

IRS Processing of Individual Taxpayer Identification Numbers

EXECUTIVE SUMMARY

Individual Taxpayer Identification Numbers (ITINs)¹ are an essential tool for individuals who are not eligible for a Social Security number (SSN) to fulfill their tax obligations in the United States. While ITINs are often linked with immigration policy, their primary purpose is to allow a non-SSN holder to report and pay taxes. Congress created the ITIN program in 1996 to facilitate tax return processing and payment for those without SSNs, emphasizing that ITINs are for tax purposes only. Over time, however, various private and public entities, including financial institutions and state agencies, have used ITINs as proof of identity for services like credit card applications or driver's licenses.² The 2015 Protecting Americans from Tax Hikes (PATH) Act introduced significant changes to the ITIN program. These include stricter application rules and automatic expiration of ITINs if unused for three consecutive tax years. Despite these updates, the ITIN program faces operational challenges that burden both the IRS and taxpayers.³

This report examines the scope and impact of ITINs, focusing on the characteristics of ITIN-related tax returns, including the size of the ITIN tax return filing population, taxes paid, credits received, and other characteristics. It discusses the IRS administration of the program, including the challenge of the IRS reviewing and processing hundreds of thousands of ITIN applications. Finally, we look at the challenges faced by ITIN applicants, particularly when errors occur because the IRS erroneously deactivated their ITIN and the additional burdens imposed by the IRS issuance of ITIN-related math error notices, which taxpayers may not understand leading to delays and loss of millions of dollars in credits.⁴ The specific objectives for this study and corresponding significant conclusions are to:

1. Determine the size and composition of the ITIN program and quantify its impact on U.S. taxation.
 - Millions of tax returns include at least one ITIN annually, contributing billions of dollars in tax revenue, even after allowable credits, which range from about \$2 to \$4 billion.
 - ITIN filers are predominately low-income taxpayers with a median adjusted gross income (AGI) of slightly over \$31,000.
 - ITIN applicants who use a Certifying Acceptance Agent (CAA) to certify the documents submitted with their ITIN application are 15 percent more likely to have the IRS accept their application, while ITIN applicants without CAA support face more than double the rejection rate of ITIN applications submitted by a CAA.
 - Volunteer Income Tax Assistance (VITA) sites may offer free CAA services to certify documents submitted with the ITIN application but are limited to only 17 states, leaving taxpayers without adequate support.

1 See Most Serious Problem: *Individual Taxpayer Identification Number Processing: IRS Dependence on Paper Forms and Manual Document Review Is Causing Delays, Mistakes, and Potential Security Risks*, *supra*.

2 Treasury Inspector General for Tax Administration (TIGTA), Ref. No. 2024-400-012, *Administration of the Individual Taxpayer Identification Number Program 1-2* (2024), <https://www.tigta.gov/reports/audit/administration-individual-taxpayer-identification-number-program-0>.

3 Consolidated Appropriations Act, 2016, Pub. L. No. 114-113, Division Q, Title IV, § 203(b), 129 Stat. 2242, 3079 (2015) [hereinafter referred to as the "Protecting Americans from Tax Hikes Act of 2015" (PATH Act)].

4 At a future date, TAS also intends to explore the amount of tax revenue lost for ITIN filers who are self-employed or who work for cash as wages not reported on an employment tax return; however, TAS is still pursuing an external vendor to assist with this economic analysis.

2. Assess the IRS's administration of the ITIN program.

- The IRS assigns hundreds of thousands of ITINs each year. In calendar year (CY) 2023, the IRS issued nearly 900,000 ITINs and rejected more than 250,000 ITIN applications.
- Navigating the IRS process may be quite difficult for taxpayers, and if they submit critical identification documents with their applications, they risk not receiving them back.
- In tax year (TY) 2022, the IRS invalidated ITINs for almost 22,000 taxpayers impacting nearly 32,000 dependents, and IRS-issued math error notices eliminated over \$6 million in claimed Other Dependent Credits.

INTRODUCTION

The U.S. government requires individuals who are ineligible for an SSN but need a Taxpayer Identification Number (TIN) for filing a federal income tax return to get an ITIN. These individuals must apply for an ITIN on Form W-7, Application for IRS Individual Taxpayer Identification Number.⁵ The Form W-7 instructions list several categories of individuals who require an ITIN, including:⁶

- Nonresident alien individual claiming reduced withholding under an applicable income tax treaty;
- Nonresident alien individual not eligible for an SSN who must file a U.S. federal tax return or who is filing a U.S. federal tax return only to claim a refund;
- Nonresident alien individual not eligible for an SSN who elects to file a joint U.S. federal tax return with a spouse who is a U.S. citizen or a resident alien;
- U.S. resident alien (based on the number of days present in the United States, known as the “substantial presence” test) who files a U.S. federal tax return but who is not eligible for an SSN;
- Nonresident alien student, professor, or researcher required to file a federal tax return but who isn't eligible for an SSN or who is claiming an exception to the tax return filing requirement;
- Alien spouse claimed as an exemption on a U.S. federal tax return who is not eligible to get an SSN; and
- Alien individual whom another taxpayer can claim as a dependent on a U.S. federal tax return but who is not eligible to get an SSN.

In general, a federal income tax return must accompany Form W-7.⁷ There are five exceptions to this rule:

1. Passive income – third-party withholding or tax treaty benefits;
2. Other income;
3. Mortgage interest – third-party reporting;
4. Dispositions by a foreign person of U.S. real property interest – third-party withholding; and
5. Treasury Decision (T.D.) 9363.⁸

While some taxpayers do file a Form W-7 because of one of these exceptions, nearly 90 percent of the assigned ITINs since 2022 have been associated with Forms W-7 accompanying federal income tax returns filed by nonresident aliens or resident aliens and their spouses or dependents.⁹

5 TIGTA, Ref. No. 2024-400-012, *Administration of the Individual Taxpayer Identification Number Program 1-2* (2024), <https://www.tigta.gov/reports/audit/administration-individual-taxpayer-identification-number-program-0>.

6 IRS, Form W-7 Instructions (Nov. 2023), <https://www.irs.gov/pub/irs-pdf/iw7.pdf>.

7 *Id.*

8 This exception may apply to those who have an IRS reporting requirement as a non-U.S. representative of a foreign corporation who needs to obtain an ITIN for the purpose of meeting their e-filing requirement under T.D. 9363. IRS, Form W-7 Instructions (Nov. 2023), <https://www.irs.gov/pub/irs-pdf/iw7.pdf>.

