status. Overall, WMR works well for taxpayers whose returns are correct and have no debts to offset. The IRS processes an error-free electronically filed return in 21 days or less, and the IRS communicates the expected timeline through multiple channels.<sup>92</sup> However, taxpayers whose returns are delayed do not receive enough information to get a clear picture of the status of their tax return or what they can do to resolve outstanding issues.

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<sup>91</sup> See IRS Filing Season Statistics.

<sup>92</sup> In addition to the "WMR" suite of tools, the IRS uses its website, social media, email newsletters and periodic briefings among other channels to communicate to the public and practitioners.

**Accelerating the availability of additional information through the self-service return tracking toolset will improve the taxpayer experience.**

The most common types of delays are attributable to return errors and offsets. Processing delays occur when the IRS systems detect a problem with a return that requires human intervention. Refund offsets – deductions from the refund request on a return – may also slow refund issuance and generally occur when the taxpayer owes back child support or government debt. If either of these events occur, the IRS directs taxpayers to phone, in person, or mail communication channels to resolve problems or get more information. By not having self-service tools available, through WMR or otherwise, the IRS ends up driving a population willing to use its fast and easy self-service tools back into the channels that require slower and more expensive human interaction. ETAAC recognizes that the IRS has done an excellent job articulating a vision for the taxpayer experience, including an increasingly robust online taxpayer account.<sup>93</sup> Specifically, the IRS envisions this enhanced online account will, among other features, provide a taxpayer with access to:

- Integrated refund tracking with enhanced refund tracking and issue resolution tracking.
- Taxpayer Digital Communications Outbound Notifications (TDC-ON), providing taxpayers with the ability to receive online notifications and opt into digital notice delivery (for specific notices).
- Secure two-way messaging, which allows taxpayers to utilize their IRS online account to communicate directly and securely with IRS to resolve specific issues.

Based upon the timeline provided in the IRS's TFA Report, many of these enhanced features will not be rolled out until FY2023, at the earliest, with some carrying into FY2030 for a full rollout.<sup>94</sup> In our view, these services would provide significant value, ultimately reducing the number of phone calls, in-person visits, and letters necessary to resolve issues. ETAAC recommends that the IRS accelerate taxpayer access to a more complete tax return information status to free IRS staff to handle other valuable work. The additional information provided should allow the taxpayer to quickly identify the next steps they must take to complete their tax return processing and, if applicable, obtain their tax refund. ETAAC recommends the IRS expand the information available through one or more self-service tools to include:

- The refund amount issued (when that differs from the amount claimed on their tax return),

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<sup>93</sup> See, IRS Integrated Modernization Business Plan, pages 13, 17-20 published April 2019, at: [https://www.irs.gov/pub/irs-utl/irs\\_2019\\_integrated\\_modernization\\_business\\_plan.pdf](https://www.irs.gov/pub/irs-utl/irs_2019_integrated_modernization_business_plan.pdf), and IRS Taxpayer First Act Report to Congress, pages 18, 35, 41-44, 53, published January 2021, at: <https://www.irs.gov/pub/irs-pdf/p5426.pdf>.

<sup>94</sup> Ibid., 44-45, 57.



- Specific information when the IRS uses math error authority to change the amount of a taxpayer's refund (i.e., specify the change that occurred),
- Processing delay information (including for situations where a tax return falls into Errors Resolution or other special processing and where a taxpayer may need to take additional steps before their tax return is fully processed),
- Expanded tax refund offset information, and
- Return processing information for taxpayers that are not requesting a refund.

ETAAC recommends that the IRS fast-track access to these additional items in an enhanced return tracking tool. We recommend that the IRS analyze phone, in-person, and correspondence interactions regarding return status to prioritize a digital solution for those topic areas with the highest need. If the taxpayer needs to act before their return is released, electronically providing this additional information will expedite the resolution of the issue. Furthermore, even when the return is delayed that may not require further taxpayer action, the extra clarity on status may cut down on repeat calls from taxpayers seeking to speak to a human to obtain more information on the delay.

The 2021 filing season – the second during the pandemic - highlights the urgency of this recommendation. Millions of taxpayers have filed 2020 tax returns claiming either the Recovery Rebate Credit or electing to use 2019 earned income for calculating the Earned Income Credit or Additional Child Tax Credit.<sup>95</sup> Processing these returns generally requires some human intervention, which has created a substantial backlog of returns at the IRS. As of April 23, 2021, the IRS had 16.9 million unprocessed individual returns in the pipeline, over 15 million of which were current year tax returns. The COVID protocols to protect IRS staff create more significant than usual delays in a process that was already time-consuming in a typical tax year. Though the IRS advises taxpayers to watch WMR rather than calling, it seems likely that many still call, burdening the already clogged phone lines.

We expect that many of the items listed above are already on the IRS's radar for the future. The extended timeline for the rollout of these critical features for taxpayers may speak to the need for an interim solution or expedited timeline. We recommend that the IRS consider adding additional tools to WMR as a temporary solution or accelerating the implementation of these features within taxpayer accounts.

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<sup>95</sup> See <https://www.irs.gov/newsroom/irs-operations-during-covid-19-mission-critical-functions-continue>.

Some return processing information may be particularly sensitive from a fraud-prevention perspective.<sup>96</sup> ETAAC recognizes that the taxpayer's current level of authentication to access WMR channels may not provide sufficient identity assurance for the increased information access recommended. Or further authentication may be necessary before a taxpayer can perform specific acts to complete the processing of their tax return. In collaboration with its Security Summit partners, we recommend that the IRS perform a risk assessment and prioritize implementation accordingly.

### **Leveraging existing trusted partnerships can multiply online taxpayer service options.**

Taxpayers in search of refund status information do not stop their quest with the IRS. Often, taxpayers contact their tax professional, their tax software provider, or their financial institution. In most cases, these organizations do not have the information necessary to assist the taxpayer. Instead, they are left to refer the taxpayer to contact the IRS, thus leaving the taxpayer in an endless support loop without resolution.

The recipients of these non-IRS contacts from taxpayers – particularly software providers and practitioners – are trusted by their customer taxpayers to manage their private tax information and are therefore well-positioned to bridge the communication gap.<sup>97</sup> We recognize that the IRS plans to roll out an online tax professional account. The practitioner account is expected to allow an authorized practitioner to digitally access customer-taxpayer information similar to what the taxpayer can access directly. The tax professional online account availability will benefit taxpayers that have filed their return with certain tax professionals. However, it is not clear that return processing information for taxpayers will be available in the tax professional account, and if it will be available at some point, when that functionality will be rolled out. Furthermore, the tax professional online account will only be available to Circular 230 tax professionals (attorneys, certified public accountants, and enrolled agents). In contrast, unenrolled tax preparers will not have access upon initial release. Finally, if the tax professional online account does eventually include return processing information for a tax professional's customers, this will still not provide a solution for taxpayers that file a tax return using DIY software. Thus, we recommend that the IRS use existing law and tools to leverage taxpayers' private-sector relationships to provide more transparent return status information for all taxpayers, separate from the advancements made with tax professional online accounts, which may provide a solution for certain taxpayers that file using a tax professional.

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<sup>96</sup> For example, it may not be appropriate for the IRS to share information on notices generated through the IRS Taxpayer Protection Program via the existing self-service tools at the authentication level that exists today. Taxpayers may need to take additional steps to confirm their identity before accessing sensitive information or, in the future, require the taxpayer to access a separate tool, such as a secure online taxpayer account.

<sup>97</sup> We do not suggest that financial institutions are not trusted providers. Rather, at this time, we are narrowly focused on those trusted providers who already have access to detailed tax return information.

The law requires taxpayers to provide written authorization for the IRS to share information with a third party. ETAAC recommends that the IRS consider utilizing existing authorization mechanisms for this purpose, including expanding the usage of one or more of the following authorization mechanisms:

- The third-party designee mechanism, which is available directly on Form 1040 (and 1040SR)
- The authorization granted when a taxpayer signs Form 8879 (IRS e-file Signature Authorization), and
- The authorization granted when a taxpayer signs Form 8821 (Tax Information Authorization).

These proposals would only be applicable for the specific form/year for accepted return where the third party prepared the return. Using existing authorization frameworks may permit IRS to deliver this capability to authorized third parties more quickly and expand the reach of IRS's tools by harnessing public-private partnership's ability to connect with their customers/taxpayers easily.

Once a taxpayer authorizes a third party to receive tax return processing updates, the IRS would deliver that information to that third party. One option for developing a scalable and secure solution for sharing this information is to create an Application Programming Interface (API), which would allow IRS to share relevant information with specifically authorized third parties. IRSAC has identified the development of web-based third-party APIs in each Annual Report, going back to at least 2017, as a critical step in modernizing customer service for the IRS<sup>98</sup>.

As articulated previously by the IRSAC, harnessing a scalable API and existing authorization channels will “optimize the tax return filing process to enable customer service delivery through third parties.” By incorporating “authorization of third parties during tax return filing to proactively communicate information related to the tax return, specifically, information that drives high volumes of contact such as refund status, return errors and balance due notifications.”<sup>99</sup> This authorization framework should enable taxpayers to appoint individual tax professionals to receive the relevant tax return processing updates. The framework should also permit entity-level authorizations, including for:

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<sup>98</sup> The Internal Revenue Service Advisory Council 2017 Public Report, pages 51-55, at: <https://www.irs.gov/pub/irs-utl/2017-irsac-public-report.pdf>; The Internal Revenue Service Advisory Council 2018 Public Report, pages 45-47. <https://www.irs.gov/pub/irs-prior/p5316--2018.pdf>; The Internal Revenue Service Advisory Council 2019 Public Report, pages 98-101, at: <https://www.irs.gov/pub/irs-prior/p5316--2019.pdf>; The Internal Revenue Service Advisory Council 2020 Public Report, page 130, at: <https://www.irs.gov/pub/irs-pdf/p5316.pdf>.

<sup>99</sup> Ibid.

- Tax preparation firms,
- Tax software developers, and
- Financial institutions that receive taxpayer refunds.

Expanding the trusted third parties that taxpayers may authorize to receive this information will align with taxpayer behavior and expectations. These authorized third parties can enhance the overall taxpayer experience by proactively communicating return status updates to taxpayers via various communication channels, reducing the reactive support calls all members of the tax ecosystem receive.

### **Conclusion**

The lack of detailed information on the processing status of a taxpayer's return and the lack of transparency to their authorized third parties prohibits them from assisting the taxpayer in this process, resulting in an opaque and frustrating taxpayer experience. Exacerbating these issues are instances where a tax return experiences a processing delay. The taxpayer cannot identify what steps they need to take to resolve the issue so their tax return can be processed, and their refund released.

ETAAC commends the IRS on its continued journey to enhance the taxpayer experience and provide more transparent and consistent services directly to taxpayers. Also, ETAAC commends the IRS for engaging with critical stakeholders and mission delivery partners to define the ideal future state, or North Star, for the taxpayer experience. ETAAC views this recommendation as a continuation of the excellent work already underway. ETAAC also believes that creating a tool or enhancing an existing tool that enables taxpayers to gain greater transparency to the tax return processing elevates the taxpayer experience. It also allows authorized third parties to access that same information and proactively communicate status updates to taxpayers.

**Recommendation #8: Expand the taxpayer protection tools in the EFIN Toolset.**

**Tax professionals are a high-value target of identity thieves. Solutions must leverage real-time information.**

Increasingly, identity thieves target tax professionals to gain access to taxpayer data and the tools necessary to use that stolen data to file tax returns. The EFIN and PTIN provide access to the e-filing system as unique digital identifiers assigned to the businesses and individual tax professionals. An EFIN starts the e-file program engine for a professional tax preparation business. PTINs, assigned to individual tax preparers, start the e-filing process. The IRS and states require both an EFIN and a PTIN to e-file tax returns on behalf of taxpayers. Our discussion here focuses on EFINs.

In our June 2020 report, we outlined various ways that an EFIN could be compromised or misused.<sup>100</sup> We recommended that the IRS implement real-time EFIN and PTIN verification capabilities. We supported API services to enhance communications, reduce costs, and strengthen the e-file program's system security. Our recommendation was consistent with the IRS's desire to leverage APIs in its modernization efforts.<sup>101</sup> We encouraged the IRS to continue developing its pilot API-based EFIN Validation tool for the 2020 filing season. Unfortunately, the IRS postponed the EFIN API project due to a lack of timely funding.

