

National Taxpayer Advocate delivers Annual Report to Congress; flags Employee Retention Credit, Identity Theft Victim Assistance processing delays and calls for adequate funding to improve taxpayer services

IR-2025-04, Jan. 8, 2025

WASHINGTON — National Taxpayer Advocate Erin M. Collins today released her [2024 Annual Report to Congress](#), finding overall improvement in IRS taxpayer service but also highlighting persistent challenges, particularly delays in processing Employee Retention Credit (ERC) claims and resolving Identity Theft Victim Assistance cases.

“For the first time since I became the National Taxpayer Advocate in 2020, I can begin this report with good news: The taxpayer experience has noticeably improved,” Collins writes. “In 2024, taxpayers and practitioners experienced better service, generally received timely refunds, and faced shorter wait times to reach customer service representatives.... After receiving multiyear funding, the IRS has [also] made major strides toward improving its taxpayer services and information technology (IT) systems.”

By law, the National Taxpayer Advocate’s report must identify the 10 most serious problems taxpayers face in their dealings with the IRS and make administrative and legislative recommendations to address those problems. Two of the most critical issues are:

Continuing delays in processing Employee Retention Credit claims. As of Oct. 26, 2024, the IRS faced a backlog of about 1.2 million ERC claims, with many claims pending for more than a year. While the IRS has valid concerns about paying ineligible claims, the slow processing time is harming many eligible businesses that are relying on these funds to pay expenses. Additional concerns include lack of transparency for businesses trying to track the status of their claims; confusing disallowance letters that have omitted critical information; the use of audit-like procedures for disallowed claims without standard taxpayer audit protections; and significant delays for businesses whose refund checks were stolen and have waited months or longer to receive replacement checks. After the National Taxpayer Advocate’s report went to press, the Commissioner announced in mid-December he anticipates that approximately 500,000 additional claims will be processed in 2025, but the details and timing of the refunds are still to be determined.

Continuing delays in resolving identity theft cases. For cases closed by the IRS’s Identity Theft Victim Assistance (IDTVA) unit in Fiscal Year 2024, the average time it took the IRS to resolve identity theft cases and issue refunds to the affected victims was almost two years. These delays impacted nearly half a million taxpayers and were even worse than the delays seen in FY 2023, when cases took almost 19 months to resolve. Collins again calls these delays “unconscionable” and recommends the IRS prioritize identity theft case resolution by keeping all IDTVA employees focused on these cases rather than reassigning them to other tasks during the filing season. In addition, she urged the agency to reduce case resolution times to 90 days or less.

Adequate funding for taxpayer services, technology upgrades is critical

In her preface to the report, Collins emphasizes the need for adequate funding to support critical taxpayer services and technology upgrades. She notes that the bulk of the nearly \$80 billion in multiyear IRS funding provided by the Inflation Reduction Act (IRA) was allocated for tax law enforcement and has been controversial. She further notes, however, that there has been bipartisan support for the smaller amounts allocated for taxpayer services and IT modernization.



Stressing the importance of taxpayer services funding, she urges Congress, if it cuts IRA enforcement funding, not to make commensurate cuts to taxpayer services and IT. Congress should not, Collins urged, “inadvertently throw out the baby with the bathwater.”

The following table shows the original IRA funding total broken out among the IRS’s four budget accounts, highlighting that only 4% of the funding was allocated for Taxpayer Services and only 6% was allocated for Business Systems Modernization (BSM).

Inflation Reduction Act IRS Funding Allocations

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

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

The report highlights numerous examples of improvements the IRS has made using its multiyear funding. Taxpayer Services funding has enabled the IRS to hire more customer service representatives, allowing the agency to answer nearly 9 million more telephone calls than 2 years earlier and to cut in half the average time needed to process individual taxpayer correspondence from about 7 months to about 3½ months. The IRS has also expanded in-person help at its Taxpayer Assistance Centers, adding evening and weekend service in many locations to accommodate taxpayers who are unable to visit during normal business hours.

BSM funding has supported critical automation improvements, allowing taxpayers to resolve issues without the involvement of an IRS employee. With these improvements, taxpayers can now obtain more information and transact more business with the IRS through their online accounts, use voicebots and chatbots to get answers to many of their questions, submit correspondence to the IRS electronically and communicate with the IRS through secure messaging in pending cases. Furthermore, the IRS now allows taxpayers to submit 30 of the most common taxpayer forms from mobile devices, which is a game-changer for the estimated 15% of Americans who rely solely on their smartphones for internet access.

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

Most serious taxpayer problems

In addition to ERC and IDTVA processing delays, the report identifies eight other serious taxpayer problems, including the following:

Continuing delays in IRS return processing are frustrating taxpayers and causing refund delays. The IRS receives more than 10 million paper-filed Forms 1040 each year and more than 75 million paper-filed returns and forms overall. Until recently, IRS employees had to manually



transcribe the data from those returns into IRS systems. While the IRS has made strides toward automating return processing by scanning more than half of paper-filed returns and forms, it still has a long way to go to digitize all paper. Additionally, e-filed returns are sometimes rejected – nearly 18 million (about 12%) of e-filed Forms 1040 were rejected in the past year. The IRS generally rejects returns flagged by its fraud detection filters, but most rejected returns are valid, requiring taxpayers to jump through additional hoops to resubmit their returns electronically or submit their returns on paper. The report highlights the strain this puts on taxpayers, particularly low-income taxpayers eligible for refundable Earned Income Tax Credit (EITC) benefits. Taxpayer Advocate Service (TAS) recommends the IRS continue its efforts to automate tax processing including digitizing nearly all paper-filed returns by the 2026 filing season and enabling electronic processing of amended tax returns.