9 IRS, Compliance Data Warehouse (CDW), Entity Application Programs (EAP), Form W7 Database (through Sept. 26, 2024).

The IRS has the difficult task of timely processing hundreds of thousands of ITIN applications each year while attempting to prevent their issuance to unqualified individuals. Since its inception, the ITIN program has faced persistent fraud risk and logistical hurdles. Fraudsters try to submit invalid or falsified documents to gain access to either the nation's tax system or to privileges often afforded to holders of a TIN. Since 2022, applicants have submitted over 1.8 million ITIN applications, of which the IRS rejected over 500,000.¹⁰

The IRS ITIN application process places significant burdens on individuals needing to either report a tax liability or claim a refund where the IRS has collected more tax from them than what they are liable to pay. Applicants must either supply the original identification documents necessary to prove their identity to receive an ITIN or use a CAA to validate their documents before submitting copies with the application. Often, the fees paid to CAAs to certify a document are quite expensive, which can be difficult for many ITIN holders to afford. For TY 2022, the average and median AGI of filers with an ITIN on their return was only \$45,821 and \$31,033, respectively. If a taxpayer elects to mail the original documents to the IRS with their Form W-7, the taxpayer risks not receiving the documents back. To add to the issue, some taxpayers may have moved after making the ITIN application. In fact, in 2023, the IRS returned over 6,000 passports to embassies and destroyed nearly 8,000 taxpayer documents because the IRS had lost contact with the applicant after the IRS determined it needed additional documentation to perfect the ITIN application.¹¹

This study explored the volume of tax returns filed with an ITIN, some of the tax consequences emanating from these returns, and other characteristics of returns filed with ITINs. It also explored the IRS administration of this program, including the large number of ITIN applications the IRS must process each year and some characteristics of the applicants and their applications. Finally, we looked at burdens individuals face when applying for an ITIN or when using an ITIN to file a subsequent tax return. By analyzing these aspects, this study seeks to identify opportunities for improving the ITIN program, ensuring compliance, and reducing undue burdens on taxpayers and the IRS.

BACKGROUND

In 1996, the Treasury Department issued regulations requiring foreign individuals to obtain IRS-issued ITINs to file federal tax returns. Treasury formulated the ITIN requirements to address IRS concerns about its ability to effectively identify taxpayers and their tax returns without a TIN. ITINs are nine-digit numbers emulating SSNs, but they always begin with the digit nine and have certain middle digits to distinguish them.

The IRS only issues ITINs to taxpayers who are ineligible to receive SSNs, for the sole purpose of fulfilling federal tax obligations. Immigration status does not affect eligibility: both legal and illegal immigrants may have tax reporting responsibilities and payment due. Only individuals with a federal tax obligation or their spouses or dependents who, if claimed, provide them with an allowable tax benefit or who can claim less withholding under an income tax treaty may obtain an ITIN. Since the inception of the IRS ITIN program, the IRS has issued about 26 million ITINs through the end of 2022.¹²

Expanded Use and Legislative Changes

Although ITINs are intended for federal tax purposes, public and private entities began accepting ITINs for other purposes including opening bank accounts and obtaining loans, receiving state driver's licenses, and opening credit card accounts. Congress passed the PATH Act in 2015. A significant impact of this new law was the requirement for the IRS to deactivate ITINs issued prior to 2013, as well as those not used on federal

¹⁰ IRS, CDW, EAP, Form W7 Database (through Sept. 26, 2024).

¹¹ IRS response to TAS information request (Sept. 24, 2024).

¹² TIGTA, Ref. No. 2024-400-012, *Administration of the Individual Taxpayer Identification Number Program 1* (2024), <https://www.tigta.gov/reports/audit/administration-individual-taxpayer-identification-number-program-0>.

tax returns for three consecutive tax years. For ITINs issued before 2013, the PATH Act provides that ITINs will no longer be in effect according to the following schedule, unless the ITIN has already expired due to non-use for three consecutive years as described above.¹³

- ITINs issued before 2008 will remain in effect until January 1, 2017;
- ITINs issued in 2008 will remain in effect until January 1, 2018;
- ITINs issued in 2009 or 2010 will remain in effect until January 1, 2019; and
- ITINs issued in 2011 or 2012 will remain in effect until January 1, 2020.

ITIN applicants must submit documentation to establish their identity and their foreign status, often including passports. Figure 5.3.1 lists the possible acceptable documentation and whether the applicants can use the documents to establish foreign status, identity, or both.

FIGURE 5.3.1, Documents That May Support an Application for an ITIN¹⁴

Documentation Description	Foreign Status	Identity
Passport (<i>Must not be expired</i>)	Yes	Yes
U.S. Citizenship and Immigration Services Photo Identification	Yes	Yes
Visa Issued by the U.S. Department of State	Yes	Yes
U.S. Driver's License	-	Yes
U.S. Military Identification Card	-	Yes
Foreign Driver's License	-	Yes
Foreign Military Identification Card	Yes	Yes
National Identification Card (<i>Must contain name, photograph, address, date of birth, and expiration date</i>)	Yes	Yes
U.S. State Identification Card	-	Yes
Foreign Voter's Registration Card	Yes	Yes
Civil Birth Certificate	Yes	Yes
Medical Records (<i>Valid only for dependents under age 6</i>)	Yes	Yes
School Records (<i>Valid only for a dependent under age 18 if a student</i>)	Yes	Yes

Additionally, applicants over age 14 must submit one document with a picture, and dependents must provide additional documentation if their passport does not specify a date of entry. Being without many of these critical documents for an extended period may cause hardships for applicants and their families.

According to IRS.gov, the IRS takes an average of seven to 11 weeks to process ITIN applications, which historically would have left ITIN applicants without critical original documents for about two to three months.¹⁵ As discussed below, the IRS has recently modified its process to return documents to applicants more quickly. The PATH Act also codified the use of CAAs who can review and certify documents so that an ITIN applicant would not have to mail original documents to the IRS with their Form W-7. Using a CAA prevents an applicant from being without critical original documents for an extended period, but the cost to use a CAA may be significant. Additionally, in some states and foreign countries, only a small number of CAAs exist in proportion to the number of ITIN

13 PATH Act, Pub. L. No. 114-113, Division Q, Title IV, § 203(b), 129 Stat. 2242, 3079 (2015).

14 IRS, Form W-7 Instructions (Nov. 2023), <https://www.irs.gov/pub/irs-pdf/iw7.pdf>.

15 IRS, ITIN Expiration Frequently Asked Questions, <https://www.irs.gov/individuals/itin-expiration-faqs> (last updated Aug. 19, 2024).

applications submitted by individuals residing there. For example, in TY 2022, taxpayers in Illinois submitted over 170,000 ITIN applications with the filing of their return, but the state currently has only 198 CAAs; taxpayers in the United Kingdom submitted over 15,000 ITIN applications but had only 34 CAAs, according to a list on IRS.gov.¹⁶

The number of passports returned to embassies and the number of documents declassified and destroyed because the IRS could not communicate with ITIN applicants both increased by over 400 percent from 2023 to 2024.¹⁷

IRS Improvements and Persistent Issues

The IRS recently made improvements to its processing of ITIN applications. It has implemented a system that expedites critical documents through the ITIN system and returns them prior to fully processing the ITIN application. This change is expected to reduce the time an ITIN applicant must be without important original documents and decreases the volume of unreturned documents. However, the IRS continues to rely on paper-based processing leading to administrative inefficiencies. Invalid ITIN deactivations and the issuance of thousands of math error notices related to dependent ITINs remain significant issues often causing taxpayer confusion and financial losses. Taxpayers may not understand why the IRS issued an ITIN-related math error, especially if the math error occurred because of an expired ITIN or because the IRS erroneously deactivated the ITIN.