Criminals take advantage of funding shortfalls and lapses. In February of 2021, the IRS issued an urgent alert to practitioners, warning them that criminals were targeting EFIN credentials through a phishing email scam.<sup>102</sup> The scheme sought to take advantage of a portion of the user validation process by sending phishing emails impersonating the IRS. This targeted attempt to compromise a segment of the EFIN validation process is a stark reminder that bad actors continue to seek new ways to exploit the e-file program.

We reiterate our support for ETAAC's 2020 EFIN recommendation and recognize with dismay that budget shortfalls have again prevented the timely implementation of a pilot project that would have provided more identity theft protection to both taxpayers and the government. We also recognize the immense strain placed on the IRS staff and budget

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<sup>100</sup> Department of the Treasury, IRS Electronic Tax Administration Advisory Committee, "Annual Report to Congress." June 2020.

<sup>101</sup> See e.g., IRS Integrated Modernization Business Plan (April 2019), <https://www.irs.gov/pub/irs-pdf/p5336.pdf>; Taxpayer First Act Report (January 2021), <https://www.irs.gov/pub/irs-pdf/p5426.pdf>; and the IRS Progress Update 2020 (December 2020) <https://www.irs.gov/pub/irs-pdf/p5382.pdf>.

<sup>102</sup> IRS News Release 2021-34, IRS, Summit partners issue urgent EFIN scam alert to tax professionals," <https://www.irs.gov/newsroom/irs-summit-partners-issue-urgent-efin-scam-alert-to-tax-professionals>.

during the 2020 pandemic and commend their efforts to strengthen the security and service of the e-services platform despite these challenges.

ETAAC recommends that the IRS reaffirm its commitment to developing an EFIN API to help combat IDTTRF and reduce the manual validation processing burdens currently placed on IRS employees, industry partners, and state taxing authorities for 2021. ETAAC also recommends that the IRS develop additional capabilities through the EFIN API.

The new capabilities would allow the tax professional to designate software vendors in their e-services account, allowing transactions to be handled electronically between IRS and stakeholders, eliminating the need to remove EFIN documents from a secure e-services account. Securing this communication process would help reduce the threat of sending emails that invite phishing. The development of such a tool would aid practitioners in meeting the e-services Terms and Service obligations.

***“Protect the data you access through e-services; it’s your legal obligation to protect all tax information.”***

***- IRS e-Services Practitioner  
Terms of Service***

We believe that through the sustained collaboration of IRS and its stakeholders, a more secure EFIN management process can be developed.

**The successor to secure access, SADI, is eagerly anticipated and will improve EFIN security.**

ETAAC recommends that the IRS prioritize the secure accessibility and usability of e-services accounts, encouraging practitioners to focus on security and help ensure compliance with the e-filing participation requirements. In 2020, the IRS reported that there were over 340,000 Active EFIN managed within IRS e-services. The IRS issued over 30,000 new EFINs for the 2021 filing season and deactivated about 23,000.<sup>103</sup> When creating an e-services account, an applicant must first pass the IRS identity proofing system called Secure Access. Currently, new practitioner-applicants can successfully authenticate using SA 56.4% of the time.<sup>104</sup>

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<sup>103</sup> Reasons for deactivation vary, including denial to participate. See IRS Pub. 3112 for more detail on reasons for deactivation.

<sup>104</sup> We note that the success rate for professionals is higher than for the general population, we suspect this is because the practitioner population includes more people accustomed to authenticating using online services in general.

An unsuccessful attempt to authenticate, by itself, does not confirm fraudulent activity. Secure Access uses a third-party service that requires the user to remember (or lookup) personal, historical financial services account information. Many legitimate applicants cannot correctly answer these questions and have minimal recourse or success in overcoming this hurdle. Currently, unsuccessful new applicants must visit a Taxpayer Assistance Center to set up a new EFIN.<sup>105</sup> During the pandemic, the TACs were closed, leaving tens of thousands of preparers unable to get an EFIN over two filing seasons.<sup>106</sup> These lower successful authentication rates can discourage honest tax professionals as they attempt to comply with IRS e-file mandates and may drive them to prepare returns as ghost preparers.<sup>107</sup> It can also potentially foster an environment of unsafe practices by unsuccessful applicants, placing an additional burden on the IRS and its stakeholders to identify during the year.

About 8.6% of active EFIN holders do not have an e-services account.<sup>108</sup> The lack of an e-services account requires the e-helpdesk phone assistants to set up and manage their account information that is costly and inefficient. We understand that the active EFIN holders without e-services accounts had EFINs before e-services or visiting a TAC office was required and have not been required to create an account. It is unclear whether these EFIN holders have tried and failed to access e-services or choose not to use e-services. Conceptually, we are concerned that practitioners who choose not to use e-services may also fail to take advantage of other helpful tools the IRS offers to the practitioner community.<sup>109</sup>

The IRS Identity Assurance division is currently developing a new identity proofing and authentication tool called Secure Access Digital Identity (SADI) to address known secure access authentication shortcomings, including usability. ETAAC discusses SADI in more detail in *Recommendation 10* of this report. The IRS expects SADI to leverage federated identity proofing and authentication solutions from authorized credential service providers. Preliminary internal test results provided to ETAAC by the IRS have shown a significant increase in these test users' pass rates, including those previously unable to use Secure Access. ETAAC recommends that the IRS begin using SADI to authenticate e-services users in SADI's phase 1 release.

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<sup>105</sup> Telephone assistance is only available after the user successfully authenticates through Secure Access. See IRS FAQ regarding Exceptions Process, <https://www.irs.gov/individuals/faqs-about-e-services-and-secure-access>.

<sup>106</sup> The number of practitioners who authenticated in person was not available.

<sup>107</sup> Ghost preparers are tax paid tax preparers who do not include their information on the tax returns they are filing on behalf of taxpayers.

<sup>108</sup> For the 2021 filing season, 35,987 individual practitioners covered by an active EFIN have not authenticated through Secure Access.

<sup>109</sup> Additional concerns regarding practitioner security are highlighted elsewhere in this report, including in Recommendations 8 and 9.

**The suitability check process for non-credentialed preparers is paper-based and slow.**

The final step in completing an EFIN application is the suitability check. Tax professionals listed as the Principal or Responsible Official who are not an attorney, certified public accountant, or enrolled agent, an officer of a publicly traded corporation, or a bonded bank official must get fingerprinted, often using a paper card.<sup>110</sup> The fingerprint process can take up to 45 days or more from when the application is submitted.<sup>111</sup> The IRS does not control the process before it receives fingerprint documentation. However, we understand that delays are often attributable to internal IRS mail processing times after the IRS receives the fingerprint cards. Currently, the applicant receives no information on the status of the review.

These delays and lack of information burden legitimate new entrants to the tax preparation marketplace, thereby impacting taxpayer choice. As noted above, delays in making a living may push good preparers to bypass the rules by filing “ghost returns” often on paper. The upstream approval delay adds work to the already backlogged mail processing systems. Many tax professionals working to serve the middle- and low-income class taxpayers, including the unbanked, underserved or immigrant population, are affected by this every year. These delays harm small businesses, discourage voluntary compliance, reduces e-file volume, and provides a poor customer experience to the tax professional and ultimately the taxpayer.

We recommend the IRS modernize the background check process to be an automated function that includes a more detailed and timely status update to applicants within the e-services account during the application process. We recommend that the IRS study whether these features should be a part of SADI.

**The EFIN application should align with the FTC Safeguards Rule to encourage practitioner compliance.**

We commend the IRS on its update to the e-services Terms of Service Agreement for the tax year 2020, requiring that every user accept the updated Terms and Conditions before allowing e-services access. If a user does not accept the terms, the IRS denies access. The new Terms of Service Agreement includes a section called “Safeguarding Taxpayer Data” and refers the practitioner to Publication 4557. Among other things, the Terms of Service Agreement summarizes the user’s responsibilities concerning safeguarding taxpayer data and provides resources to develop the FTC-required written Information

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<sup>110</sup> The fingerprinting process uses Form FD-258.

<sup>111</sup> U.S. Department of the Treasury, Internal Revenue Service. “IRS e-file Application and Participation.” Publication 3112, Rev. December 2020.



Security Plan.<sup>112</sup> It also reminds the practitioner of the potential IRS enforcement actions against users for not adhering to the security standards. Though the IRS does not have direct authority to enforce the FTC Safeguards Rule, they embed compliance with the standards in the e-services requirements.<sup>113</sup>

ETAAC recommends that the IRS support the recent enhancements to the Practitioner Relief Program discussed in Recommendation 6 above by adding a firm's Designated Security Officer(s) to the Authorized Users list in the EFIN application, thus creating a Security Point of Contact (SPOC). Designating a person responsible for coordinating a firm's security program is required by the FTC Safeguard Rule.<sup>114</sup> This enhancement creates a direct point of contact with a selected subject matter expert at the practitioner's office. This enhancement would provide a communication channel that can be used by RICS and the Public Liaison Office to react faster in the event of a security incident and to provide timely information regarding security standards and emerging threats directly to the practitioner's security experts. Finally, requiring a Designated Security Officer on the EFIN application also promotes an attitudinal awareness of each office's responsibility to protect taxpayer data.

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<sup>112</sup> The FTC Safeguards Rule can be found in *67 FR 36493 § 314.4* and is issued by authority delegated to the FTC under the Graham-Leach-Bliley Act, 15 USC 6801 et. seq.

<sup>113</sup> See, Publication 4557, "Comply with the FTC Safeguards Rule," Page 13; <https://www.irs.gov/pub/irs-pdf/p4557.pdf>.

<sup>114</sup> See FTC Safeguards Rule, Safeguard 1.

## **Recommendation #9: Enhance security plan guidance for tax practitioners.**

### **Tax practitioners are a favorite target of criminals but have varying levels of sophistication in protecting themselves from cyber-attacks.**

As noted, various times earlier in our report, cybercriminals are increasingly targeting tax professionals. Each practitioner compromise provides a criminal with access to taxpayer information for multiple clients. Because one practitioner target offers a wealth of taxpayer information to a criminal, ETAAC believes that the IRS has a vital role in providing appropriate security guidance to the practitioner community.<sup>115</sup> In recent years, the IRS has developed many communications and resources to assist practitioners in developing a solid security posture. Resources include Publication 4557, training at Tax Forums, and its various communications campaigns, including the Protect Your Clients, Protect Yourself campaign.<sup>116</sup> For the past three years, ETAAC has made recommendations to Congress concerning security standards for tax professionals.

- *2020 RECOMMENDATION #4: Provide IRS with the authority and necessary funding to enforce security standards.*
- *2019 RECOMMENDATION #7: Grant the IRS the authority to establish and enforce security standards.*
- *2018 RECOMMENDATION #5: Establish a common security standard and the IRS's enforcement authority.*

ETAAC fully endorses the prior years' recommendations. Congress should fund and provide legal authority for the IRS to administer security standards for tax professionals. Currently, power rests with the FTC under the Safeguards Rule.

Despite these efforts, the practitioner community continues to see increases in fraudulent tax filings that appear to originate from practitioners. We are concerned that many practitioners do not understand that they have their obligations to protect electronic taxpayer information under the GLBA and the FTC Safeguards Rule.<sup>117</sup> Those who understand their duty to safeguard electronic taxpayer information could be great tax practitioners but may not have the skills or resources to implement the Safeguards Rule's technical requirements.

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<sup>115</sup> ETAAC has previously recommended that Congress provides the IRS with specific authority to regulate the practitioner community and has made numerous recommendations to improve practitioner security absent regulation, none of which seem to have moved the needle.

<sup>116</sup> See <https://www.irs.gov/tax-professionals/protect-your-clients-protect-yourself>.

<sup>117</sup> See introductory discussion of GLBA and the Safeguards Rule in Recommendation 8 above.

**Providing more detailed security plan guidance may accelerate practitioner compliance with the safeguards rule.**

The IRS has staked out its role in practitioner cybersecurity as one of sharing information and guidance, in part out of concern that it does not have authority to exercise oversight.<sup>118</sup> Our recommendation to Congress to provide the IRS with appropriate authority to regulate the practitioner community stands. But in the current environment, we respect the IRS's deference to the FTC in the enforcement of the Safeguards Rule. Taking that approach, we recommend that the IRS make its security-related guidance more actionable by practitioners. Also, we recommend that the IRS engage the Security Summit to develop an appropriate framework for practitioner Information Security Plans.

The IRS has checklists in Publication 4557 and some website pages and educational materials at tax forums giving a patchwork of suggestions and recommendations to tax return preparers. The IRS also conducts successful awareness communications campaigns, including the Protect Your Clients, Protect Yourself campaign. The IRS revised publication 4557 in June 2018 to include changes that made the publication more usable by tax return preparers. The publication provides helpful information on safeguarding taxpayer data, including how to create a data security plan. A security plan is one of the critical elements of the Safeguards Rule.

