

#7 REQUIRE THE IRS TO UTILIZE SCANNABLE CODE OR SIMILAR TECHNOLOGY TO PROCESS INDIVIDUAL INCOME TAX RETURNS PREPARED ELECTRONICALLY BUT FILED ON PAPER

Present Law

Present Law does not address the treatment of tax returns that are prepared electronically but filed on paper.

Reasons for Change

In recent years, more than 85 percent of individual income tax returns have been submitted electronically. Of those submitted on paper, millions are prepared electronically using tax software. When the IRS cannot capture the tax return information electronically, IRS employees must enter the data from paper filed returns manually. The manual transcription of millions of lines of return data is expensive, produces transcription errors, and delays return processing.

Scanning technology is available that would allow the IRS to scan paper returns and capture the data in an efficient manner. Many states use scanning technology for paper-based returns. To allow the IRS to utilize scanning technology, a taxpayer or preparer would use tax return preparation software to complete the return. When the return is printed, a horizontal or vertical bar code containing the return information is imprinted on the paper. The IRS scans the return, captures the data, decodes it, and processes the return as if it had been transmitted electronically.

While scanning technology does not convert taxpayers to e-file, it produces significant advantages over paper filing, including: (1) faster processing of tax returns; (2) more accurate recording of tax return information; and (3) cost savings due to the reduction in manual data transcription. Despite these benefits, the IRS has not availed itself of this or similar technology for individual income tax returns. The IRS can achieve savings by working with tax software companies to incorporate scannable bar codes into their individual tax return preparation software. The IRS already provides scanning technology as an option for filers of Schedules K-1 (Form 1065).⁴⁹ The IRS is also using character recognition software to capture data on some paper returns. It is unclear whether character recognition software is more accurate than scannable technology in the context of tax return data.

Recommendation

Require the IRS to report to Congress, within 180 days of enactment, on its plans to reduce the monetary costs and transcription errors associated with the processing of individual income tax returns prepared electronically but filed on paper.⁵⁰

49 See IRS, *2-D Bar Coding for Schedules K-1 is the Preferred Method*, <https://www.irs.gov/e-file-providers/two-dimensional-bar-coding-for-schedules-k-1-is-the-preferred-method> (last visited Dec. 22, 2017).

50 For similar recommendations, see Department of the Treasury, *General Explanations of the Administration's Fiscal Year 2015 Revenue Proposals* 227 (Mar. 2014); S. 2736, 113th Cong. § 4 (2014), which require taxpayers who paper file electronically prepared tax returns to print their returns with a scannable 2-D bar code.