OBJECTIVES

This ITIN study has two primary objectives, each with several related subobjectives:

1. Determine the size and composition of the ITIN program and quantify its impact on U.S. taxation. Factors studied include:
 - Returns filed containing an ITIN;
 - Taxes paid;
 - Credits received;
 - Other filing characteristics; and
 - Geographic distribution of ITIN filers.
2. Describe the IRS administration of the ITIN program including:
 - ITIN application submissions;
 - IRS ITIN unit operations;
 - Erroneous deactivation of ITINs; and
 - Return processing math errors related to ITINs.

METHODOLOGY

We conducted the first study objective, which examines the quantity of tax returns with ITINs and other characteristics of returns with ITINs, by identifying Form 1040 series returns with an ITIN as the primary, secondary, or one of four dependent SSNs recorded in the IRS Individual Returns Transaction File (IRTF). We use the IRTF to define other characteristics of the returns such as filing status, AGI, income from Schedule C, Profit or Loss from Business, and to determine where the Form 1040 series return with an ITIN originates.

¹⁶ IRS, CDW, Individual Returns Transaction File (IRTF), (through Sept. 26, 2024). See also IRS, Acceptance Agent Program, <https://www.irs.gov/individuals/international-taxpayers/acceptance-agent-program> (last updated Oct. 15, 2024).

¹⁷ IRS response to TAS information request (Sept. 24, 2024). The IRS explains the significant increases from 2023 to 2024 as follows: "The Loose Document Database (LODO) tracking mechanism failed resulting in limited purging of documents in 2023. Using an Excel spreadsheet as the current tracking mechanism, purging classified waste has resumed."

For the second objective on IRS processing of ITIN applications, we examine the IRS Form W-7 database to determine the number of ITIN returns assigned, rejected, or suspended, as well as the reason the taxpayer requested the ITIN. We toured the IRS Taxpayer Services ITIN unit in Austin, Texas to understand how the IRS processes ITIN applications and the challenges faced by the IRS when processing ITIN applications and returns. When discussing deactivated ITINs, we limit our examination of this issue to those that were on returns submitted within three tax years prior to the year of deactivation. Under PATH Act guidelines, taxpayers using an ITIN in one of the three subsequent tax years will prevent the IRS from deactivating their ITIN. For example, if the IRS assigns an ITIN in 2020 for a TY 2019 return, the taxpayer must file a tax return no later than TY 2022 (by December 15, 2023, if a timely extension is filed) for the ITIN to remain active. To locate ITINs suspected of erroneous deactivation, we first generated a list of all ITINs the IRS had deactivated at the conclusion of CYs 2016-2023 using the Data Master-1 (DM-1) table from Social Security Administration data.¹⁸ Then, we matched this list of deactivated ITINs to the IRS IRTF to determine if they exist on a return a taxpayer had submitted within the three previous tax years prior to deactivation.¹⁹ We consider all ITINs satisfying these two criteria as “erroneously deactivated.” We also used the IRTF to find returns where the IRS issued a dependent ITIN-related math error and cross-referenced this data to the IRS Form W-7 database to determine how many of these taxpayers tried, successfully or unsuccessfully, to reactivate their expired dependent ITIN.

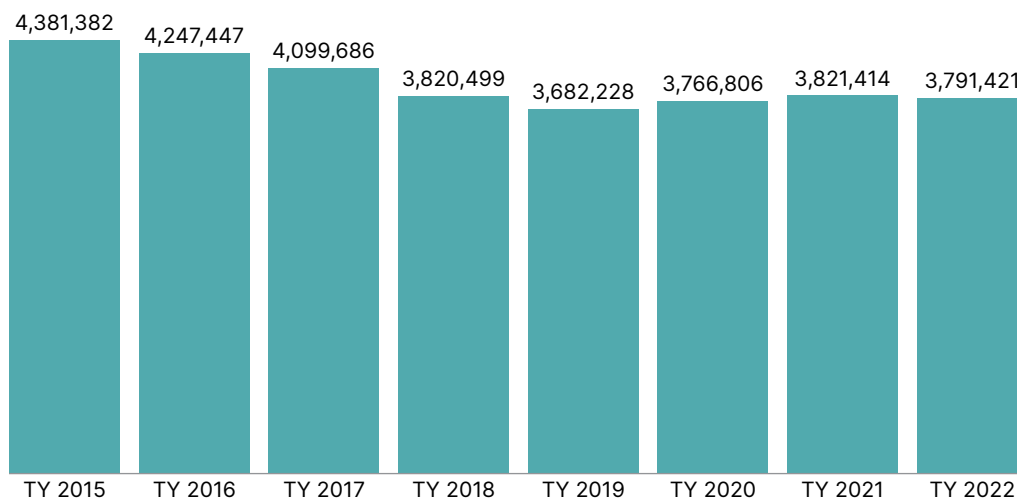
FINDINGS

ITIN Filing Population

Millions of taxpayers with ITINs file resident and nonresident Forms 1040, U.S. Individual Income Tax Return, each year. Once they receive their ITIN, taxpayers can continue to use it to file federal income tax returns for years after the ITIN issuance unless they fail to use the ITIN on a tax return for three consecutive tax years, in which case the ITIN will be deactivated. Figure 5.3.2 shows the number of Form 1040 series returns filed for TYs 2015-2022, containing at least one ITIN.

FIGURE 5.3.2²⁰

Count of Returns Filed With at Least One ITIN, TYs 2015-2022



¹⁸ ITINs are deactivated as a result of PATH Act criteria at the end of calendar years.

¹⁹ A return filed in the last of the three consecutive years after the IRS assigned the ITIN must have been timely filed (including valid extensions).

²⁰ IRS, CDW, IRTF, TYs 2015-2022 (through Sept. 26, 2024). Data for TY 2023 is not complete as taxpayers with extensions have until December 15, 2024, to timely file an ITIN return. Through September 26, 2024, taxpayers had filed about 3.3 million ITIN returns.

In TY 2022, taxpayers filed almost 3.8 million returns with at least one ITIN. The numbers of ITINs issued have declined somewhat since the passage of the PATH Act in 2015. The IRS requires most individuals seeking an ITIN to submit their ITIN application in conjunction with a federal income tax return.²¹ The number of returns where the primary taxpayer is an ITIN holder shows a similar pattern. For TY 2023, over 2.4 million taxpayers filed Form 1040 or Form 1040NR with the ITIN holder as the primary taxpayer.²² In the remaining returns, either the spouse or a dependent was the ITIN holder.

As indicated by Figure 5.3.3, returns with ITINs result in billions of dollars of income tax.