**IRS Security Summit**

The STAR working group within the IRS Security Summit determined that having a consistent set of standards implemented by the industry provides value to protecting taxpayer data. The STAR working group identified non-prescriptive security controls for the tax software industry to adapt to their businesses and offered informative guidance and feedback. The controls are implemented similarly across the industry. The tax software and payroll industry developed a technical implementation, selecting controls from the NIST 800-53 applicable to the tax software industry. Security is always an ongoing battle as the IRS has proposed making multi-factor authentication (MFA) required for tax professionals. Currently, the Security Summit requires that software needs to at a minimum offer MFA as an option. The voluntary adoption rate by tax professionals is extremely low, so the Security Summit is considering other options currently. For many tax preparers, the reality is that they rely on their tax preparation software to provide the necessary security. The issue with the current environment is that many tax professional's computers and networks are susceptible to common attacks such as phishing, which occur outside the scope and domain of a tax software's secured environment.

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<sup>118</sup>See Loving v. IRS, 742 F.3d 1013 (2014).

The IRS has staked out its role in practitioner cybersecurity as one of sharing information and guidance, in part out of concern that it does not have authority to exercise oversight. The Safeguards Rule requires a company's Information Security Plan to be appropriate to a company's size and complexity, the nature, scope of its activities, and the sensitivity of the customer information it handles. As part of its plan, each company must<sup>119</sup>:

1. Designate one or more employees to coordinate its information security program.
2. Identify and assess the risks to customer information in each relevant area of the company's operation and evaluate the effectiveness of the current safeguards for controlling these risks.
3. Design and implement a safeguards program and regularly monitor and test it.
4. Select service providers that can maintain appropriate safeguards, make sure your contract requires them to maintain protection, and oversee their handling of customer information; and
5. Evaluate and adjust the program considering relevant circumstances, including changes in the firm's business or operations or security testing and monitoring results.

Small to moderate size tax return preparers may not clearly understand how to comply with the safeguards rule. As a result, many preparers may have an inadequate or incomplete implementation of the rule and associated requirements. Some preparers may not know where to begin and have no implementation in place at all.

Hiring an outside expert to develop a security plan and associated requirements under the safeguards rule is relatively costly for smaller practitioners. Those practitioners may opt to take the risk of compromise rather than comply. Further, having many different security plans designed by a diverse group of contractors hired by the tax return preparers will result in differing programs that may or may not be homogenous. These differing plans may or may not address all the items expected by the government.

IRS revised publication 4557 in June 2018. The changes in the publication made the publication more usable by tax return preparers. Publication 1345 describes Publication 4557, "This publication provides helpful information on safeguarding taxpayer data including how to create a data security plan."<sup>120</sup>

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<sup>119</sup> Financial Institutions and Customer Information: Complying with the Safeguards Rule <https://www.ftc.gov/tips-advice/business-center/guidance/financial-institutions-customer-information-complying>.

<sup>120</sup> U.S. Department of the Treasury, Internal Revenue Service. "Handbook for the Authorized IRS e-file Providers of Individual Income Returns." Publication 1345, Rev. February 2021.

**The Security Summit partners are well-positioned to create a security plan framework for practitioners and help the IRS enhance security-related resources.**

ETAAC believes that a similar model could be used to establish basic standards across tax return preparer's security plans and other safeguards rule requirements. Ultimately, tools that result in more secure practitioners protect the tax system and ultimately the American taxpayer.

While IRS may not have the authority to regulate practitioners and enforce the safeguards rule on tax return preparers, IRS provides valuable resources to practitioners in many areas, including cybersecurity and compliance with the Safeguards Rule. IRS has an opportunity to collaborate with stakeholders, including tax return preparers, tax software developers, and financial institutions within the Security Summit to refine these resources. They can provide a more straightforward guidance framework concerning the government's tax information protection expectations to meet the safeguard rule requirements.

This framework of guidance can take multiple forms. The tax software and payroll industry developed a technical implementation, selecting controls from the NIST 800-53 and IRS Publication 1075 applicable to the tax software industry. Currently, IRS has checklists in Publication 4557 and some website pages and educational materials at tax forums giving a patchwork of suggestions and recommendations to tax return preparers. The IRS could also consider developing a set of templates that a small to moderate-sized tax return preparer could adapt to or use to build their plans.

If the Security Summit can develop the framework of guidance, industry associations and those who provide tax return preparers can more easily formulate tools to help tax return preparers meet the safeguards rule requirements. In our view, if the Security Summit provides more explicit guidance of its expectations of a tax return preparer's security plan through examples, practitioners would find it easier to adopt and live by security plans. As more tax return preparers can comply with the safeguards rule, taxpayer information will be more secure.

**Conclusion**

The current lack of guidance to tax return preparers regarding compliance with the safeguards rule creates a risk to taxpayer information. The threats come from a lack of planning or inconsistency in planning across tax return preparers.

The government's cost to provide guidance curated by the IRS or cybersecurity experts developed in collaboration with Security Summit participants is minimal compared to the benefit to the hundreds of thousands of tax return preparers and the millions of citizens taxpayers served. The IRS centrally developing this guidance is much more efficient than each return preparer trying to individually contract with cybersecurity experts at a direct

financial cost to each return preparer. Eventually, each return preparer will pass the costs borne on to taxpayers, so IRS developing central resources will have the effect of lowering the burden to taxpayers.

Clear and understandable guidance from an authoritative source such as the IRS and the Security Summit in the form of templates that tax return preparers can reuse is critical. Developing a clear framework of guidance to build compliance with the safeguards rule can be easily achieved through minor revisions to the existing publications, website content, tax forum education, and other existing materials.

Once IRS provides this, other organizations that support tax return preparers will develop additional tools that meet their requirements under the Safeguards Rule.

**Recommendation #10: Accelerate the investment in and timing of digital initiatives.**

Throughout this report, ETAAC has noted the need for increased digital accessibility by taxpayers and the tax professional community. The IRS has been proactive in moving to a more digital environment, but as the COVID pandemic's effects demonstrated, paper still dominates the IRS. This non-digital structure has been challenging to operate in for taxpayers, tax professionals, and IRS staff. ETAAC understands that budget and staffing are stumbling blocks to moving forward, and our first recommendation is for Congress to remove some of the budgetary impediments.

**The IRS has adopted a digital-first mindset to improve the taxpayer experience.** In July of 2020, the IRS announced the creation of the Enterprise Digitization Office to improve the taxpayer experience and make the IRS staff more efficient.

***"Digitalization is not just about taking paper and turning it into an electronic format. It is empowering the taxpayer and our employees to resolve issues in a digital channel, and we got to a place where it became obvious that we needed to really bring in additional leadership attention and resources to be able to grab hold of this big opportunity."*** <sup>121</sup>

***-- Enterprise Digitization Office's Co-Director, Justin Lewis Abold-LaBreche***

ETAAC agrees with the IRS statement and urges that the IRS prioritize a system that allows taxpayers to engage with the IRS to meet their needs by developing a secure end-to-end process that provides a consistent experience.

**The Secure Access Digital Identity (SADI) program must be a top priority.**

ETAAC has commented on the current secure access system in its last three reports. The Secure Access tool is currently a weak point. Users are only able to authenticate

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<sup>121</sup> Heckman, Jory. "IRS Digitalization Office Taking 'Bite-Sized' Steps to Consolidating Legacy Systems." Federal News Network, August 28, 2020. <https://federalnewsnetwork.com/it-modernization/2020/08/irs-digitalization-office-taking-bite-sized-steps-to-consolidating-legacy-systems/>.

themselves at a success rate of less than 50%. Throughout this report, there are references to the need for the taxpayer and tax professional community to have the ability to interact with the IRS digitally and securely. The IRS must employ authentication methods that are user-friendly for more taxpayers.

We commend the IRS's work in its development of SADI, including its plan to use a federated approach to enhance the taxpayers' and practitioners' ability to satisfy identity-proofing requirements.<sup>122</sup> The IRS has announced that they accelerated the federated authentication for use in the Advance Child Tax Credit portal. We commend the IRS for taking this approach. In our view, secure federated authentication will simplify taxpayer interactions across the government without sacrificing security. Creating a secure authentication platform for taxpayers and tax professionals is essential to moving forward on all other taxpayer-facing digital initiatives. Many other IRS applications will integrate digital authentication if this works well, making it much simpler to access IRS online systems without sacrificing security requirements.

### **The IRS should make permanent, temporary electronic measures.**

During the past year, the pandemic brought unique challenges to taxpayers and tax professionals as businesses began to operate remotely. The IRS provided temporary relief from physical presence requirements and permitted the use of electronic signatures.<sup>123</sup> Without a further extension, the rules for digital signatures will expire this year. ETAAC held a public meeting during the year, and the public comments also supported either the extension of the rules for remote notarization or making the rules permanent.<sup>124</sup> ETAAC joins the Taxpayer Advocate<sup>125</sup> and the AICPA<sup>126</sup> in recommending that the IRS make permanent the temporary rules and further expand digital signature initiatives. The IRS is evaluating digital flexibilities, and with everything, security must be a top priority.

### **Expand electronic filing.**

ETAAC commends the IRS for making e-file available for more forms during an already difficult year, in particular:

- Form 1040X – Amended Returns<sup>127</sup>
- Form 8821 – Tax Information Authorization
- Form 2848 – Power of Attorney and Declaration of Representative

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<sup>122</sup> See last year's ETAAC report for an in-depth discussion.

<sup>123</sup> "E-Signatures Temporarily Allowed on Some Tax Forms." IRS, Rev. September 10, 2020.

<https://www.irs.gov/newsroom/e-signatures-temporarily-allowed-on-some-tax-forms>.

<sup>124</sup> <https://www.irs.gov/pub/irs-drop/n-20-42.pdf>.

<sup>125</sup> See, Taxpayer Advocate's Annual Report to Congress [https://www.taxpayeradvocate.irs.gov/wp-content/uploads/2021/01/ARC20\\_MSP\\_04\\_DigitalComms.pdf](https://www.taxpayeradvocate.irs.gov/wp-content/uploads/2021/01/ARC20_MSP_04_DigitalComms.pdf).

<sup>126</sup> <https://www.aicpa.org/content/dam/aicpa/advocacy/tax/downloadabledocuments/20200604-aicpa-comment-letter-irs-guidance-for-electronic-signature.pdf>.

<sup>127</sup> On the release date of e-filing for Form 1040X, only the current year could be filed electronically.



With these additions, roughly six million more documents each year will be eligible for paperless filing. For reference, taxpayers could not electronically file the following forms, which had a volume of over 50,000 forms per year<sup>128</sup>

Forms	PY 2019 Filings
Form 2848, Power of Attorney and Declaration of Representative	2,318,162
Form W-7, Application for IRS Individual Taxpayer Identification Number	1,526,880
Form 8821, Tax Information Authorization	873,426
Form 5472, Information Return of a 25% Foreign-Owned U.S. Corporation or a Foreign Corporation Engaged in a U.S. Trade or Business (Currently e-filing is not available for Foreign-owned U.S. Disregarded Entities)	286,100
Form 941-X, Adjusted Employer's QUARTERLY Federal Tax Return or Claim for Refund	219,745
Form 1065X, Amended Partnership Return	103,264
Form 8332, Release of Claim to Exemption for Child by Custodial Parent	96,311
Form 14039, Identity Theft Affidavit	59,250
Form 1042, Annual Withholding Tax Return for U.S. Source Income of Foreign Persons	55,891
Form 3520, Annual Return to Report Transactions With Foreign Trusts and Receipt of Certain Foreign Gifts	55,235
Form SS-4, Application for Employer Identification Number (for foreign companies)	53,950

The 1040X would have led that list with over three million returns annually filed returns,<sup>129</sup> and the then-current leader (Form 2848), along with Form 8821, have both also graduated from the list as of earlier this year.

