1. MODERNIZE IRS PROCESSING TO INCREASE EFFICIENCY AND IMPROVE THE TAXPAYER EXPERIENCE

Hundreds of millions of taxpayers file their tax returns with the IRS annually. For many Americans, it is the only experience they have with the IRS, so providing efficient filing and processing systems is paramount to effective tax administration. The effects of paper processing ripple throughout the IRS, decreasing administrative efficiency and increasing taxpayer burden. Paper processing not only creates backlogs in the processing of mailed tax forms and correspondence, but it also negatively impacts elements of the taxpayer experience, including telephone line wait times, timeliness of refunds, and document storage costs.[1]

The IRS Paperless Processing Initiative[2] seeks to mitigate the impacts of paper submissions and reduce the burden of paper filing on taxpayers. As part of the initiative, the IRS launched the Document Upload Tool (DUT),[3] which allows taxpayers to securely upload documents to the IRS but still requires the IRS to manually process on the back end. The initiative has set an ambitious goal to accomplish paperless processing (scanning and digitalization) of all tax and information returns by the 2025 filing season.[4] Even with a shift toward digitalization, the IRS only scanned about ten percent (nearly a million) of returns and forms filed by paper during Filing Season 2024 through May 3, 2024. The scanned returns and forms were primarily IRS Form 940, Employer's Annual Federal Unemployment (FUTA) Tax Return; IRS Form 941, Employer's Quarterly Federal Tax Return; IRS Form 4868, Application for Automatic Extension of Time to File U.S. Individual Income Tax Return; and IRS Form 1040, U.S. Individual Income Tax Return, where certain schedules were attached.[5]

Electronic filing is an important tool to reduce the number of paper tax returns taxpayers submit to the IRS, as it allows the IRS to more efficiently process returns during the annual filing season.[6] With less paper to process, backlogs decrease, improving return processing and the timeliness of payment of refunds. Even with a high rate of electronic filing, some taxpayers who want to electronically file are unable to do so. Taxpayers may have to paper file if they must file a form or schedule that the IRS has not programmed its systems to accept electronically or if the IRS systems reject a tax return for violating a programming rule. As part of the Paperless Processing Initiative, the IRS has begun expanding the forms eligible for electronic filing, but the project is far from complete.[7] TAS will continue to monitor the Paperless Processing Initiative and provide recommendations as needed.

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1   National Taxpayer Advocate 2023 Annual Report to Congress 5 (Most Serious Problem: *Processing: Ongoing Processing Delays Burden and Frustrate Taxpayers Awaiting Refunds and Other Account Actions*), https://www.taxpayeradvocate.irs.gov/wp-content/uploads/2024/01/ARC23_MSP_01_Processing-Delays_FINAL_01292024.pdf.

2   IRS Fact Sheet, FS-2023-25, IRS Achieves Key Paperless Processing Initiative Goal, Outlines Improvements for Filing Season 2024 (Nov. 2023), https://www.irs.gov/newsroom/irs-achieves-key-paperless-processing-initiative-goal-outlines-improvements-for-filing-season-2024; IRS Fact Sheet, FS-2023-18, IRS Launches Paperless Processing Initiative (Aug. 2023), https://www.irs.gov/newsroom/irs-launches-paperless-processing-initiative.

3   Until the IRS implements a backend workflow process and case management system integration, IRS staff processes DUT submissions manually, which creates another potential processing backlog. *See* National Taxpayer Advocate 2023 Annual Report to Congress 87 (Most Serious Problem: *Online Account Access for Taxpayers and Tax Professionals: Digital Services Remain Inadequate, Impeding Efficient Case Resolution and Forcing Millions of Taxpayers to Call or Send Correspondence to the IRS*), https://www.taxpayeradvocate.irs.gov/wp-content/uploads/2024/01/ARC23_MSP_07_Online-Accounts.pdf.

4   IRS Fact Sheet, FS-2023-25, IRS Achieves Key Paperless Processing Initiative Goal, Outlines Improvements for Filing Season 2024 (Nov. 2023), https://www.irs.gov/newsroom/irs-achieves-key-paperless-processing-initiative-goal-outlines-improvements-for-filing-season-2024; IRS Fact Sheet, FS-2023-18, IRS Launches Paperless Processing Initiative (Aug. 2023), https://www.irs.gov/newsroom/irs-launches-paperless-processing-initiative.

5   IRS response to TAS information request (May 23, 2024). The IRS also has a longstanding hybrid scanning/manual transcription program that processed about 3.8 million employment tax returns through May 3, 2024. During Filing Season 2024 through the week ending May 25, 2024, the IRS scanned only 176,365 Forms 1040. IRS response to TAS information request (June 3, 2024).