FIGURE 5.3.3, Tax Paid, Credits Received, and Amount of Refunds by Tax Year²³

Tax Year	Total Income Tax Before Credits	Total Income Tax After Credits	Credits	Total Tax Paid	Net Refund and Balance Due
2017	\$15,883,626,037	\$13,397,477,360	\$2,486,148,677	\$15,283,349,533	-\$6,197,598,770
2018	\$16,341,035,385	\$12,384,659,498	\$3,956,375,887	\$14,432,852,937	-\$4,801,898,654
2019	\$15,969,896,165	\$12,138,382,932	\$3,831,513,233	\$14,136,907,317	-\$4,590,293,213
2020	\$15,889,175,404	\$12,533,665,484	\$3,355,509,920	\$14,832,013,938	-\$5,024,559,700
2021	\$19,019,736,300	\$17,313,039,371	\$1,706,696,929	\$20,154,593,652	-\$5,535,947,851
2022	\$18,205,798,218	\$14,511,054,710	\$3,694,743,508	\$17,308,825,668	-\$3,313,974,360
2023	\$16,470,905,155	\$13,162,654,179	\$3,308,250,976	\$15,695,272,870	-\$3,027,032,853

In TYs 2017-2022, income tax returns with ITINs reported nearly \$16 billion to over \$19 billion in income tax before credits and after credits paid in at least \$12 billion in tax. Total credits during this time were generally between \$2 to \$4 billion, although credits only totaled about \$1.7 billion in TY 2021. Taxes overpaid (refunds) decreased from over \$6 billion before the Tax Cuts and Jobs Act, which became effective for TY 2018, to about \$5 billion per year for TYs 2018-2021. Refunds further decreased in 2022 and 2023 to slightly over \$3 billion.²⁴

Although taxpayers generally have paid their income tax bill through withheld taxes, they would lose hundreds of millions of dollars in refunds from withholdings and other credits if they did not obtain an ITIN to file their income tax returns. The IRS subjects taxpayers who are unable to navigate the complex ITIN application process to an unfair tax system that violates their *right to pay no more than the correct amount of tax*. Moreover, ITIN taxpayers report Schedule C income and pay tax that they have not already paid to the IRS through withholding. In TY 2022, returns filed with ITINs reporting a Schedule C profit account for about ten percent of the total income reported on returns with ITINs.²⁵

The IRS assigns hundreds of thousands of ITINs each year.²⁶ Taxpayers filed most returns with an ITIN with the single or married filing jointly filing status. Specifically, 35 percent of ITIN filers in TY 2022 claimed the single filing status, while 41 percent claimed the married filing jointly filing status, 19 percent claimed the head of household filing status, and the remaining five percent filed as married filing separately, generally because one taxpayer has an ITIN while the spouse has an SSN.²⁷ Taxpayers with an ITIN are also generally low income. The median AGI of returns with at least one ITIN was only \$31,033, easily qualifying the taxpayer for the VITA program, which currently has an income limit of \$67,000.²⁸

21 PATH Act, Pub. L. No. 114-113, Division Q, Title IV, § 203(b), 129 Stat. 2242, 3079 (2015).

22 IRS, CDW, IRTF (through Sept. 26, 2024).

23 IRS, CDW, IRTF, Information Returns Master File (IRMF), TYs 2017-2022, (through Sept. 26, 2024).

24 IRS, CDW, IRTF (through Sept. 26, 2024).

25 *Id.*

26 IRS, CDW, EAP, Form W7 Table, CYs 2020-2023 (through Sept. 26, 2024).

27 IRS, CDW, IRTF (through Sept. 26, 2024).

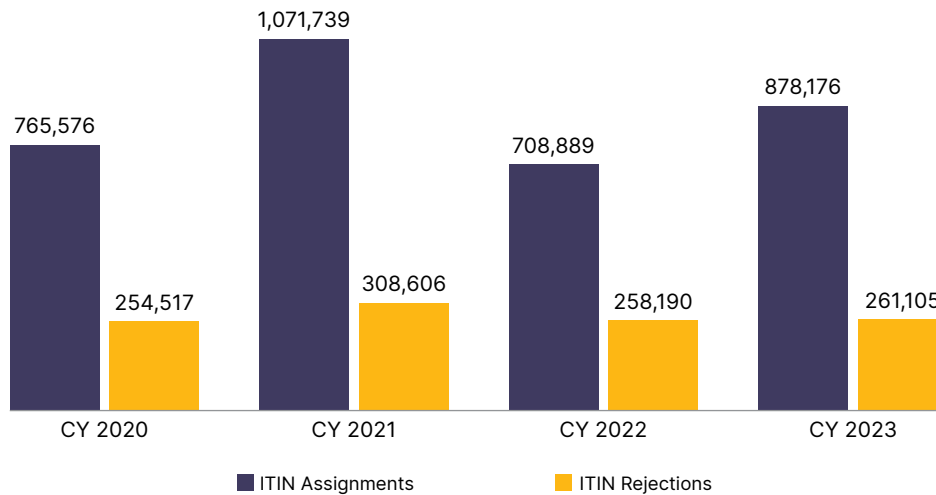
28 IRS, Free Tax Return Preparation for Qualifying Taxpayers, <https://www.irs.gov/individuals/free-tax-return-preparation-for-qualifying-taxpayers> (last updated Oct. 17, 2024). The VITA income limit for TY 2022 tax returns prepared in 2023 was slightly less.

IRS Administration of Application Submissions

The IRS has a difficult task – processing over a million ITIN applications in most years and ensuring it processes legitimate applications while stopping hundreds of thousands of applications that contain documents that either do not meet legislatively mandated standards or are clearly fraudulent. In 2023, the IRS assigned nearly 900,000 ITINs and rejected over 250,000 applications. Figure 5.3.4 shows the number of ITINs assigned and the number of ITIN applications rejected since CY 2020.

FIGURE 5.3.4²⁹

ITIN Assignments and Rejections, CYs 2020-2023



Geographic Distribution of ITIN Filers

As stated, ITIN holders can use their ITIN if they file at least one return in one of the three consecutive tax years after the IRS assigns the ITIN. ITIN holders from all 50 states file returns, as Figure 5.3.5 shows.

²⁹ IRS, CDW, EAP, Form W7 Table (through Sept. 26, 2024).

FIGURE 5.3.5³⁰

ITIN Filers in U.S. States and Washington, D.C.