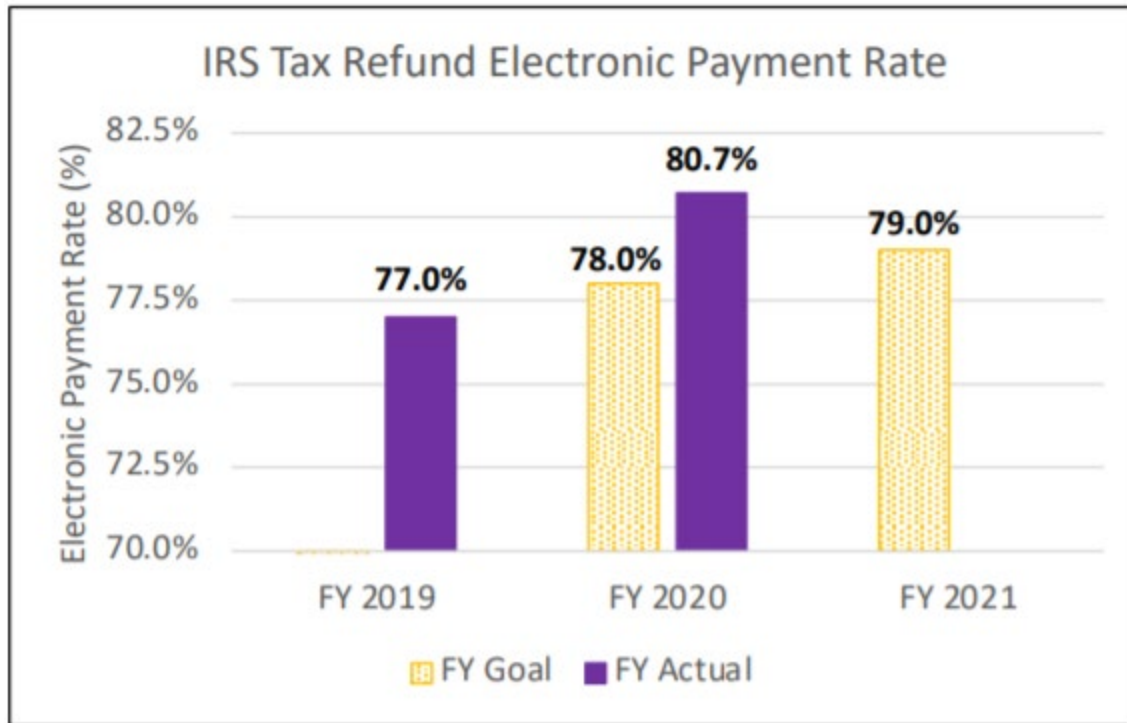
### Simpler payment methods

A goal of the US Treasury is to create a modern, seamless, and cost-effective Federal refund payment experience for Americans by:

- Reducing the number of paper checks printed by Treasury's Bureau of the Fiscal Service to 49 million by the end of FY 2021, compared with 54 million in FY 2019; and
- Achieving an electronic refund payment rate of 96.1 percent by the end of FY 2021, compared with 95.6 percent in FY 2019, **and an IRS electronic refund payment rate for individual taxpayer accounts of 79% by the end of FY 2021, compared with 77% in FY 2019.**

<sup>128</sup> IRS Taxpayer Advocate Service, "Annual Report to Congress 2020- Most Serious Problem #5: E-Filing and Digitization Technology," 75-83.

<sup>129</sup> 1040X filings are discussed further in Recommendation 5 of this report.



Source: [https://trumpadministration.archives.performance.gov/treasury/FY2021\\_january\\_Paper\\_Check\\_Reduction.pdf](https://trumpadministration.archives.performance.gov/treasury/FY2021_january_Paper_Check_Reduction.pdf)

In 2020, the IRS exceeded the Treasury's 2021 goal by increasing its electronic tax refund payment rate to 80.7%. Although that is lower than the 96.1% electronic payment rate, it is still good progress by the IRS. It also indicates that taxpayers are becoming increasingly comfortable dealing with the IRS electronically when it comes to digital payments. ETAAC looked at the reverse transaction, how the IRS is receiving payments for balance due returns (the other half of the digital partnership) during the 2020 filing season.

#### Balance due returns

	<i>Electronic</i>	<i>Paper Check</i>	<i>Total</i>	<i>Electronic rate</i>
Payments	9,894,937	14,573,113	24,468,050	40%

Source: IRS Briefing

Taxpayers are more receptive to receiving funds digitally from the IRS than paying a balance due return electronically. The electronic payment rate for balance due returns is roughly half of the tax refund electronic rate. Payment methods are an opportunity for the IRS to further its digital experience.

#### Furthering the digital commitment

The IRS has an opportunity to enhance the taxpayer experience by furthering its digital commitment. The SADI platform is not a desire but a desperate need to enable more taxpayers to interact digitally, a constant theme throughout this report. Increased

electronic filing and electronic payment options further reduce pressures on the IRS processing centers. Temporary electronic signatures should be evaluated and moved forward to permanent if proven to be safe and effective.

## PROGRESS TOWARD 80% E-FILE GOAL

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ETAAC's charter provides that ETAAC research, analyze, consider, and make recommendations on the IRS' progress toward achieving its 80% e-file goal for major returns. Consistent with prior years' reporting, ETAAC has calculated an updated electronic filing rate to benchmark overall e-filing performance. ETAAC focused on the major series of individual and business returns as outlined in Appendix E, coupled with ETAAC's review of published IRS data and its calculation methodology. ETAAC also looked at other forms that are not considered major by the IRS but potentially should be in future years.

### **Measuring progress toward the 80% electronic filing goal.**

Section 2001(a) of RRA 98<sup>130</sup> provided that "It is the policy of Congress that -- paperless filing should be the preferred and most convenient means of filing Federal tax and information returns. The goal of the Internal Revenue Service to have at least 80 percent of all such returns filed electronically by the year 2007, and the Internal Revenue Service should cooperate with the private sector by encouraging competition to increase electronic filing of such returns.

The IRS interpreted the RRA 98's 80% goal to apply to "major returns," and ETAAC has generally followed this approach in reviewing the IRS's progress towards the 80% goal for ETAAC's Annual Reports to Congress.<sup>131</sup> ETAAC recommends that the IRS revisit how it defines "major returns" as defined in the 2009-2014 Strategic Plan.<sup>132</sup>

### **IRS has exceeded the 80% electronic filing goal for major returns.**

The IRS undertook a collaborative public/private partnership with states and the private sector to achieve its 80% electronic filing goal. The IRS achieved the overall electronic filing goal in 2017 and projects to exceed 80% in five of the six major return categories in 2022. The table below shows a continued progression in achieving the 80% goal. Recent developments with issues in paper processing, along with the belief that raising the goal will refocus electronic filing focus in the remaining area, employment returns.

#### **2018-2021 Electronic Filing Rate for Major Returns**

	<b>2018 (IRS Actual)</b>	<b>2019 (IRS Actual)</b>	<b>2020 (IRS estimated)<sup>133</sup></b>	<b>2021 (IRS projected)</b>
<b>Electronic Filing Rate</b>	81.0%	82.0%	83.8%	84.6%

Source: See Table 1, IRS Publication 6186 (2020 Update)

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<sup>130</sup> Pub. L. 105-206, 112 Stat. 685 enacted July 22, 1998.

<sup>131</sup> See ETAAC Annual Report to Congress, June 2011, p. 2, Footnote 1.

<sup>132</sup> ETAAC further discusses this in Recommendation #6 of this report.

<sup>133</sup> See IRS Publication 6186 (2020 Update).

## E-file rates

As shown in Table 2 below, the IRS estimates that the individual return e-file rate to be over 90% in 2020. Individual returns have the highest e-file rate and consistently represent over 75% of major returns filed in total.

### 2020 Estimated & 2021 Projected Electronic Filing Rates

	2020 IRS Estimated			2021 IRS Projected			Year-over-Year Change
	Total	E-filed	E-file Rate	Total	E-filed	E-file Rate	
<b>Individual (Forms 1040, 1040-SR, and 1040-SP)</b>	160,017,200	144,968,300	90.6%	160,977,100	146,569,500	91.1%	.5%
<b>Employment (Form 94X Series)</b>	30,916,800	15,535,800	50.3%	31,003,300	16,303,100	52.6%	2.3%
<b>Corp Income Tax (1120, 1120-A, 1120-S), etc.</b>	7,075,400	5,960,600	84.2%	7,372,400	6,208,200	84.2%	0.0%
<b>Partnership (Forms 1065/1065-B)</b>	4,268,000	3,950,800	92.6%	4,442,400	4,171,900	93.9%	1.3%
<b>Fiduciary (Form 1041)</b>	3,107,800	2,773,100	89.2%	3,181,700	2,793,800	87.8%	-1.4%
<b>Exempt Orgs (Forms 990, 990-EZ, etc.)</b>	1,608,700	1,174,900	73.0%	1,750,300	1,312,200	74.9%	1.9%
<b>Totals</b>	<b>206,993,900</b>	<b>174,363,500</b>	<b>84.2%</b>	<b>208,727,200</b>	<b>177,358,700</b>	<b>85.0%</b>	<b>0.8%</b>

Source: See Table 2, IRS Publication 6186 (2020 Update)

E-file rates continue to increase for other major return types. Exempt organization returns, the IRS is mandating e-filing in the tax year 2022. The IRS projects that those returns' electronic filing rate will jump from 74.9% in 2021 to 93.2% in 2022.

Business tax returns are filed at a lower rate than individual returns, partially attributable to electronic signature issues, but they still exceed the 80% level. Again, looking ahead to 2022, all returns except the employment series<sup>134</sup> have an electronic filing rate of over 84%. Due to the success against the Congressional goal of 80% electronically filed forms, ETAAC further studied other return types and provided our advice in Recommendation #10 above.

<sup>134</sup> As used in this report, "Form 94X" refers generally to the major employment returns, e.g., Form 940 Employer's Annual Federal Unemployment (FUTA) Tax Return, Form 941 Employer's Quarterly Federal Tax Return, etc.

**Effect of the COVID pandemic on electronic filing.**

The projections for the 2019 tax year were significantly different from the actual number filed. To facilitate EIP distribution to the over 7 million taxpayers who did not have a tax filing obligation, the IRS collaborated with the industry members of the Free File, Inc. consortium to provide an online non-filer tool to claim EIP.<sup>135</sup> The IRS designed the Non-Filer tool to allow the filing of essentially a zero-income return, thereby increasing the number of e-filed returns. The tool was available for use until the IRS systems shut down to prepare for the 2021 filing season. The tool was available in both English and Spanish. Ninety-six percent of the people who had no filing requirement and registered for EIPs used the online tool.<sup>136</sup>

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<sup>136</sup> "IRS Free File Marks Record Increase; Available through Oct. 15." Internal Revenue Service, October 6, 2020. <https://www.irs.gov/newsroom/irs-free-file-marks-record-increase-available-through-oct-15>.

## PROGRESS ON ETAAC RECOMMENDATIONS

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ETAAC's recommendations are provided for consideration by the IRS, which will ultimately determine whether and how to implement them based on its assessment of benefit/cost and competing priorities.

### Progress toward ETAAC 2020 Recommendations

#### Congressional Recommendations

ETAAC directed the first four recommendations toward Congress.

*Recommendation #1: Fully fund the IRS FY 2021 budget request.*

*Recommendation #2: Consider and approve the IRS's request for an FY2021 Program Integrity Cap Adjustment*

*Recommendation #3: Monitor and enable government-wide digital identity policies and initiatives.*

*Recommendation #4: Provide IRS with the authority and necessary funding to enforce security standards.*

We note that the IRS is making progress in its enhanced digital identity initiatives and considers the initiatives a priority in part because of security implications. 2021 Recommendation #10 discusses this IRS initiative. As noted throughout our report, ETAAC continues to support each of the four 2020 Recommendations to Congress.

#### IRS Recommendations

The IRS generally agreed with all the ETAAC recommendations directed toward them and is generally making progress. Two of the 2020 Recommendations warranted additional discussion in this year's report:

*Recommendation #8: Expand collaboration on the design and launch of the IRS 1099 internet-based service.*

The IRS team responsible for the Form 1099 Platform has met with ETAAC on several occasions, and ETAAC is impressed with the work done to date. However, ETAAC has several suggestions. We are concerned that the current lack of coordination between the new and state filing platforms will negatively impact the overall taxpayer experience.

*Recommendation #16: Implement real-time EFIN and PTIN validation capabilities.*

This recommendation was not enabled as scheduled due to other priorities due to the COVID pandemic. ETAAC has done some further work around EFINS and re-iterated this recommendation and other enhancements to the EFIN program.

## **Prior Year Recommendations**

ETAAC reviewed active prior-year recommendations going back to the 2017 ETAAC Report. Appendix C contains a listing of all current active recommendations.

ETAAC would like to highlight the excellent work in the completion of a recommendation from our 2018 Report.

*Recommendation #17: The IRS should prioritize developing an electronic means to submit and accept powers of attorney.*

The phase one electronic power of attorney process rolled out earlier this year. Practitioners and taxpayers alike look forward to additional features as the system evolves and ultimately dovetails with SADI.

As the IRS undertakes its organizational review as required by TFA, we ask the IRS to consider the following recommendation from the 2018 ETAAC report regarding internal accountability for practitioner-related security initiatives.