6   *See, e.g.*, Alexander Rifaat, *Paper W-2 Filings on Track to Drop by Half*, Tax Notes, Apr. 5, 2024, at 372, https://www.taxnotes.com/tax-notes-today-federal/employment-taxes/paper-w-2-filings-track-drop-half/2024/04/05/7jdj9.

7   National Taxpayer Advocate 2023 Annual Report to Congress 5 (Most Serious Problem: *Processing: Ongoing Processing Delays Burden and Frustrate Taxpayers Awaiting Refunds and Other Account Actions*), https://www.taxpayeradvocate.irs.gov/wp-content/uploads/2024/01/ARC23_MSP_01_Processing-Delays_FINAL_01292024.pdf.

The National Taxpayer Advocate has recommended the IRS accept valid tax returns it rejected solely based on electronic filing criteria and direct them to an appropriate treatment stream for resolving discrepancies.[8] During FY 2023, 150.9 million individuals filed an electronic Form 1040. Of the 19.4 million taxpayers who experienced rejection of their tax return, the IRS ultimately accepted returns for approximately 14 million taxpayers, while over five million of those taxpayers with a rejected Form 1040 return ended up filing on paper or did not file.[9] TAS will continue to advocate for a system that allows taxpayers to perfect electronic tax return filings rather than forcing those taxpayers to submit paper returns.

Objective 1 for FY 2025 – TAS will work with the IRS as the IRS implements plans to modernize processing through the Paperless Processing Initiative.

- Activity 1: Monitor the IRS implementation of the Paperless Processing Initiative, including scanning technology and digitalization to process paper-filed IRS forms and correspondence and the expansion of electronic filing eligible tax forms, and make administrative recommendations as needed to minimize taxpayer burden.
- Activity 2: Provide recommendations to allow perfection of electronically filed tax returns rejected solely based on electronic filing criteria and the creation of an appropriate treatment stream for resolving discrepancies.
- Activity 3: Monitor the inventory and processing of amended returns, including Employee Retention Credit claims, and provide recommendations to improve the processing timeframe and transparency about the length of time and reasons for delays.

2. IMPROVE IRS EMPLOYEE HIRING, RECRUITMENT, RETENTION, AND TRAINING PROCESSES

The IRS still has much work to do to improve its hiring, recruitment, and training processes. Failures in hiring, recruitment, and training lead to poor customer service quality, undermine voluntary compliance, and burden tax administration. IRS employee attrition remains a concern for the National Taxpayer Advocate. As noted in the 2023 Annual Report to Congress, about 18 percent of IRS employees are currently retirement-eligible and can leave at any time, with 37 percent of IRS employees estimated to become retirement-eligible in the next five years.[10] This state of affairs will lead to a void in the management and leadership ranks at the IRS, and the National Taxpayer Advocate urges the IRS to move quickly and efficiently to mitigate the impact of employee attrition.

The IRS continues to expand its use of in-person and virtual recruitment events, which it announces on an external recruitment website.[11] Using funding provided in the Inflation Reduction Act of 2022,[12] the IRS has increased its focus on hiring customer service representatives (CSRs) and revenue agents. The IRS Chief

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8   National Taxpayer Advocate 2023 Annual Report to Congress 5 (Most Serious Problem: *Processing: Ongoing Processing Delays Burden and Frustrate Taxpayers Awaiting Refunds and Other Account Actions*), https://www.taxpayeradvocate.irs.gov/wp-content/uploads/2024/01/ARC23_MSP_01_Processing-Delays_FINAL_01292024.pdf; National Taxpayer Advocate 2021 Annual Report to Congress 139 (Most Serious Problem: *E-Filing Barriers: Electronic Filing Barriers Increase Taxpayer Burden, Cause Processing Delays, and Waste IRS Resources*), https://www.taxpayeradvocate.irs.gov/wp-content/uploads/2022/01/ARC21_MSP_08_Efiling.pdf.

9   IRS, Compliance Data Warehouse (CDW), Electronic Tax Administration Research and Analysis System (Nov. 2023).

10 Email from the IRS Chief Human Capital Officer (dated Dec. 19, 2023). The volume of IRS retirement-eligible employees in the next five years varies, and estimates are as high as 63 percent. IRS, Pub. 5530, Fiscal Year 2024 Budget in Brief (Feb. 2023), https://www.irs.gov/pub/irs-prior/p5530--2023.pdf. Attrition is defined as "the departure of employees from an organization for any reason (voluntary or involuntary), including resignation, termination, death, or retirement," in a fiscal year and is used interchangeably with the term "employee turnover." *See* Human Resources Glossary, Gartner, https://www.gartner.com/en/human-resources/glossary/attrition (last visited May 13, 2024).

11 IRS Events, IRS Careers, https://www.jobs.irs.gov/events (last visited May 13, 2024).

12 An Act to Provide for Reconciliation Pursuant to Title II of S. Con. Res. 14, Pub. L. No. 117-169, 136 Stat. 1818 (2022).