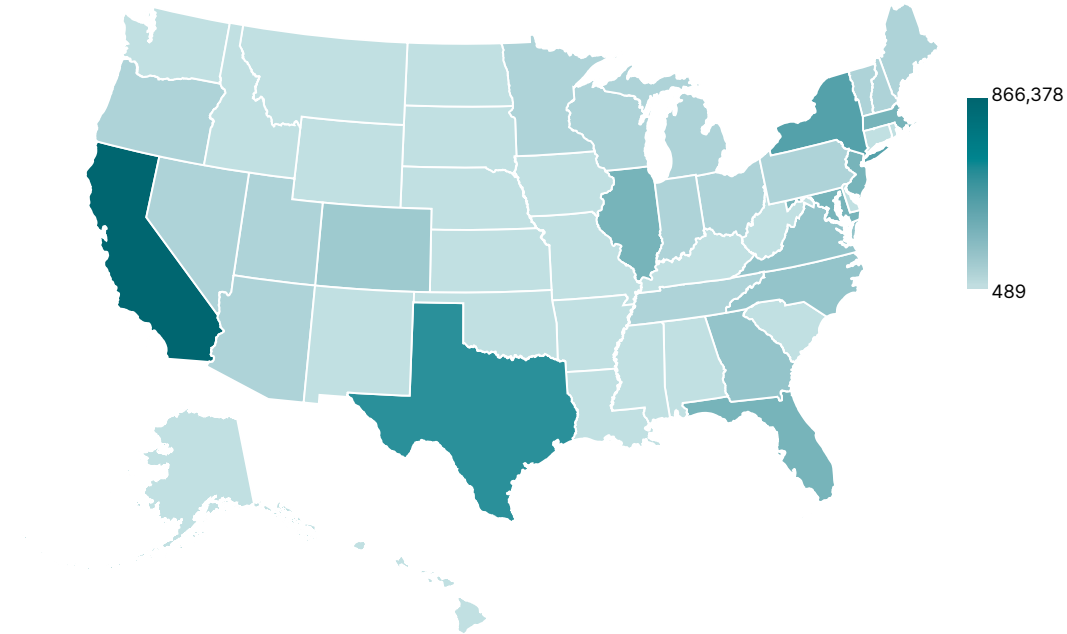


Figure 5.3.6 shows the top 15 states where taxpayers filed returns containing at least one individual with an ITIN in TY 2022.

FIGURE 5.3.6, Top 15 States With ITIN Filers³¹

State	Count	State	Count
California	866,378	North Carolina	111,982
Texas	446,522	Virginia	109,434
New York	254,779	Washington	88,816
Florida	185,119	Colorado	72,928
New Jersey	172,349	Massachusetts	65,244
Illinois	170,218	Arizona	54,824
Georgia	142,125	Nevada	50,185
Maryland	131,511		

³⁰ IRS, CDW, IRTF (through Sept. 26, 2024).

³¹ *Id.*

Taxpayers, spouses, and dependents with ITINs in several foreign countries also filed returns in TY 2022, as Figure 5.3.7 shows.

FIGURE 5.3.7³²

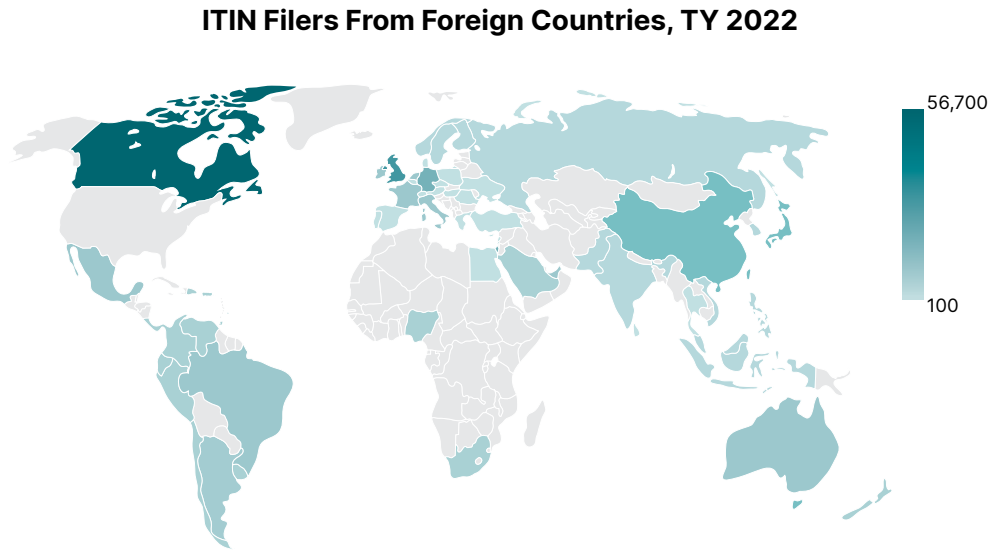


Figure 5.3.8 shows the top 15 foreign countries where taxpayers filed returns containing at least one individual with an ITIN in TY 2022.

FIGURE 5.3.8, Top 15 Foreign Countries With ITIN Filers³³

Country	Count	Country	Count
Canada	56,700	Mexico	2,512
Israel	19,239	Australia	2,284
United Kingdom	15,085	Singapore	2,250
China	12,687	Ireland	2,134
Germany	5,840	Taiwan	1,996
Japan	5,149	India	1,833
Brazil	3,288	Switzerland	1,618
France	3,090		

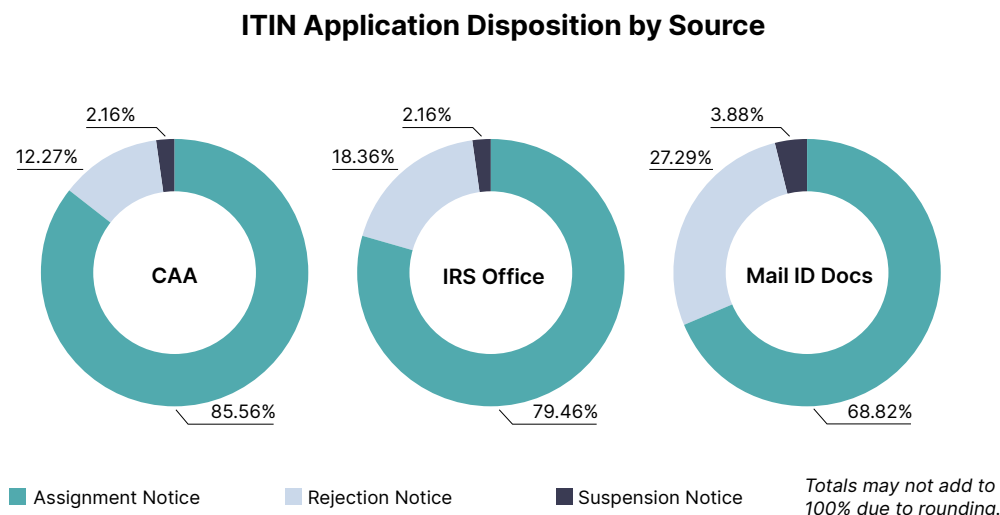
As discussed previously, ITIN applicants can use a CAA to avoid sending original documents to the IRS and being without their original documents for an extended period of time. Taxpayers using CAAs to certify the validity of their documents are over 15 percent more likely to receive an ITIN than taxpayers mailing in their documents, while applicants not using a CAA are over twice as likely to have the IRS reject their ITIN application and significantly more likely to have their applications suspended. Figure 5.3.9 shows the

³² IRS, CDW, IRTF (through Sept. 26, 2024).