*Recommendation #10: Establish clear IRS internal responsibility.*

ETAAC further clarified this recommendation in its 2019 report.

*As noted in our 2018 Report, ETAAC believes that the IRS needs a "single owner" and that tax professional information security should not depend on whether someone is a CPA, EA, Attorney, or unenrolled preparer. They are all tax professionals holding taxpayer information that is at risk. We have concerns about the IRS's efficiency in managing tax professional security by distributing this responsibility within its existing organizational structure that control the various categories of tax professionals, e.g., preparers, practitioners, VITA volunteers, and EROs.*

*ETAAC's characterization of a "single owner" refers to the designation of a specific IRS organization (existing or new). That organization would be responsible for working with current IRS functions accountable for the tax professional community to facilitate the development and execution of a cohesive, coordinated tax professional security strategy.*

We approach the complex challenge of practitioner security from another angle in Recommendation #9 in our 2021 report. However, we believe it is worth reconsidering whether more streamlined ownership within the IRS would be helpful in conjunction with our current recommendation.

## **Recommendations that are closed but require ongoing effort.**

We considered the following active recommendations to be ongoing, but we have closed them as fully implemented for our reporting purposes. In our opinion, the IRS has met each recommendation's intent and encapsulated concepts of the recommendation into



their continuous improvement processes. These areas continue to be of interest to ETAAC and may reappear in future reports as warranted.

## **2017**

- *RECOMMENDATION #1: Analyze the ongoing effectiveness of the Security Summit (SS) Initiatives to identity proof and authenticate taxpayers and tax return filings, including a cost/benefit assessment of their impact on Identity Theft Tax Refund Fraud (IDTTRF) reduction and the taxpayer experience.*
- *RECOMMENDATION #5: The IRS should encourage and enable greater participation in the IDTTRF Information Sharing and Analytics Center (ISAC) by the many stakeholders affecting the tax ecosystem.*
- *RECOMMENDATION #8: The STAR Work Group should continue its current direction and collaborative approach to implement the NIST Cybersecurity Framework.*
- *RECOMMENDATION #11: The SS should create mechanisms to enable stakeholders to anticipate future identity theft trends, refund fraud, and cybersecurity and develop proactive responses.*
- *RECOMMENDATION #12: Based on fraudulent refund patterns, IRS should target those Financial Institutions (FIs) most vulnerable to IDTTRF deposits to engage their participation in the Security Summit and External Leads/Rejects programs.*

## **2019**

- *RECOMMENDATION #3: Increase the engagement of ISAC members.*

## Appendix A: About ETAAC

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### **Initial focus.**

Congress formed and authorized the Electronic Tax Administration Advisory Committee (ETAAC) under the Internal Revenue Service Restructuring and Reform Act of 1998 (RRA 98). The historical charter of ETAAC was to provide input to the Internal Revenue Service on electronic tax administration.

ETAAC's responsibilities involve researching, analyzing, and making recommendations on a wide range of electronic tax administration issues. Additionally, according to RRA 98, ETAAC reports annually to Congress concerning:

- The IRS's progress on reaching its goal to receive 80% of tax and information returns electronically.
- Legislative changes that assist the IRS in meeting the 80% goal.
- Status of the IRS strategic plan for electronic tax administration; and
- Effects of e-filing tax and information returns on small businesses and the self-employed.

### **Expanded focus.**

In March of 2015, the IRS assembled a coalition of IRS, tax industry, and state revenue agency leaders to undertake a major initiative to combat IDTTTF by creating the IRS Security Summit.

In 2016, IRS amended ETAAC's charter to expand ETAAC's focus to address the severe problem of IDTTTF, threatening to erode the tax system's integrity. In 2019, Congress statutorily confirmed this expansion of responsibilities in Section 2002 of the Taxpayer First Act of 2019. As a result, ETAAC will continue to provide strategic and operational recommendations on combating IDTTTF and improving information security.

Coincident with these changes, ETAAC has expanded its authorized size to broaden its members' experience and add new stakeholder perspectives from the government, commercial, non-profit, and consumer sectors. ETAAC members come from state departments of revenue, large tax preparation companies, low-income and consumer advocacy groups, solo tax practitioners, tax and accounting software companies, and the financial services industry.<sup>137</sup>

### **How ETAAC does its work**

In conducting its assessments and formulating its recommendations, ETAAC relies on a variety of information sources. Most importantly, ETAAC participates in numerous discussions with IRS representatives and Security Summit participants. Due to the

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<sup>137</sup> See Appendix C for ETAAC member biographies.

COVID pandemic, all the meetings were virtual. The IRS quickly transformed itself from a telephonic meeting organization to fully embracing the visual virtual conferences.

ETAAC also reviews reports from various sources, including other advisory boards, the National Taxpayer Advocate, the Government Accountability Office (GAO), and the Treasury Inspector General for Tax Administration (TIGTA). The Committee is most grateful for their observations. ETAAC may also seek background insights from policy leaders, industry and state revenue agencies, and other experts.

Then, ETAAC members use this information and these insights to develop ETAAC's annual report in a highly collaborative and rigorous deliberation and drafting process. Any recommendations and opinions expressed in this report are solely those of ETAAC.

ETAAC recognizes IRS employees and leadership for their continued efforts to administer an increasingly complex tax system, meet taxpayer service expectations, improve cybersecurity, fight IDTTRF and successfully process billions of transactions and hundreds of millions of tax returns. The United States tax system could not operate without their dedication, commitment, and talent. IRS employees and managers have made themselves available during the filing season and on other occasions to brief ETAAC on various issues. We are most grateful for their thoughtful and candid insights essential to the preparation of this report.

Send any public comments on this report to [etaac@irs.gov](mailto:etaac@irs.gov).

## Appendix B: Security Summit Responsibilities, Accomplishments, and Goals

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### Communications Work Group:

#### Responsibilities:

- Increase awareness among individuals, businesses, and tax professionals to protect sensitive tax and financial information.

#### 2020 Accomplishments:

- Recap of Summer 2020 Campaign -- Working Virtually: Protecting Tax Data at Home and Work
  - Actionable series of security-related news releases for tax professionals issued in July and August in conjunction with the 2020 virtual IRS Nationwide Tax Forum.
  - Kick-off news release plus five subsequent steps:
    - Part 1: Protect tax data at home and work with the "Security Six."
    - Part 2: Use multifactor authentication to protect accounts.
    - Part 3: Use a virtual private network to secure remote locations.
    - Part 4: Avoid phishing scams.
    - Part 5: Plan for protecting data and reporting theft.
- IRS Nationwide Tax Forums went virtual in 2020 due to the pandemic. More than 10,000 attendees were able to choose from three cybersecurity courses:
  - Tax Security Panel: The Taxes-Security-Together Checklist – Featured Tax Pro identity theft victim
  - Cybersecurity for Tax Professionals – Advanced session presented by ACT and the Pell Center
  - Construya su Plan de Seguridad – New Spanish-language cyber course
- Developed and continued to conduct an aggressive and multi-faceted social media campaign focused on taxpayers and the tax professional community, highlighting security and protection against identity theft-related tax refund fraud and related scams.
  - Facebook (English and Spanish) - Followers by close of FY20: 441,644
  - Instagram - Followers by close of FY20: 58,172
  - LinkedIn - Followers by close of FY20: 139,855

- Twitter (6 accounts, including @IRSTaxSecurity) - Followers by close of FY20: 336,552.
- Efforts included Twitter chats, such as:
  - IRS hosted on National Tax Security Awareness Week
  - SBA/GSA hosted "Cybersecurity Tips for Small Businesses" – English chat followed by Spanish.
  - FTC hosted on coronavirus-related scams.
- Hosted the fifth annual National Tax Security Awareness Week (NTSAW) campaign jointly with industry and state Security Summit partners in collaboration with the tax professional community for the week after Thanksgiving, Nov. 30-Dec. 4. Utilized virtual technology to deliver a limited number of media and partner events focusing on communities where English is a second language. Stakeholder Liaison hosted several mini webinars on NTSAW topics.
  - Issued news release plus five subsequent news releases and supporting social media content:
    - November 30th: Beware of identity theft scams and schemes taking advantage of the holiday season and coronavirus.
    - December 1st: Online tax preparation products to offer multifactor authentication for taxpayers, tax pros.
    - December 2nd: IRS expands Identity Theft Protection PIN Opt-in program
    - December 3rd: Business encouraged to take advantage of new protections against identity theft.
    - December 4th: Tax professionals review your security measures; Security Six.
  - IRS Commissioner video introduced National Tax Security Awareness Week.
  - Provided an outreach bundle to include partner messaging, including talking points, news releases, social media, and informational graphics.

### 2021 Focus/Priorities:

The 2021 Communications priorities will include an emphasis on improving the taxpayer experience and tax professionals wherever possible. Planned activities include:

- Continue to highlight security tips with communications and outreach throughout the filing season both in traditional and social media with particular emphasis on emerging schemes, rapid response to combat threats and protect data, and what to do when a possible data compromise occurs in the tax pro community. Translate into additional languages where possible.
- Highlight security issues during 2021 Nationwide Tax Forums.
- Remain alert to new scams and schemes during the pandemic that threatens taxpayers and tax professionals, including emerging issues like 1099-G involving unemployment and identity theft.
- 2021 National Tax Security Awareness Week for late Nov/early December.
- To improve taxpayer experience, continue focusing security issues on IRS social media channels and work to maintain and build followers.

### **Tax Professionals Work Group:**

#### Responsibilities:

- Examine how new requirements will affect tax preparers, how the preparer community will be affected by the overall data capture and reporting requirements, and how the preparer community can prevent identity theft.

#### 2020 Accomplishments:

- Supported Return Preparer Office's (RPO's) modification of the 2020 Preparer Tax Identification Number (PTIN) registration and renewal application to include language outlining preparer requirements to maintain data and system security standards.
- Determined that over 97% of all preparers applying for a 2020 PTIN (credentialed and non-credentialed) reported awareness of the responsibility to have a data security plan to provide data and system security protections for all taxpayer information.
- Collaborated with RPO to develop Publication 5417, Basic Security Plan Considerations for Tax Professionals, in both English and Spanish as an informational handout on security plan basics and available information resources.

#### 2021 Focus/Priorities:

- Support the multifactor authentication initiative of the Authentication Work Group.
- Partner with the STAR Work Group on securing remote locations.
- Promoting data security and the importance of security plans in as many practitioner fora as possible.

- Evaluate the benefit of developing a security plan FAQ document that can be shared/distributed within the tax professional community.

Positive influences on the Taxpayer Experience: Preparer understanding and compliance with data security requirements ultimately provide greater protection of taxpayer data and reduced opportunities for identity theft and taxpayer refund fraud, thereby improving the taxpayer's experience with the filing and payment process.

### **Strategic Threat Assessment and Response (STAR) Work Group:**

#### Responsibilities:

- Identify points of vulnerability (threats/risks) related to the detection and prevention of identity theft, develop a strategy to mitigate or prevent these risks and threats, and review best practices and frameworks used in other industries.
- Engage and collaborate with other Security Summit working groups to identify and understand threats (both persistent and emerging); identify potential mitigating controls and recommend feasible solutions/responses.

#### 2020 Accomplishments:

- As a follow-up to the Table-Top Exercise in December 2019 for the Tax Software Developer community sub-group (TSD), conducted one-on-one sessions in July 2020 with all active TSD members participating and receiving ISAC Alerts that focused on two additional threat scenarios (Ransomware & Denial of Services) and maturity levels in selected areas (i.e., Incident Response Plan, Security Incident and Event Management tools, and Cloud).
- Coordinated NIST Cybersecurity Framework (CSF) implementation via selected NIST 800-53 security controls; TSD members updated and resubmitted their self-assessments from the first three years by April 2020 that demonstrated improvement in overall Tax Ecosystem security posture.
- Established STAR and Payroll deliverables roadmaps to outline strategic initiatives to work toward established goals; implemented roadmaps that included monthly sharing of STAR threat assessments and reports (i.e., FTC Safeguards, NIST Privacy Framework, VPN, Legal privacy provisions).

#### 2021 Focus/Priorities:

- Continue enhancing the Tax Ecosystem security posture of the TSD Community.
  - Collaborating with the Office of Safeguards to identify and address the CSF controls impacted by the release of NIST SP 800-53 Rev 5 (Sep 2020).
  - Supporting cybersecurity education and awareness efforts by developing workshops/best practices to address emerging and persistent cybersecurity

challenges (i.e., cloud service agreements, software supply chain risk management).