Taxpayer service is often not timely or adequate. While taxpayer service improved across the IRS's three main channels – telephone, in-person and online – significant service gaps remain. The IRS achieved an 88% “Level of Service” (LOS) on its Accounts Management lines during the filing season, but this measure excludes calls directed to telephone lines that fall outside the “Accounts Management” umbrella (30% of all calls in FY 2024), calls where a taxpayer hangs up before being placed in a calling queue, and calls made outside the filing season. Overall, the LOS for all toll-free lines in FY 2024 was just 56%, with only 31% of callers reaching an assistor. Of the 6.2 million calls the IRS received from taxpayers whose returns had been stopped by the IRS's identify theft filters and who were calling to authenticate their identities, the IRS answered only about 20%. This has left millions of taxpayers without the support they need. TAS recommends the IRS adopt more accurate service metrics and prioritize answering non-Accounts Management telephone lines that serve largely vulnerable taxpayer populations. Among these are the Installment Agreement/Balance Due, Taxpayer Protection Program, and Automated Collection System telephone lines.

Continuing challenges in employee recruitment, hiring, training and retention are hindering the IRS's ability to achieve transformational change in taxpayer service and tax administration. The IRS faces ongoing difficulties in hiring, training, and maintaining employees. Job postings are not consistently targeted to reach the desired candidates. The agency often takes several months to hire new employees, leading some candidates to accept other offers. New hires require extensive training before they become productive employees, and experienced employees often must be reassigned to train them. Additionally, a Congressional Budget Office study published in 2024 found that federal employees with professional degrees earn almost 29% less than their non-federal counterparts, making it harder for the IRS to compete in the tight job market. TAS recommends the IRS explore alternative recruitment platforms, review pay disparities and implement strategies to improve employee retention.

Legislative recommendations: the “Purple Book”

The National Taxpayer Advocate's [2025 Purple Book](#) proposes 69 legislative recommendations intended to strengthen taxpayer rights and improve tax administration. Among the recommendations:

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



improper, and among tax returns claiming the EITC prepared by paid tax return preparers, 96% of the total dollar amount of EITC audit adjustments was attributable to returns prepared by non-credentialed preparers.

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

2. Expand the U.S. Tax Court's jurisdiction to hear refund cases. Under current law, taxpayers seeking to challenge an IRS tax-due adjustment can file a petition in the U.S. Tax Court, while taxpayers who have paid their tax and are seeking a refund must file suit in a U.S. district court or the U.S. Court of Federal Claims. Litigating a case in a U.S. district court or the Court of Federal Claims is generally more challenging – filing fees are relatively high, rules of civil procedure are complex, the judges generally do not have tax expertise and proceeding without a lawyer is difficult. By contrast, taxpayers litigating their cases in the Tax Court face a low \$60 filing fee, may follow less formal procedural rules, are generally assured their positions will be fairly considered because of the tax expertise of the Tax Court's judges, even if they do not present their arguments effectively, and can more easily represent themselves. For these reasons, the requirement that refund claims be litigated in a U.S. district court or the Court of Federal Claims effectively deprives many taxpayers of the right to judicial review of an IRS refund disallowance. In FY 2024, about 97% of all tax-related litigation was adjudicated in the Tax Court. TAS recommends Congress expand the jurisdiction of the Tax Court to give taxpayers the option to litigate all tax disputes, including refund claims, in that forum.

3. Enable the Low Income Taxpayer Clinic (LITC) program to assist more taxpayers in controversies with the IRS. The LITC program assists low-income taxpayers and taxpayers who speak English as a second language. When the LITC program was established as part of the IRS Restructuring and Reform Act of 1998, the law limited annual grants to no more than \$100,000 per clinic. The law also imposed a 100% "match" requirement, so a clinic cannot receive more in grant funds than it raises from other sources. The nature and scope of the LITC Program have evolved considerably since 1998, and those requirements are preventing the program from expanding assistance to a larger universe of eligible taxpayers. TAS recommends Congress remove the per-clinic cap and allow the IRS to reduce the match requirement to 25%, where doing so would expand coverage to additional taxpayers.

4. Require the IRS to timely process claims for refund or credit. Millions of taxpayers file refund claims with the IRS each year. Under current law, there is no requirement that the IRS pay or deny them. It may simply ignore them. The taxpayers' remedy is to file suit in a U.S. district court or the U.S. Court of Federal Claims. For many taxpayers, that is not a realistic or affordable option. The report says the absence of a processing requirement is a "poster child" for non-responsive government. While the IRS generally does process refund claims, the claims can and sometimes do spend months and even years in administrative limbo within the IRS. TAS recommends Congress require the IRS to act on claims for credit or refund within one year and impose certain consequences on the IRS for failing to do so.