³³ *Id.*

percentages of ITIN application acceptances (ITIN assignments), rejections, and suspensions by whether the taxpayer used a CAA, relied on employees at an IRS office, or mailed original documents from CY 2023 to September of CY 2024.

FIGURE 5.3.9³⁴



Despite their benefits, the cost of accessing CAAs is prohibitive for many taxpayers. Some VITA sites do provide CAA services; however, in 2023, VITA sites only had the services of 81 CAAs.³⁵ According to IRS.gov, these 81 CAAs are only available in 17 states.³⁶ Furthermore, VITA programs are not allowed under statute to use grant funds to provide CAA services. To address this limitation, TAS has recommended legislative changes to allow VITA programs to use grant funding to provide CAA services.³⁷ Increasing the availability of CAAs at no cost could lead to more accurate ITIN applications and improve return preparation for ITIN filers. In TY 2022, VITA and Tax Counseling for the Elderly (TCE) sites prepared slightly over one percent of ITIN-related returns, despite more than 78 percent of ITIN returns being eligible based on income thresholds.³⁸ Notably, over 80 percent of ITIN-related returns are completed by paid preparers, with fewer than 20 percent self-prepared.³⁹ Figure 5.3.10 displays the percentages of returns with at least one ITIN that are self-prepared, prepared by a non-credentialed preparer, and prepared by a credentialed preparer.

³⁴ IRS, CDW, EAP, Form W7 Table (through Sept. 26, 2024). Percentages may not total 100 percent due to rounding.

³⁵ IRS response to TAS fact check (Nov. 21, 2024).

³⁶ *Id.*

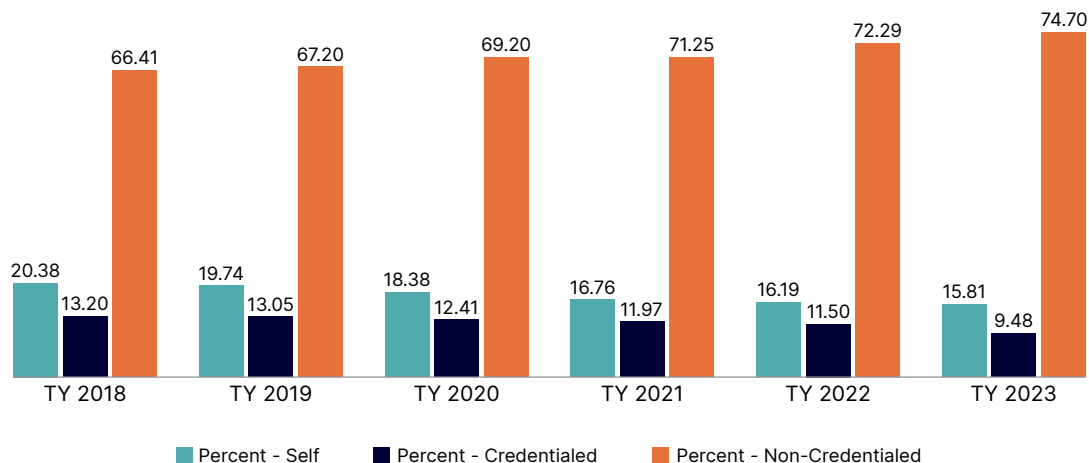
³⁷ National Taxpayer Advocate 2025 Purple Book, *Compilation of Legislative Recommendations to Strengthen Taxpayer Rights and Improve Tax Administration (Authorize the Use of VITA Grant Funding to Assist Taxpayers with Applications for Individual Taxpayer Identification Numbers)*.

³⁸ IRS, CDW, IRTF (through Sept. 26, 2024). The VITA income limit for 2023 was \$64,000; however, other exclusions to using the VITA program may apply.

³⁹ IRS, CDW, IRTF, Individual Master File (through Sept. 26, 2024). Return Review Program Preparer Tax Identification Number Table (through Sept. 26, 2024).

FIGURE 5.3.10⁴⁰

Form 1040 Returns Filed With at Least One ITIN by Percent, TYs 2018-2023



The number of ITIN returns prepared by non-credentialed preparers has increased to almost 75 percent by TY 2023, and non-credentialed preparers are more likely to file noncompliant federal income tax returns.⁴¹

IRS ITIN Operations

The ITIN processing unit places ITIN applications in batches of 25. It batches English and Spanish applications separately, although ITIN applications also come from individuals who speak and write in other languages. An IRS employee initially enters the applicant's name, address, and date of birth in the IRS W-7 Real-Time System. Under new procedures, employees review applications in a two-stage process. First, they review documents supporting the application to ensure they are originals or copies that a CAA has verified as a true copy of the original document. IRS employees conduct a secondary review to ensure the supporting documents' legitimacy, including ensuring the presence of the appropriate seals authenticating them.

After employees review the documents to ensure either their originality or their certification by a CAA and their authenticity, the IRS returns the documents to the applicant. However, the IRS may still take weeks to return the documents, and it does not return them by certified mail. Therefore, there is no guarantee that the applicant will see the documents again. The IRS ITIN unit destroys mail returned to it, except for passports, which it mails to the embassy of the issuing country.

Most ITIN recipients request an ITIN so they can file a federal tax return, which often allows them to recoup a substantial amount of withheld taxes that exceed their federal income tax liability. For ITINs assigned from CY 2020 to 2023, an average of 58 percent of resident aliens requested an ITIN, while 23 percent of individuals requesting an ITIN did so as the dependent or spouse of a resident alien or U.S. citizen, meaning that over 80 percent of the ITIN requests were for one of these two purposes.⁴² Figure 5.3.11 shows the reasons taxpayers applied for an ITIN in CY 2023.

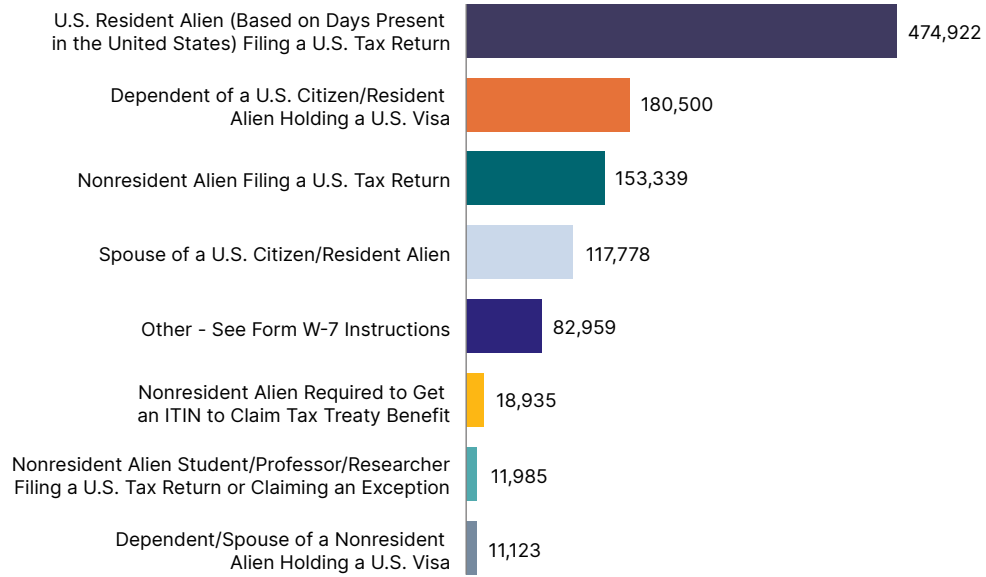
40 IRS, CDW, IRTF (through Sept. 26, 2024). Percentages may not total 100 percent due to rounding.