- Continue increasing Payroll participation and engagement.
  - Implement the NIST Cybersecurity Framework for the Payroll community, providing essential cybersecurity guidance that is highly customizable to fit each organization's needs.
  - Raise the voice of the Payroll subgroup across the broader Payroll industry and within the IRS.
- Continue engaging and supporting other Security Summit working groups.

Positive influences on the Taxpayer Experience: Continue to support the industry's efforts to adapt the TSD community's cybersecurity capabilities and protect taxpayer data as cyber threats evolved and increased.

### **Authentication Work Group:**

#### **Responsibilities:**

- Identify opportunities for strengthening identity assurance and taxpayer and tax professional authentication practices, including:
  - Identifying new ways for software to ensure taxpayers only access accounts they own,
  - Expanding multifactor authentication to tax professional software, and
  - Ensuring IRS and States are provided with relevant tax return information needed for detecting and preventing identity theft.

#### **2020 Accomplishments:**

- Restructured the Trusted Customer Requirements documents to ensure clarity and alignment on minimum requirements for software providers, increase flexibility to implement these requirements, and encourage Security Summit members to exceed the minimum requirements (including adding additional innovation within their authentication approach).
- Conducted a deep analysis of individual tax return (IMF) authentication data elements and stratified those elements across the filing points of origin to identify correlations between specific data elements to increase the ability to detect and prevent identify theft using those elements and further improving the criteria for return selection models and filters.
- Continued to analyze business tax return (BMF) data elements and identified next steps to enhance the data element requirements for detection/prevention of identity theft and to improve selection models and filters further.



- Completed comprehensive analysis on where each industry partner is on implementing NIST authentication measures and conducted extensive discussions on the findings and risk factors in the Tax ecosystem.
- Worked cross-functionally with other working groups (including Information Sharing, STAR, and Tax Pros) to promote education on multifactor authentication and identify security risks that cannot be addressed by software-level multifactor authentication.
- Provided updated attachment to Schema documents that clarified guidance on coding refund product fields related to pre-paid debit cards and temporary ultimate bank account fields, which should significantly improve future Economic Impact Payment (EIP) distributions.
- Coordinated with the tax preparation community and provided industry partners with content explaining the identity verification actions required by taxpayers for all letters and notices issued by the IRS relating to identity theft.

#### 2021 Focus/Priorities:

- Develop a plan to incorporate NIST and Trusted Customer requirements into business return preparation software.
- Develop a strategy for identifying the proper role of multifactor authentication within DIY Desktop software products and all tax professional software product types.
- Continue outreach on the importance of multifactor authentication, with a particular focus upon the tax professional community.
- Continue efforts to analyze digital capabilities and risks across the tax ecosystem to build a strategic plan for advancing the Authentication roadmap across all touch points.
- Continue the Electronic Filing Identification Number (EFIN) Validation Project to provide real-time validation and continue to seek funding for a long-term solution.

Positive influences on the Taxpayer Experience: Efforts with improving authentication should provide greater confidence that the tax ecosystem is adding security to prevent identity theft tax refund fraud.

#### **Financial Services Work Group:**

##### Responsibilities:

- Examine and explore additional ways to prevent and deter criminals from accessing tax refunds through tax-related financial products, deposit accounts, and pre-paid debit cards.

### 2020 Accomplishments:

- Continued to conduct outreach efforts with Financial Institutions to encourage their participation in R17 direct deposit reject opt-in and external leads programs to assist in the recovery of fraudulent refunds.
- Implemented a new process with the Bureau of Fiscal Services (BFS) to support R23 rejects (when a taxpayer states the refund is not theirs).
- Conducted a prepayment identity theft pilot with BFS where the identity theft selections are screened through the BFS Payment Processing System to determine if an ACH account matches other federal government agencies to the IRS refund account. If so, release the refund to the taxpayer.
- Continued to expand the pre-verification pilot where suspected identity theft information is shared between IRS, state revenue agencies, and industry partners to determine if additional authentication may be needed.
- Continued to review and evaluate the performance of the Refund Distribution indicators and clarify terms of use.
- Enhanced the refund products schema to clearly define how each refund receiving organization should use the schema to support their product.

### 2021 Focus/Priorities:

- Continue outreach with financial institutions to assist in recovering fraudulent refunds and continue work with the BFS to pilot efforts to improve accuracy and efficiency of detecting fraud and ID theft.
- Increase state participation with external leads programs.
- Explore innovative ways to continue with data sharing with financial and state partners.

Positive influences on the Taxpayer Experience: Efforts to leverage data outside the IRS, such as the BFS and financial institutions, help reduce taxpayer burden. If the IRS can determine from other sources that the return is now low risk, the IRS can release the refund without requiring further action from the taxpayer.

### **Information Sharing Work Group:**

#### Responsibilities:

- Identify opportunities for sharing information to improve the collective capabilities for detecting and preventing identity theft.

### 2020 Accomplishments:

- Assisted with implementing the enhanced data sharing legislation stemming from the passage of the Taxpayer First Act (Section 2003), authorizing expanded authority for IRS to share federal tax information (FTI) under IRC Section 6103 for the detection and prevention of IDT and tax refund fraud.
- Partnered with the ISAC Metrics Committee to develop "Industry Lead User Guides" for each industry partner that submits lead reports. These user guides will assist the IRS and states with understanding and analyzing the lead reports files being provided by each industry partner. Industry lead reporting increased by 7% in 2020.
- Analyzed and discussed the current individual lead schema fields to ensure everyone was interpreting the fields correctly. This exercise ensured that fields were being populated consistently and that each partner understood what the data was telling them.

### 2021 Focus/Priorities:

- The workgroup identified an opportunity to include a new field in the individual lead schema for filing season 2022. The team is currently defining this field so that it can be incorporated into the schema changes.
- Collaborate with Authentication workgroup to implement and evaluate data and share information relating to new Business Leads process.
- Identify opportunities for enhancing the lead feedback that the IRS and states provide to our industry partners. This feedback is critical to enhancing and improving the overall lead reporting process.
- Support efforts to expand business return scheme and information sharing, IRS will solicit participation in the Security Summit and ISAC of the non-individual income tax state departments of revenue that have business income taxes.

### Positive influences on the Taxpayer Experience:

- Gaining information from banks and industry provides additional defenses to prevent a taxpayer from being a victim of identity theft.
- Sharing information with the States aids in preventing the taxpayer from being (re)victimized by identity theft tax refund fraud at the state level.

## **Information Sharing and Analysis Center (ISAC)**

### **Responsibilities:**

- Centralize, standardize, and enhance data compilation and analysis to facilitate sharing actionable data and information.

### **2020 Accomplishments:**

- *"The Security Summit marked its fifth anniversary this year, and there's not a more fitting symbol of this successful Public-Private partnership than the ISAC and its ongoing achievements. In a brief period, the ISAC has moved from pilot to being a powerful defender in the fight against tax refund fraud. It is successful because of the trust between the IRS, the states, and the private sector. Trust cannot be legislated; it must be earned. The Security Summit has made much progress against cybercriminals in the past five years, but one of its lasting legacies will be the ISAC."* Commissioner quote in 2020 ISAC Annual Report
- A major accomplishment for both the IRS and the ISAC was the implementation of the Taxpayer First Act – Section 2003.
  - IRS worked with the ISAC partners by developing and executing the required MOUs for both Industry & MITRE and engaged with the state agency ISAC members for their participation under their existing IRC 6103 authority and agreements with the IRS.
  - IRS delivered security and safeguard awareness briefings to industry personnel covering their security and safeguarding responsibilities and requirements related to their access and use of FTI. The IRS will evaluate the development of an on-demand webinar or video to deliver future security and safeguard awareness training to the industry partners receiving FTI under the TFA.
  - The ISAC created an additional separate, secure environment to receive and store the new Taxpayer First Act specified return information.
  - Since April 2020, when partners began receiving the Taxpayer First Act data, IRS has shared over 1.7 million records with the ISAC. These records include Potential Individual Identity Theft, Annual Confirmed Individual Identity Theft, and Cumulative Confirmed Individual Identity Theft. The TFA records were enriched by the ISAC and posted as reports that were accessed by authorized partners over 700 times through September of 2020.
- The ISAC implemented new functionality for states and financial services companies related to deposit verification. This activity, launched by the Security

Summit in 2015, now offers the IRS and state ISAC members the ability to benefit from ISAC analysis on data shared by financial services companies related to deposit verification activities pre refund. Using this data, members can identify fraudulent claims for refunds and stop return funds to the federal and state governments.

- In coordination with the ISAC Analysts Community of Practice, a new alerts scheme process was developed to identify large-scale threat activity. The new scheme process captures multiple threat patterns to form a bigger picture of the threat activity. Three major national/international identity theft tax refund fraud schemes were identified using this process. In 2020, the number of alerts submitted to the ISAC increased by over 45%.
- The ISAC now includes over 70 member organizations, including partners and endorsing organizations and over 400 users.
- The SEB approved a supplemental objective to the 2019-2021 strategic plan that strengthens partners' identity theft defenses by enabling the access, use, and sharing results of new TFA data within the secure ISAC environment. Goals related to the new strategic objective include:
  - Establish a secure, trusted environment to house and share TFA data with authorized partners.
  - Expand opportunities for partners to access, analyze, and share feedback on initial data provided by the TFA.
  - Provide secure tools for partners to share identity theft results based on TFA data.
- Published the ISAC Annual Report for 2020.

#### ISAC Senior Executive Board 2021 Focus/Priorities:

- Collaborating with partners to update the 2022 – 2025 ISAC Strategic Plan
- The SEB will continue to focus on the following:
  - Provide guidance in strategic areas, including recommending operating procedures for the ISAC, membership criteria, vision, and mission.
  - Communicate with IRS leadership, state revenue agencies, and private-sector tax organizations.
  - Develop and approve procedures, activities, and communications by Partnership Committees to other parties.
  - Share topics for study and analysis and reviewing results of analyses submitted by the Trusted Third Party (TTP).

- Publish the ISAC Annual Report for 2021

#### ISAC Operational Platform 2021 Priorities:

- Enable partners to focus on more action in less time with less effort by further maturing ISAC capabilities.
  - Engaging additional sources of data (Federal and private sector)
  - Developing additional analytics
  - Improving user experience
- Improve performance across partner organizations through enhanced training and collaboration.
  - Interactive training
  - Collaboration tools for partners
  - Partner to partner training

#### ISAC Operational Platform Activities for 2020 - 2021

- Improving User Experience/Utility with appropriate access on a secure platform.
- Improving training by creating interactive training and self-directed training modules.
- Continuing efforts to build skills of the community by leveraging the Trusted Third Party, Analyst Community of Practice, endorsing organizations, and membership.
- Continuing efforts to optimize the use of the data currently available to the ISAC membership by creating new data dashboards.
- Working with the SEB metrics committee to develop and monitor metrics and value-added of the ISAC.

#### Positive influences on the Taxpayer Experience:

- The ISAC bolsters the efforts to identify the patterns and trends of identity theft in the ecosystem. This enables the participants to leverage diverse perspectives to identify new and morphing schemes to protect taxpayers from being IDT victims.

The ISAC provides external communication opportunities on schemes or trends that may aid the taxpayer and tax community on methods to protect themselves.

## Appendix C: ETAAC Member Biographies

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**Dmitri Alexeev** – Alexeev is a Tax Partner at BPM LLP and has worked with private and public companies in the financial services, life science and technology industries for over two decades. Along with his tax advisory and compliance experience, Alexeev co-leads BPM's Blockchain and Digital Assets practice and is the Chair of the Accounting Blockchain Coalition's Taxation Working Group.

**Jared Ballew** – Ballew is Government & Industry Liaison at Drake Software, where he has developed his tax industry experience over 17 years. He is actively engaged in both the Security Summit serving as an industry co-lead for the Tax Pro Working Group, and Council for Electronic Revenue Communications Advancement (CERCA). Ballew currently serves as the Vice President for the National Association of Computerized Tax Processors (NACTP), working to promote standardization and simplification between government tax agencies and the tax processing industry. He holds a Master of Business Administration from East Carolina University.

**Luanne Brown** - Brown has served as the Director of Payroll Services for Grand Valley State University for the last 13 years. For more than 20 years, she has worked in varied industries including sports management, advertising, manufacturing, and higher education. In her current role at the University, there has been a major emphasis on data security. She has participated on a Senior Management Cyber Security Team and helped develop new security procedures and policies in the Payroll/Finance area along with communicating to employees on how to protect their personal data from identity theft and steps to take if their information has been compromised. Brown currently serves as a Director on the American Payroll Association Board of Directors. Brown holds a master's degree in Public Administration with an emphasis on Public Management from Grand Valley State University.