5. Allow the limitation on theft loss deductions in the Tax Cuts and Jobs Act to expire so scam victims are not taxed on amounts stolen from them. Many financial scams involve the theft of retirement assets. In a typical scam, a con artist may pose as a law enforcement officer, convince a victim that her retirement savings are at risk and persuade the victim to transfer her retirement savings to an account that the scammer controls. Then, the scammer absconds with



the funds. Under the tax code, the victim's withdrawal of funds from a retirement account is treated as a distribution subject to income tax and, if the victim is under age 59½, to a 10% additional tax as well. Thus, the victim may not only lose her life savings but also owe significant tax on the stolen funds. Prior to 2018, scam victims generally could claim a theft loss deduction to offset the stolen amounts included in gross income, but the Tax Cuts and Jobs Act (TCJA) eliminated the deduction. TAS recommends Congress allow this TCJA limitation to expire so the theft deduction is again available in these circumstances.

Research studies

The report contains three TAS research studies offering insight into challenges facing taxpayers and practitioners and recommending ways to improve IRS services and processes.

Identity theft filters and unpaid refunds. A TAS study reviewed tax returns flagged by IRS identity theft filters and found that some legitimate taxpayers were not receiving refunds to which they were entitled. Each year, several million returns claiming refunds are flagged by IRS fraud filters and suspended during processing. The IRS issues one letter to each taxpayer notifying them that they need to authenticate their identities to receive their refunds. If a taxpayer does not respond – whether due to not receiving the letter or misplacing it – the IRS does not follow up and does not issue the refund. This study explored the effect of sending additional letters to a sample of potentially eligible taxpayers who had filed Tax Year 2020 returns and had not responded to the original IRS letter. The study found that more than 7% of recipients of a second letter successfully authenticated their identities, suggesting that thousands of taxpayers may be losing refunds simply because they were not reached. Among other things, TAS recommends the IRS send a follow-up letter if a taxpayer does not respond to the initial letter within 60-90 days.

IRS telephone service performance measures. The IRS typically receives about 100 million telephone calls each year, but its method for measuring service effectiveness, LOS, has been widely criticized for failing to accurately reflect the taxpayer experience. For the 2024 filing season, the IRS reported an 87.6% LOS, but only 32.1% of calls were answered by an employee. TAS reviewed call center operations of other large government agencies and private sector businesses to identify best practice processes and measures. Of the call centers reviewed, the study found the IRS is the only one that uses this LOS measure. By comparison, other call centers in both government and the private sector typically answer a higher percentage of calls and use more comprehensive metrics, such as first contact resolution (FCR) rate. TAS recommends the IRS eliminate or revise its LOS formula to account for total call attempts and calls answered through automation.

Challenges in obtaining Individual Taxpayer Identification Numbers (ITINs). TAS conducted a review of the IRS's ITIN program and confirmed that the application process is burdensome for taxpayers. ITINs are required for individuals who are required to file U.S. tax returns but are not eligible for a Social Security number, such as foreign workers on temporary visas and nonresidents with U.S.-based income. Overall, several million returns include at least one ITIN each year, and they account for several billion dollars in revenue. The study identified significant taxpayer challenges, including the cost and difficulty of using Certifying Acceptance Agents (CAAs) to verify documents as well as the risk of losing original identity documents (such as passports, birth certificates, driver's licenses and visas) when submitting ITIN applications by mail. Many applicants are unable to give up these documents for several weeks or run the risk of document loss. The study examined the size and composition of the ITIN population and the IRS's administration of the program. TAS makes several recommendations to improve the ITIN program, including expanding CAA services in Volunteer Income Tax Assistance sites and addressing recurring issues that lead to the erroneous deactivation of ITINs.



TAS celebrates 25 years of advocacy

This year marks the 25th anniversary of the Taxpayer Advocate Service, which was created by Congress as part of the IRS Restructuring and Reform Act of 1998. After developing an organizational structure, TAS officially launched in March 2000, and over the past quarter century, it has been a strong advocate for taxpayers, ensuring their voices are heard and their rights are protected.

“For 25 years, TAS has served as the ‘safety net’ for taxpayers experiencing problems with the IRS and as Congress’s eyes and ears within the agency on issues of taxpayer rights and taxpayer burden,” Collins writes.

Since inception, TAS has helped more than 5 million taxpayers resolve their account problems, worked hundreds of advocacy projects with the IRS, made hundreds of recommendations to improve the IRS’s administrative practices that the agency has implemented and made hundreds of recommendations for legislative change, many of which Congress has enacted. As TAS celebrates its 25th anniversary, it remains committed to resolving taxpayer account problems and identifying and addressing systemic issues within the IRS to improve the taxpayer experience.

Other report highlights

The report also contains a taxpayer rights and service assessment that presents performance measures and other relevant data, a description of TAS’s case advocacy and systemic advocacy operations, and a discussion of the 10 federal tax issues most frequently litigated in court last year.

Visit TAS’s [2024 Annual Report to Congress](#) for more information.

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