41 See National Taxpayer Advocate 2023 Annual Report to Congress 65 (Most Serious Problem: Return Preparer Oversight: The Lack of Return Preparer Oversight Endangers Taxpayers, Burdens the IRS, and Harms Tax Administration), https://www.taxpayeradvocate.irs.gov/wp-content/uploads/2024/01/ARC23_MSP_05_Return-Preparer.pdf.

42 IRS, CDW, EAP, Form W7 Table (through Sept. 26, 2024).

FIGURE 5.3.11⁴³

Form W-7 Submissions by Reason, CY 2023

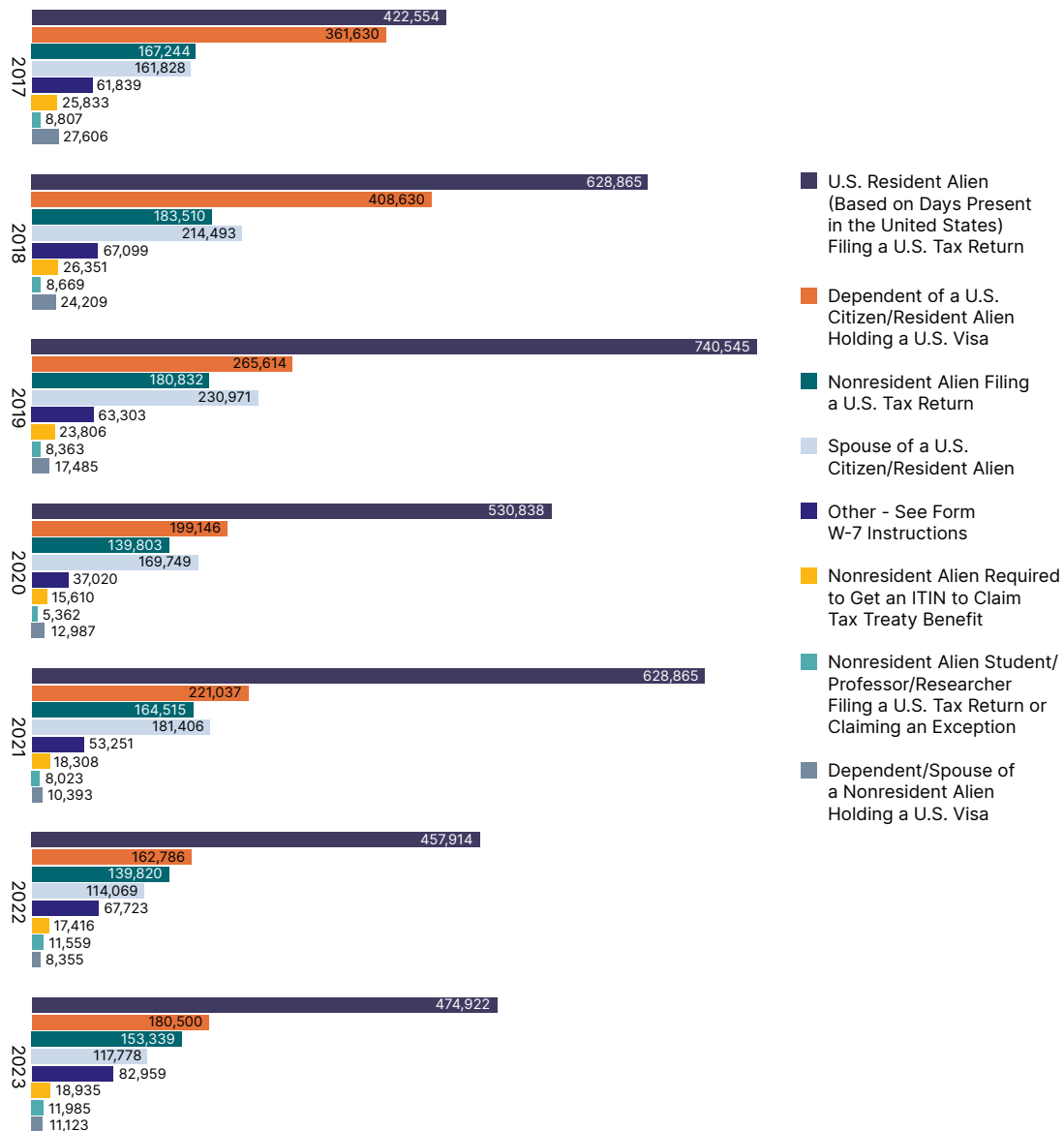


43 IRS, CDW, EAP, Form W7 Table (through Sept. 26, 2024).

Figure 5.3.12 shows that applications from dependents and spouses of nonresident aliens holding a U.S. visa have a significant downward trend, partially influenced by changes under the TCJA. Under this legislation, spouses no longer receive a deduction as a dependent, and claimed ITIN dependents are entitled to smaller credits. The next largest change occurred in the percentage of applications submitted by U.S. resident aliens filing Form 1040, which shows a significant increase in 2017-2021.