**Latryna Carlton** - Carlton is President of Committed Citizens of Waverly (CCOW Inc.) in Waverly, Fla., a community-based organization dedicated to self-help and volunteering. Carlton is a Volunteer Income Tax Assistance (VITA) site coordinator and trainer.

**Daniel Eubanks** - Eubanks is Senior Manager for Federal Government Relations at Intuit. He serves as an Industry co-lead on the Security Summit Authentication Working Group. Eubanks previously served on the Board of Directors for CERCA, as well as on the Senior Executive Board of the Identity Theft Tax Refund Fraud Information Sharing and Analysis Center.

**Larry Gray** - Gray is a certified public accountant with his own firm, Alfermann Gray & Co. Gray serves on the Security Summit Tax Professionals Working Group. He is

an instructor for the National Association of Tax Professionals (NATP) and speaks regularly at the IRS Nationwide Tax Forums.

**Jenine Hallings** - Hallings is a Compliance Risk Manager for Paychex. Her team is responsible for research, analysis, and communication of legislative and regulatory changes impacting the company and its clients and partners and manages Paychex's relationships with various federal and state tax agencies on behalf of clients. Hallings represents Paychex in key industry consortiums to ensure the company is abreast of regulatory trends and developments. Hallings has been at Paychex for over 20 years and has extensive experience on a broad range of payroll tax and privacy matters. Hallings holds an MBA from the Rochester Institute of Technology.

**Eric Inkrott** – Inkrott is Tax Risk Officer at Green Dot, where his key role is combatting stolen identity tax refund fraud. Inkrott is engaged with the IRS Security Summit and partners with the IRS, state departments of revenue and the tax industry to develop new tools and strategies against identity theft and refund fraud. He is a member of the Senior Executive Board of the Identity Theft Tax Refund Fraud Information Sharing and Analysis Center (IDTTRF ISAC).

**Courtney Kay-Decker** – Kay-Decker is of counsel at Lane & Waterman LLP and is an adjunct lecturer in state and local tax at the University of Iowa College of Law. She served as Director of the Iowa Department of Revenue from 2011 until 2019. In January 2020, Kay-Decker became a VITA site coordinator. She has previously served as state co-chair of the IDTTRF-ISAC Partnership. She served as a member of the quasi-judicial Iowa State Board of Tax Review from 2000-2007; and was Chair of the Board from 2003-2007. Kay-Decker received her Bachelor of Arts in Economics from Northwestern University. She holds a Doctor of Jurisprudence with distinction from the University of Iowa College of Law.

**John Kreger** - Kreger is Director of Product Management at Sovos, where he leads the team responsible for Sovos' tax and regulatory reporting solutions. He has experience as a software developer, solution engineer and information systems manager focused on financial and compliance technology solutions. John holds his MBA from the University of Minnesota Carlson School of Management and his Bachelors in MIS from Winona State University.

**Carlos Lopez** – Lopez is founder and President of Lopez Tax Service and the Latino Tax Professionals Association located in Salinas, California. He holds a Bachelor of Arts from Pacific Union College and a Certificate of Management Development for Entrepreneurs from UCLA Andersen School of Management. He has completed the Stanford Latino Entrepreneur Initiative from the Stanford Graduate School of Business. He has been active in tax preparation and representation before the IRS



for more than 36 years. Lopez has been a lecturer and presenter for the IRS Nationwide Tax Forums.

**Laura Macca** - Macca is National Director of Business Transformation at EisnerAmper. Previously, Macca led tax process, policy, digital transformation, and risk management initiatives as Chief of Staff at Bridgewater Associates LP. She is a certified public accountant and member of the American Institute of CPAs (AICPA).

**Julie Magee** - Magee is Director of Tax Regulatory Affairs at Credit Karma Tax, Inc. She is a founding participant in the Security Summit and the Identity Theft Tax Refund Fraud Information Sharing and Analysis Center. She serves on several Summit working groups. Magee was previously Commissioner of the Alabama Department of Revenue and held leadership roles at the Federation of Tax Administrators, the Multistate Tax Commission, and the Southeastern Association of Tax Administrators.

**Sherice McCarthy** – McCarthy is Director of Payroll at Dartmouth College in Hanover, N.H. She manages a payroll department of four payroll professionals and compensates approximately 10,000 faculty, staff, and students. She holds a Master of Business Administration in Systems Management from Baldwin Wallace College, a Bachelor of Arts in Accounting with a Minor in Information Systems from Notre Dame College. Also, she holds a Human Resources Professional Development Certificate. McCarthy-Hill belongs to the American Payroll Association, Society of Human Resource Management, and Higher Education User Group.

**Kimberly Pederzani** – Pederzani is Compliance Manager for the Employee Cloud business unit at Toast, Inc., and serves on several subcommittees for the American Payroll Association. She holds a law degree from Florida Coastal School of Law, a bachelor's degree in Legal Studies with certifications in Criminal Profiling and Women's Studies from the University of Central Florida. She has received numerous awards for public speaking, assistance with non-profit organizations, and pro bono services to underprivileged individuals.

**Andrew Phillips** – Phillips is Director, Agency & Industry Relations and Tax Law & Policy Analysis, at The Tax Institute at H&R Block. Phillips is active in the Security Summit and the Identity Theft Tax Refund Fraud Information Sharing and Analysis Center (IDTTRF ISAC), serving as an industry co-lead on the Authentication Working Group and as a member of the ISAC Metrics Committee. Phillips is also active in tax industry associations, serving as a co-lead of the CERCA Legislative Implementation Working group, which focuses on integrating tax law changes across the entire tax ecosystem. In his personal time, Phillips serves on the Avila University Alumni Association Board.

**Lynnette T. Riley** - Riley serves as the President of the Georgia Student Finance Commission, administering the state's higher education scholarship, grant, and loan programs. Riley previously held the position of Georgia State Treasurer. Appointed to serve as State Revenue Commissioner of Georgia in 2015, Riley led the agency for 4 years, and held leadership roles in the Federation of Tax Administrators and the Southeastern Association of Tax Administrators. Riley has participated in the IRS Security Summit initiative from its inception and served on the IDTTRF-ISAC Senior Executive Board from 2017-2019. Elected to the Georgia General Assembly in 2010, she served as the Governor's Floor Leader in 2014. Lynne Riley served in local government as the District 3 Fulton County Commissioner from 2004 to 2010. Riley was principal of Riley Accounting Services for over 30 years, providing accounting and tax compliance services to individuals and small businesses.

**Cynthia Rowley** - Rowley is a retired Assistant Commissioner with the Minnesota Department of Revenue. As former Assistant Commissioner, she was responsible for the Department's Individual Income Tax and Withholding Division, Property Tax Division, Tax Operations Division and Special Tax Division. Rowley was previously Director of Property Tax and Director of the Tax Operations Division. She has extensive experience in electronic tax administration for State Revenue Agencies and was awarded several Governor's Innovation awards for improving efficiency in Tax Administration. Rowley also served as executive sponsor for the VITA Programs administered by the Minnesota Department and Revenue and the VITA Grant Awards issued by the State of Minnesota. She sponsored activities to implement virtual VITA service for taxpayers when in-person services were suspended due to COVID. She advanced partnerships with local tax administrators and tax preparer constituent groups, among others.

**Gene Salo** - Salo has over 25 years of experience in the tax industry, initially in tax preparation and later in tax software development. Recently, Salo has turned his focus to identity theft and tax refund fraud. He is active with the IRS, state tax agencies, and tax industry members in the Security Summit, where he is a co-lead for the Tax Professional Working Group. Salo also serves as the Chairman of the Board of Directors of CERCA, an association of tax industry firms that supports electronic filing. Salo earned his MBA from the University of Michigan and has a dual BA in Accounting and Finance from Oakland University. He is a veteran of the US Air Force.

**Timur Taluy** – Taluy is CEO and co-owner of FileYourTaxes.com. Taluy is currently on the Board and a member of the Executive Committee of the Board of the Council for Electronic Revenue Communications Advancement (CERCA) and is co-chair of the Strategic Threat Assessment and Response (STAR) workgroup within the IRS Security Summit. He holds a Bachelor of Science in Electrical Engineering from USC.

**Matthew Vickers** - Vickers is General Manager of Product for U.S.-based Xero Inc. and its publicly listed New Zealand-based parent company Xero Limited. Xero offer online accounting and tax-filing software to small businesses. Vickers participates in multiple US and global industry forums, particularly in relation to standardized business documents. Vickers also serves on the Board of Directors for the Data Coalition, a DC-based trade association that advocates for responsible policies to make government data high-quality, accessible, and useable.

**Lindsey West** – West is the Founder and CEO of Track1099.com, which offers online 1099, W-2, ACA and T-4A e-filing to the public. Prior to founding Track1099 in 2010, she worked as an F/A-18 flight test engineer for the US Navy as well as numerous other engineering roles in the aerospace industry. West received her Ph.D. in Aeronautics and Astronautics from Stanford University.

## **Appendix D: Active ETAAC Recommendations**

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ETAAC considers the following recommendations still open. The IRS has made progress in addressing many recommendations. For the recommendations set forth below, the committee believes processes and work remain.

### **2017 Recommendation #2**

Considering past Security Summit successes, IRS should continue to invest in innovative and collaborative initiatives with Security Summit stakeholders and trusted third parties to identify and test enhanced identity proofing and authentication approaches, including accessing new sources of authentication data and testing new identity proofing technologies.

### **2017 Recommendation #3**

Given its associated exceptionally high e-file rejects, the IRS should analyze the effectiveness of the Prior Year Adjusted Gross Income/Self-Select PIN taxpayer signature verification model and work collaboratively within the Security Summit to identify options to replace this model, preferably with one that could be used by both IRS and States.

### **2017 Recommendation #6**

The IRS should identify, analyze, and mitigate barriers that preclude IRS information sharing with ISAC for purposes of fighting IDTTRF.

### **2017 Recommendation #9**

The STAR Work Group should identify and pursue opportunities to extend federal, state, and industry participation in its initiatives and, where appropriate, expand its engagement with other Security Summit Work Groups.

### **2018 Recommendation #4**

Enable collaborative innovation.

### **2018 Recommendation #5**

Establish a common security standard and the IRS enforcement authority.

### **2018 Recommendation #6**

Increase participation in Security Summit cybersecurity initiatives.

### **2018 Recommendation #8**

Require security continuing education.

**2018 Recommendation #10**

Establish clear IRS internal responsibility.

**2018 Recommendation #13**

Enable third-party EFIN and PTIN Validation

**2018 Recommendation #19**

Increase the electronic filing of employment returns.

**2019 Recommendation #6**

Assess the state of information security practices in the tax professional community.

**2019 Recommendation #8**

Develop and expand channels for identity proofing.

**2019 Recommendation #9**

Collaborate with Security Summit members to identify and pilot emerging approaches for identity verification.

**2019 Recommendation #10**

Engage with the Security Summit to improve the Taxpayer Protection Program's taxpayer experience.

**2020 Recommendation #5**

Collaborate on the identification and mitigation of disruption threats to our tax system.

**2020 Recommendation #7**

Study information security practices and vulnerabilities in the tax preparer community

**2020 Recommendation #8**

Collaborate on the identification and piloting of promising digital identity solutions.

**2020 Recommendation #9**

Implement taxpayer-controlled "real-time" protections.

**2020 Recommendation #10**

Expand collaboration on the design and launch of the IRS 1099 internet-based service.

**2020 Recommendation #12**

Evaluate TFA impact on Security Summit and sustain energy and commitment of participants.

**2020 Recommendation #16**

Implement real-time EFIN and PTIN validation capabilities.

## Appendix E: ETAAC E-File Analytical Methodology

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This Appendix explains ETAAC's methodology for analyzing and projecting annual electronic filing rates for all significant returns and individual tax returns. ETAAC standardized its procedure for e-file estimates and projections to provide a consistent measure of IRS e-file performance, standardize cross-year comparisons and facilitate analysis.

### E-file Rates for Major Returns

To determine the e-file rate for all significant returns, ETAAC takes two steps.

First, ETAAC utilized the "major" returns, which the IRS uses as major return categories found in Table 2 of IRS Publication 6186:

Individual Income Tax (Form 1040 series)	Employment (Form 94X series)
Corporation Income Tax (Form 1120 series)	Fiduciary (Form 1041)
Exempt Organizations (Form 990 series)	Partnership (Form 1065 series)

Second, using the IRS's most up-to-date published information from Publication 6186, ETAAC computes an electronic filing rate for each specified return family as well as an overall electronic filing rate for all major return families. These estimates and projections are reflected in Table 2 in the Progress Toward 80% E-file Goal section of this report.

### ETAAC-Projection for Current Year E-file Rate for Individual Returns

Form 1040 series returns are the largest category of tax returns by volume for IRS e-file, given they account for 77% of all major return types.

In its projection for the current year, IRS Publication 6186 primarily relies on historical information as the foundation for its estimates and projections going forward. We, in turn, have used IRS estimates and projections from IRS Publication 6186 as a baseline for ETAAC's projection.

To supplement insights from IRS Publication 6186, ETAAC historically has used a methodology to project the current-year e-file rate for individual returns based on partial filing season data for the current year and historical trends. Specifically, the procedure extrapolates and adjusts current filing season year-to-date information into full-year estimates based on historical e-file trends in the May-October period.

In last year's report, ETAAC adjusted its predictive methodology due to the COVID pandemic. ETAAC estimated the overall E-File rate and used a normalized date of March 6, 2020. That date preceded the IRS's announcement of a change in the filing deadline from April 15 to July 15, 2020. Additionally, the filing season was affected by stay-at-home orders.

For this year's report, ETAAC has elected to maintain a similar timeline. On March 18, 2021, due to continuing issues with COVID and the late start of the electronic tax filing season for individuals, February 12, 2021, the IRS extended the filing season until May 17, 2021. For the comparative then, ETAAC has chosen the same period as the prior year to keep the statistics meaningful.

ETAAC estimates that the e-file rate for individual returns will be just over 91% for the entire 2021 filing season using its adjusted methodology.

Below is an explanation of ETAAC's three-step process to project the full-year electronic filing rate for individual returns for the tax year 2020.

**Step 1: Calculate the actual current year-to-date e-file rate**

Determine the current year-to-date e-file rate for individual returns based on factual return filing information through March 5, 2021, which ETAAC calculates to be 96.91%.

**Table 1:** Tax Year 2020 through March 6, 2020, Individual Income Tax Returns through March 5, 2021

Cumulative statistics comparing 3/6/2020 and 3/5/2021			
	3/6/2020	3/5/2021	Year over Year % Change
Total Receipts	67,998,000	55,716,000	-18.06%
E-file Receipts	64,806,000	53,992,000	-16.7%
Year to date E-file Rate	95.31%	96.8%	1.5%

Source: From Filing Season Statistics for Week Ending March 5, 2021

<https://www.irs.gov/newsroom/filing-season-statistics-for-week-ending-march-5-2021>

**Step 2: Estimate e-file degradation rate through the remaining filing season.**

In 2021, we accomplished this step by comparing the individual e-file rate through early March with the actual e-file rate for the full-calendar-year filing season for each of the two preceding years – 2019 and 2020. Then, ETAAC uses the average degradation rate experienced over the comparable period for each of the previous two years to forecast degradation for the current year. ETAAC estimates that the e-file degradation rate for the 2021 filing year is forecast to be 5.70%.

**Table 2:** Historical Partial-Season Data vs. Full-Season Data

	3/8/2019	12/13/2019	Change	3/6/2020	12/11/2020	Change	Two Year Average
Total Receipts	67,721,000	155,660,000		67,998,000	169,684,000		
E-file Receipts	64,299,000	138,217,000		64,806,000	152,802,000		
Year to date E-file Rate	94.95%	88.79%	6.15%	95.31%	90.05%	5.25%	5.70%

Source: Various Filing Season Statistics found on [www.irs.gov](http://www.irs.gov)



**Step 3: Project the full-year e-file rate for individual returns.**

Subtract the e-file degradation rate from the e-file rate as of March 5, 2021.

Using the IRS's March 5, 2021 data, ETAAC's projected 2021 full-year e-file rate for the individual tax return family is 91.21%. This ETAAC projection is consistent with the IRS's 2021 projection of 91.05% in IRS Publication 6186.

**Table 3:** 2021 Individual Returns Electronic Filing Projection

	<b>Current @ 3/5/2021</b>	<b>Avg. Degradation Rate</b>	<b>ETAAC 2021 Projection</b>
Total Receipts	55,716,000		
E-file Receipts	53,992,000		
E-file Rate	96.91%	5.70%	<b>91.21%</b>

## Appendix F: ETAAC letter to Congress Concerning the IRS Budget

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### ELECTRONIC TAX ADMINISTRATION ADVISORY COMMITTEE

December 4, 2020

*Transmitted via E-mail.*

The Honorable Mitch McConnell  
Majority Leader  
United States Senate  
Washington, D.C. 20510

The Honorable Nancy Pelosi  
Speaker  
U.S. House of Representatives  
Washington, D.C. 20515

The Honorable Charles Schumer  
Minority Leader  
United States Senate  
Washington, D.C. 20510

The Honorable Kevin McCarthy  
Minority Leader  
U.S. House of Representatives  
Washington, D.C. 20515

Re: Recommendation in Support of Congressional Goals under the Taxpayer First Act

Dear Senators and Representatives:

We write to you today on behalf of the Electronic Tax Administration Advisory Committee (“ETAAC”) to recommend that you fully fund the Internal Revenue Service’s \$12 billion budget request for fiscal year 2021 before you adjourn for the holiday season.

We recognize that Congress has a number of important priorities on its plate, and that IRS funding may not be at the top of that list. However, we ask that you place it among your top priorities for several reasons:

- ***The IRS runs our tax system well.*** The IRS is the engine that collects about 96% of the nation’s tax revenues at a remarkably low cost. In 2018, the IRS collected nearly \$3.5 trillion in tax revenues, and refunded over \$464 billion in overpayments, for net collections just north of \$3 trillion. The federal tax system operated with an appropriated budget of about \$11.2 billion – less than half of one percent of net revenues. A business would be ecstatic to have such a low operating expense ratio.
- ***The IRS is committed to continuous process improvement.*** Any organization – public or private – has opportunities to improve. ETAAC’s work with the IRS gives us unique exposure to the IRS team’s efforts to remove bottlenecks and otherwise improve service to taxpayers. We regularly experience an IRS that is passionate about making the taxpayer’s experience better and is very receptive to recommendations from ETAAC and others in that regard. The highly technical nature

of this work, coupled with each taxpayer's limited direct exposure to the IRS, means that most taxpayers are not aware that significant improvements are being made every day.

- ***The IRS is becoming more and more nimble.*** The CARES Act put the IRS's nimbleness on display. The IRS's ability to begin delivery of Economic Impact Payments within two weeks of enactment of the CARES Act *during the tax filing season* was nothing short of yeoman's work. Even more encouraging is the way that the IRS continues to work with stakeholders to take the lessons learned during the pandemic to accelerate improvements to taxpayer service. The People First and e-signature initiatives are two examples of these efforts. Even with these successes, the IRS has acknowledged that there were gaps in service that they are working to correct. Giving the IRS the needed resources will help minimize potential pandemic-related challenges that taxpayers may encounter during the upcoming filing season.
- ***Underfunding the IRS hurts America's taxpayers and deprives them of the services they deserve.*** When the IRS is underfunded, it naturally prioritizes its work to ensure that the overall system keeps running. That often means that efforts that ultimately would serve taxpayers better, faster, and cheaper are delayed or scrapped entirely. From our perspective, many of the issues that your constituents share with you, such as slower than desired refunds and response times, and incorrect notices, can be fundamentally improved with appropriate IRS funding.

In our experience, today's IRS does not fit the old stereotypes, thanks to the many employees who wholeheartedly believe that improving the taxpayer experience is an essential requirement of their jobs. These public servants want to deliver accurate, timely, fair, and compassionate service to our nation's taxpayers, and they are following the Congressional direction to put taxpayers first.

However, ETAAC unanimously believes that the important and paradigm-shifting goals of the Taxpayer First Act cannot be achieved without significant financial investment in technology infrastructure and security. Fully funding the IRS's current year budget request is a down payment on that investment that we strongly encourage Congress to make now.

We expect that we will offer additional budget-related recommendations in our next report to you, scheduled to be issued in June 2021. However, these funding recommendations could not wait.

We are available at your convenience to discuss this matter further with any of you or your staff.

Sincerely,

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Geno Salo  
Chairman

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Courtney M. Kay-Decker  
Vice Chairperson

cc: The Honorable Chuck Grassley, Senate Finance Committee Chairman  
The Honorable Ron Wyden, Senate Finance Committee Ranking Member  
The Honorable Richard Neal, House Ways & Means Committee Chairman  
The Honorable Kevin Brady, House Ways & Means Committee Ranking Member  
The Honorable Richard Shelby, Senate Committee on Appropriations Chairman  
The Honorable Patrick Leahy, Senate Committee on Appropriations Vice Chairman  
The Honorable Nita Lowey, House Committee on Appropriations Chairwoman  
The Honorable Kay Granger, House Committee on Appropriations Ranking Member  
The Honorable Charles Rettig, Commissioner of the Internal Revenue Service

## Appendix G: ETAAC Press Release Supporting TFA

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January 14, 2021

### PRESS RELEASE

#### **Comment by the Electronic Tax Administration Advisory Committee to the IRS (“ETAAC”) with regard to the Taxpayer First Act Report issued on January 11, 2021 by the Internal Revenue Service.**

We congratulate the Internal Revenue Service (the “IRS”) on the issuance of the Taxpayer First Act Report (the “Report”), a work product that was a year and a half in the making. In the Taxpayer First Act (the “TFA”), Congress asked the IRS to think boldly, and to envision an IRS that provides the nation’s taxpayers with the high-quality, user-friendly services that they deserve. The IRS has done just that. It is now up to Congress to provide the IRS with consistent, multi-year funding so that taxpayers benefit from the vision as soon as possible.

ETAAC appreciates the open and collaborative approach that the IRS has taken in developing the Report, including their interactions with our committee. ETAAC looks forward to delving into the details of the Report and continuing collaborative conversations with the IRS in the service of taxpayers. In the meantime, we offer a few high level observations.

#### **Every Person, Every Interaction, Every Time.**

In the Report, the IRS articulates its taxpayer-centered approach: to “meet taxpayers where they are.” This high standard aims to provide an individualized and seamless experience to each taxpayer in accordance with the taxpayer’s needs. Consistently providing this high level of service is an aspirational yet achievable goal over the ten-year horizon set forth in the Report.

The Report reflects the IRS’s confidence in its ability to deliver a 21<sup>st</sup> century experience but recognizes that critical parts of the experience can’t be delivered when the backbone technology speaks in nearly-dead computer languages. We echo that concern.

Though secure and flexible technology is the foundation of an effective and efficient tax system, the people and processes are no less important. We commend the IRS’s vision for new organizational and training structures that establish opportunities for greater engagement,

collaboration, and accountability. The IRS's strategy focusing on taxpayer-first service requires the integrated whole of the tax system – people, processes, and technology – to work together to competently deliver real-time, consistent information and assistance.

The IRS did not wait for the issuance of the TFA Report to start becoming a more taxpayer-centric organization. Instead, they quickly began implementing legislative changes, and leaned on stakeholder feedback loops to tweak processes in flight. From ETAAC's vantage point, the IRS has been working to consistently improve, and shows an increasing ability to be nimble. The report demonstrates vision. In our view, IRS employees – people who are leaders regardless of title – look forward to having tools that let them live by the “taxpayer first” motto. Now, Congress should provide the ultimate tool for success: funding.

### **Success Requires a Commitment to Predictable, Multi-Year Funding**

Congress provided room for the IRS to be structurally nimble in the Taxpayer First Act. Modern, customer-centric tax administration requires it; and the IRS has embraced the concept. The next step is for Congress to provide the IRS with a flexible and predictable funding stream. The integrated IRS operational structure envisioned by the Report requires funding that can be allocated among priorities as they evolve during planning cycles that do not neatly coincide with the legislative timelines. Using the IRS's proposed cost accounting approach enhances accountability within the IRS, as well as to Congress and taxpayers.

We appreciated that Congress's 2021 appropriations nearly met the IRS's request. ETAAC recommends that Congress make it an early priority in 2021 to create “no year” funding to meet the over \$1.9 billion in basic technology needs that were set forth in the 2019 Technology Modernization Plan and the \$2.2 billion of early-phase Taxpayer Experience Strategy cost estimates. In the long run, delays or uncertainty in funding often result in wasteful rework and increased costs to taxpayers.

Our nation's voluntary tax system depends upon the vast majority of taxpayers following the law with minimal intervention from the IRS. Investing in the plans set forth in the Taxpayer First Act Report will go a long way toward reducing the burdens taxpayers currently face.

#### CONTACTS:

Geno Salo, Chair

Courtney Kay-Decker, Vice Chair