FIGURE 5.3.12⁴⁴

Reasons for Form W-7 Submissions, CYs 2017-2023

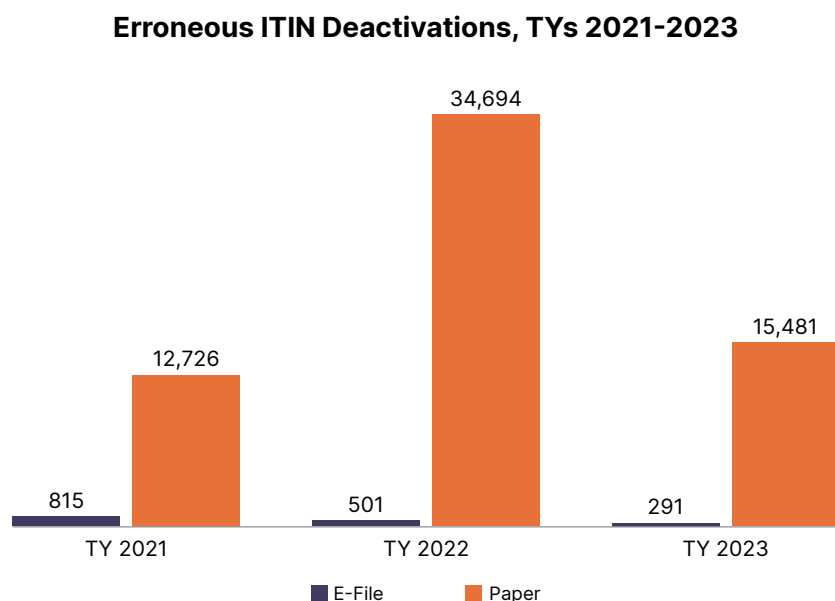


44 IRS, CDW, EAP, Form W7 Table (through Sept. 26, 2024).

Erroneously Deactivated ITINs

We also address erroneously deactivated ITINs. TAS received a Systemic Advocacy Management System issue concerning about 2,700 ITIN deactivations in TY 2021. The IRS deactivated these ITINs even though they satisfied the parameters necessary to remain active, in accordance with the PATH Act.⁴⁵ Upon further investigation, we discovered that in CYs 2021-2023, the IRS deactivated tens of thousands of ITINs even though they appeared on Form 1040 within the previous three consecutive tax years. Moreover, we confirmed that the IRS had processed the returns, and they existed within the IRS Master File, eliminating the possibility that filers submitted them late or that the IRS otherwise did not recognize them when deactivation occurred. Figure 5.3.13 depicts the volume of erroneous ITIN deactivations since TY 2021 by whether the ITIN appeared on a paper or electronic return.

FIGURE 5.3.13⁴⁶



After discussions with IRS ITIN unit management, TAS explored counts of deactivated ITINs by whether the taxpayer submitted the return via paper or e-file and whether the taxpayer filed their returns toward the end of the filing deadlines for returns for TYs 2021-2023. We performed these analyses to address the possibility that electronically filed returns may have contributed to deactivation of the ITINs. TAS's analysis shows that these taxpayers with deactivated ITINs had clearly filed a return within the three tax years prior to the deactivation of their ITIN, and most filed paper returns. However, even if the taxpayer filed an electronic return, IRS ITIN application instructions clearly state that ITIN holders can e-file after they file their initial return on paper and include it with the ITIN application.⁴⁷

⁴⁵ IRC § 6109(i)(3)(A).

⁴⁶ IRS, CDW, IRTF, DM-1 Table (through Sept. 26, 2024).

⁴⁷ IRS, Form W-7 Instructions (Nov. 2023), <https://www.irs.gov/pub/irs-pdf/iw7.pdf>.

ITIN Return Processing Math Errors

Considering dependents in the IRS ITIN application database, almost 22,000 taxpayers received a math error notice in TY 2022 because of an invalid ITIN, affecting nearly 32,000 dependents.⁴⁸ The IRS later determined over 6,800 (about 31 percent) of these taxpayers to have claimed dependents with a valid ITIN; however, they lost about \$4.4 million in claimed Other Dependent Credits. These same taxpayers claimed an additional \$1.6 million in Other Dependent Credits for ITIN dependents, which the IRS has not yet validated. Given that most of these taxpayers claimed dependents who previously had an active ITIN, and they have now reactivated their ITIN, it seems quite likely that these taxpayers did not understand the provisions of the PATH Act that caused previously valid ITINs to expire. Taxpayers also submitted thousands of ITIN applications in 2023 (the year in which the TY 2022 tax return was due), suggesting that these taxpayers believed their dependent was eligible for an ITIN, but the IRS found some part of their ITIN application or supporting documents to be incomplete or unacceptable.

CONCLUSION AND RECOMMENDATIONS

ITINs play a critical role in tax administration, enabling the IRS to process millions of tax returns annually, reflecting billions of dollars in revenue. These numbers highlight the program's significance for compliance and revenue collection while providing financial relief for low-income taxpayers through tax credits. However, challenges exist for both taxpayers and the IRS.

While most taxpayers already pay tax through withholding, enabling taxpayers to file federal income tax returns allows them to recover hundreds of millions of dollars in overpaid taxes, including millions of dollars in credits allowed for dependents with ITINs. The IRS generally processes more than a million applications for ITINs each year and faces many challenges while trying to correctly process these applications; however, taxpayers also face burdens as they must forgo the presence of critical original documents necessary to process their ITIN applications or pay often expensive fees to have a CAA certify the documents so they can retain the originals. Additionally, thousands of taxpayers must deal with erroneous IRS deactivations of their ITINs and IRS-issued math errors likely stemming from taxpayers not understanding that the PATH Act required the deactivation of older ITINs. We draw specific conclusions for each of the study's two objectives.

1. Determine the size and composition of the ITIN program and quantify its impact on U.S. taxation.
 - Taxpayers file millions of returns with at least one ITIN each year. These returns report billions of dollars in taxes, even after allowable credits, which in most years range from about \$2 to \$4 billion.
 - ITIN filers typically have low incomes, with a median AGI of only slightly over \$31,000.
 - Taxpayers from every state and many foreign countries file returns with ITINs, with some locations filing significant volumes of returns with ITINs.
 - Taxpayers who use a CAA to certify the documents submitted with their ITIN application are 15 percent more likely to have their application accepted, while ITIN applicants not using a CAA are more than twice as likely to see their ITIN application rejected.
 - Taxpayers may use CAAs to certify the documents supporting their ITIN application; however, doing so may be costly. Though VITA sites may offer free CAA services, they are available in only 17 states.

48 CDW, IRTF (through Sept. 26, 2024); DM1 (through Sept. 26, 2024); Form W7 table (through Sept. 26, 2024).

2. Assess the IRS's administration of the ITIN program.

- The IRS assigns hundreds of thousands of ITINs each year. In 2023, the IRS assigned nearly 900,000 ITINs and rejected more than 250,000 requests for an ITIN.
- Navigating the IRS process may be quite difficult for taxpayers, and if they submit critical identification documents with their applications, they risk not receiving them back.
- The IRS also has a significant burden evaluating the validity of ITIN applications and their supporting documentation, which is often not in the English language.
- Resident aliens, their spouses, and dependents comprise over 80 percent of ITIN applicants; however, in 2017, being a dependent or spouse of a U.S. citizen or resident alien was the most likely reason for filing a return with an ITIN.
- In each of the last few tax years, the IRS has erroneously deactivated thousands of ITINs.
- In TY 2022, the IRS issued math error notices to almost 22,000 taxpayers affecting nearly 32,000 dependents because of a deactivated dependent ITIN. This use of math error authority erased over \$6 million in claimed Other Dependent Credits.

Administrative Recommendations to the IRS

The National Taxpayer Advocate recommends that the IRS:

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

By implementing these recommendations, the IRS can improve the ITIN program's efficiency, reduce taxpayer burdens, and enhance compliance, ensuring that taxpayers can meet their tax obligations while accessing appropriate credits and refunds.